



House of Commons  
Committee on Members'  
Expenses

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# The Operation of the Parliamentary Standards Act 2009

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**First Report of Session 2010–12**

***Volume II***

*Oral and written evidence*

*Ordered by the House of Commons  
to be printed 6 December 2011*

**HC 1484-II**  
Published on 12 December 2011  
by authority of the House of Commons  
London: The Stationery Office Limited  
£16.50

## **Committee on Members' Expenses**

The Committee on Members' Expenses is established under Standing Order No. 152G (as amended on 7 July 2011). Its role is to consider matters relating to Members' expenses referred to it by the House.

The matter of the operation of the Parliamentary Standards Act 2009 was referred by the House to the Committee on 12 May 2011.

### **Current membership**

Adam Afriyie MP (*Conservative, Windsor*) (Chair)  
Guto Bebb MP (*Conservative, Aberconwy*)  
Cathy Jamieson MP (*Labour/Co-operative, Kilmarnock and Loudoun*)  
Mr Edward Leigh MP (*Conservative, Gainsborough*)  
Priti Patel MP (*Conservative, Witham*)  
Rt Hon Nick Raynsford MP (*Labour, Greenwich and Woolwich*)  
Joan Walley MP (*Labour, Stoke-on-Trent North*)  
Stephen Williams MP (*Liberal Democrat, Bristol West*)

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The current staff of the Committee are Dorian Gerhold (Clerk), James Rhys (Second Clerk), Louise Sargent (Committee Assistant) and Liz Parratt (Media Officer).

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# Oral evidence

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## Taken before the Committee on Members' Expenses

on Tuesday 13 September 2011

Members present:

Adam Afriyie (Chair)

Guto Bebb  
Cathy Jamieson  
Mr Edward Leigh

Mr Nick Raynsford  
Joan Walley  
Stephen Williams

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### Examination of Witnesses

*Witnesses:* **Professor Sir Ian Kennedy**, Chair, and **John Sills**, Director of Policy, the Independent Parliamentary Standards Authority (IPSA), gave evidence.

**Chair:** Good afternoon and welcome to the first public meeting of the Committee on Members' Expenses. I will explain how we are going to proceed, to put things in context, and then I shall leave you, Sir Ian, to introduce anyone else who has come with you. Our intention is to have a very calm, open-minded and thorough examination of the whole system of payments to Members, taking into account pay, pensions, expenses and allowances—the whole gamut. We see this as a kind of once in a generation opportunity to map out the system which both will be seen as fair and would reconcile several aims in the area about public confidence as well as value for money. What we are planning to do is report later in the year, somewhere before Christmas, with a set of recommendations for any changes that may be necessary. Today is the scene-setting exercise and that is why we have invited you in, Sir Ian, to give us an update on what has been going on over the last year in operating under the Act.

We are cognisant that you have a board meeting on 20 September where you will be talking about things with regard to the future and perhaps policy changes. We are conscious of that so we will try to restrict the questioning to the past rather than ask at this stage what is going to happen in the future. Maybe later in the inquiry we will call witnesses from IPSA again, but it may be we do that in writing. Certainly we are going to have a few other oral sessions and a lot of other written evidence coming in before we draw conclusions later this year.

With that, Sir Ian, can I hand over to you to introduce the person who is with you and then we will get into some fairly calm Q and A about where we are so far?

**Professor Sir Ian Kennedy:** Thank you, Chairman. On my right, as the nameplate suggests, is John Sills. I have two colleagues behind me, Nick Lee and Mark Anderson; they support us in IPSA.

**Q1 Chair:** Thank you very much, indeed. If I can open up, it is about 18 months since the start of the new payment system and I am wondering how well you think IPSA have done in implementing the aims of the Parliamentary Standards Act?

**Professor Sir Ian Kennedy:** Thank you. May I just interject that when I heard you say that we, the board, will be meeting on the 20th to contemplate changes,

that is not the case. On the 20th, there is a regular board meeting at which we will be receiving a range of recommendations that have to do with our project for IPSA. We will be, as you know, conducting what has now become a regular—if a year and a half can produce regular—review, an annual review, which we intend to consult upon at the end of November–December. If it is the case that your Committee is able to report by then, that can be part of, if you like, a mutual understanding of what needs to be consulted upon, but we can iterate in the interim.

In response to your question, I am grateful that your Clerk let me have a copy of what your intended questions might be. I was pleased to get it yesterday afternoon. I did map out for you some kind of introductory statement that will take five minutes if you will allow me to say that in response to your question, which I read as an opening question.

**Chair:** Yes, certainly, provided the focus is on the operation so far.

**Professor Sir Ian Kennedy:** Absolutely.

**Chair:** Lovely, please do.

**Professor Sir Ian Kennedy:** You are kind, thank you. Before the last election, and thus before IPSA's scheme of costs and expenses came into operation, I made a speech to the Haldane Society as the newly appointed Chair and I made a series of points that apply now just as they applied then. If you permit me, Chairman, I will remind you of them—they do speak to what we have been doing over the last period of time.

First, I lamented the scandal over expenses and the damage done to Parliament and the public's confidence in MPs. As Alan Duncan said during the debate on the Bill, "For more than 30 years we have worked under a system of remuneration that would never have stood up to scrutiny in the commercial world. There had been invented" he said, "an allowance scheme that was less than acceptable, lacked any transparency and was corrosive to public trust". You will recall that Frank Field during that debate called the second home allowance "a disaster waiting to happen".

Secondly, I pointed out that Parliament, in creating IPSA had consciously replaced self-regulation with external independent regulation, as regards MPs' costs and expenses.

Thirdly, the independence of IPSA was seen as critical on all sides. It ran, as is seen, through the debate on the Bill. I warned, however, that IPSA's independence was fragile as the Act gave the regulated the power to control the budget of the regulator through SCIPSA, the Speaker's Committee, albeit with a leavening of lay members. This, I warned would create tensions and had to be managed in a careful, mature way. I also warned that independence meant that Sir Christopher Kelly's recommendations, which at the time were endorsed by all party leaders, would be given due regard but that IPSA would make up its own mind.

Fourthly, I said that IPSA would introduce a system—this extends even further to the point you raised, Mr Chairman—that is fair, workable and transparent. Fair in that, for example, we rejected straightaway calls for the banning of employment of family members; and subsequently, we adjusted the rules on family accommodation and travel even though our consultation told us the general public was reluctant to see their taxes spent in this way when many others who work away from home do not enjoy this support. Workable in that the system is a standard online system used by a wide range of organisations. Transparent in that even before a statutory duty as to transparency was laid upon us by the subsequent Act, we were encouraged by all that transparency is a crucial element of the scheme. Andrew Tyrie put it as follows in the debate, "The use to which allowances are put should be subject to full transparency as much as is practicable under the law". He went on, "Otherwise the public will continue to believe that we misuse allowances once we get them".

I have left until last the two most important points. First, the real issue for IPSA is not just costs and expenses; it is the answer to what I called in that speech "the big exam question." How much money from the public purse does a 21st-century legislator and elected representative need to do the job? I argued, as Andrew Tyrie did in the debate, that IPSA must be given the power to set pay and pensions—the whole remuneration package, rather than just deal with costs and expenses. The powers to do so were subsequently given to IPSA, so that now we are in a position to recalibrate, if you will, the relationship between costs, expenses, pay and pensions.

Setting MPs' pay is the task we are now giving our attention to. This is a big question that demands a thoughtful and deliberate discussion, informed by history. The sooner we get on to addressing it, in my view, the better, while of course continuing to evolve the scheme of costs and expenses. As you, Mr Chairman, said during the debate on the Bill, "We need a debate about the role of an MP and what should be paid for". I could not agree more. That is what we are keen to move on to. You MPs must lead that debate; that is not for us to say. IPSA can then address the question of the proper remuneration for that role.

Lastly, what is IPSA here for? It is clear from the debate on the Bill and what has followed that the purpose most commonly identified as crucial is the restoration of the public's confidence in Parliament and MPs. Alistair Carmichael was very specific: the purpose of the Bill is restoring confidence in the

House and its operation. This accords with the remit of any regulator in the public sector to act in the public interest as it sees it. We are a regulator. We see the public interest as being to assist in the restoration of confidence and, commensurate with that, to enable MPs to go about their business. The success that we have so far achieved in so short a space of time in helping to restore confidence, despite, even over the last few days, continuing echoes of previous misconduct, is to be celebrated. It should be particularly celebrated by MPs. It sets the context in which we can embark on a considerate and mature discussion of pay and pensions.

**Q2 Chair:** Thank you very much for that opening statement. I will just go back to the question I asked: how well do you think IPSA has done in implementing the aims of the Act, some of which you have come back to there? Do you think IPSA have done a reasonably good job over the last 18 months? Would you like to expand on that a little bit?

**Professor Sir Ian Kennedy:** It would be wrong to appear complacent but I think the views of those who have looked at us carefully are that we have made significant and steady progress.

**Q3 Chair:** Are there any specific areas in which IPSA have found it difficult or challenging to implement the aims of the Act?

**Professor Sir Ian Kennedy:** I think the largest challenge is the understanding of what IPSA is about—by everybody, not only MPs but the wider world. We have had meetings when it has been put to me that the responsibility of IPSA is, and I quote, "client care" or "customer care", but as an independent regulatory body set up by Parliament we do not have customers or clients, just as I doubt the FSA regards Barclays as its customer. If we have any clients, and if the definition of a client is someone who can, as it were, go somewhere else and is paying for the service, then the client is the taxpayer. The challenge to us has been to persuade that although we provide services, we do that within the framework of a regulatory system that we have been required, asked, invited to establish. We do try to provide as good a service as we can, and we are constantly seeking to improve it, but we do it against a background of being an independent external regulatory body.

**Q4 Chair:** The NAO report was published in May. Was there anything in there—obviously you have already been to the Public Accounts Committee—that you would say surprised you? Is there anything in there that was surprising to IPSA to read in that report?

**Professor Sir Ian Kennedy:** Well, obviously there were some things that pleased us, namely, that we were judged to have been making—

**Q5 Chair:** Any surprises?

**Professor Sir Ian Kennedy:** I will get to surprises. I wanted to put in what I was pleased about first. If I were to mention surprises, perhaps the only surprise that really registered significantly with me was that of the survey of MPs I think it was close to a third were

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really rather in favour of the old system and could not understand why there was need for a change.

**Q6 Chair:** The final question from me, and then I will hand over to Nick who will ask some questions on public confidence, is: in view of the aims of the Act—you kind of touched on this in your opening statement—do you think it would have been better or easier for you if from day one the pensions and salaries had been within your remit?

**Professor Sir Ian Kennedy:** Of course, it was not for me but for the House and the other place to determine what our remit was, but I always thought, and made representations to the then Minister, that merely giving an external regulatory body one bit of the jigsaw, without being able to embrace the totality, ran the risk of getting things skewed. If you seek to introduce an appropriately rigorous system of costs and expenses, it might have implications in other parts of the remuneration forest that need also to be addressed. The inability to do that was a disadvantage initially, which has now been rectified.

**Q7 Mr Raynsford:** You rightly stressed the importance of restoring public confidence. Could you tell us how you measure that and how you define it?

**Professor Sir Ian Kennedy:** It is best to begin by remembering we should not be ahistorical. Why are we asking the question about public confidence? The answer was: because trust had gone through the floor, confidence was eroded and we were in a bad place. Any movement away from that would, in my view, redound ultimately to the benefit of MPs, and I saw my job as seeking to contribute to the restoration of confidence in MPs so that the first conversation on the doorstep is not about expenses but about something else.

The first step is to put in place a system that is rigorous, transparent and can, over time, enable one to demonstrate that MPs are absolutely living within this regime, their claims are legitimate, and so on and so forth. To measure confidence—to respond particularly to your question—we have done three consultations involving the public, asking them where are they prepared to see us in terms of introducing this or that rule. Very often there has been antipathy against certain things and we have had to debate whether we follow or lead in that context. We have also done surveys of the public, we have done a YouGov poll and the NAO did its own poll. What we have seen is a gradual improvement in the attitude of the public in their sense that the expenses regime is robust and gives them assurance and, therefore, that politicians are more to be trusted.

**Q8 Mr Raynsford:** This may not be an entirely fair question, but given you have said that it was an awful place previously, would you not expect it to be almost automatic that there would be a gradual recovery as that receded into the past and people began to forget some of the abuses that did unquestionably take place?

**Professor Sir Ian Kennedy:** If I may say so, it is a very interesting question about the notion of forgetting. We thought perhaps with over 200 new

MPs and with, if you like, the absolution of a new election—but there are still MPs from the old system still appearing before court. The echoes are there and some in some places do not want us to forget, for good reason, those echoes—if you can remember an echo. I think the idea that you could take for granted that there is nowhere to go but upwards was a pretty risky exercise. One had to introduce and make, what I called at the time, a clean break, a demonstration that something was going to be introduced that was not the same as before, which was rigorous, robust, transparent, and so on.

**Q9 Mr Raynsford:** I am trying to get at whether you think you have played a part in that restoration, or is it just a process that would have happened in any case?

**Professor Sir Ian Kennedy:** I do not know how you disaggregate the various causative elements but, Mr Raynsford, I would like to believe that over time we have provided a stabilising influence.

**John Sills:** Can I add something there? I think when we had the YouGov poll, around 60% of the public said that they thought having the new regulator would make the whole system better. There is a kind of confidence there, I think.

**Q10 Mr Raynsford:** Can I turn now to the question of the balance between public confidence in Parliament and assisting and helping and supporting Members of Parliament do their jobs as well as they can? You have, of course, both of these objectives and sometimes there are tensions between them. How do you try to resolve those and how do you try and get the best on both sides?

**Professor Sir Ian Kennedy:** I think the simple answer is: with difficulty. It is important to remember that we are an external, independent, regulatory body whose statutory mandate is not—it could have been expressed as such, but it is not—to support MPs. It is to have regard to the principle that we should support MPs in the execution of their parliamentary duties. That notion of having regard to the principle, I think, reminds us, as it should remind everyone else, that in that process of having regard we have to take account of the public interest as well. We seek to gauge in the way we just discussed, as well as how we are or are not supporting. In some areas, such as the second home allowance and what Frank Field described as that whole toxic area, we have judged the public interest as being such that no change should be made. In other areas where we have received representations about cash flow problems, which I know the Chairman was anxious to point to and which we understand, we introduced loans, advance payments against high ticket items. All of these are responses that were intended to make the system more simple to operate and more congenial to the needs of MPs, notwithstanding how different MPs are, Edward Leigh being as different in his constituency as you are in yours.

**Q11 Mr Raynsford:** Finally, can I come back to your expression of surprise that a third of MPs in response to the survey felt they would be happier with a system of self-regulation. This may be again a slightly unfair

question, but approximately a third of MPs are new MPs. Maybe they were commenting on what they saw in the early months of this Parliament, in terms of coping with the system you had introduced?

**Professor Sir Ian Kennedy:** It is an interesting observation, which I have no capacity to verify. We can do the arithmetic and see if we can find out whether that is the case but I don't think it is.

**Chair:** We are going to move to questions on transparency and links to public confidence now. Can I hand over to you, Cathy?

**Q12 Cathy Jamieson:** Thank you very much. Thank you, Sir Ian, for coming along this afternoon to answer questions. I want to focus a bit on that whole issue of transparency—one of the key principles. I have some experience of that from my time in Scottish Parliament and how important that was in building confidence in a new system. The first question I wanted to ask is: is there a tension between the method of claims publications implemented by IPSA, on the one hand, and improving public confidence in Parliament, on the other hand?

**Professor Sir Ian Kennedy:** There is a duty laid upon us in the 2010 Act to be transparent. How do we translate that into what we do? We take the view that, first of all, it is right and proper that anyone in receipt of public funds should render an account as to how those public funds have been used. That seems to me to be a given. The best way of empowering MPs to contribute to the restoration of confidence is to get rid of the mysterious and dark system that prevailed before, where it was not clear where any of the money went—I overstate that to make the point—and to introduce a system where you were able to identify to taxpayers where the money has gone. Then we published that, and we did an analysis of how frequently we ought to publish it, both in terms of cost and in terms of the effect the publication might have on people's perceptions of what is going on. We settled on a two monthly cycle, as a one monthly cycle would have been too expensive, we thought, in terms of value for money. Leaving it for a longer period ran the risk of it attracting attention whenever it came out. It would continue to be a story when our ambition was to make the publication of claims so routine that it no longer attracted a great deal of attention.

I can illustrate where we have come on that journey. Forgive me I think I have the facts somewhere—Mr Chairman, we will make sure you have all this data; this is what I have been able to accumulate overnight. In December 2010, the visitors to the website about claims were close to 14,000 people on the first cycle of publication. On the last cycle of publication in September, the number of visitors was 190. Now that is telling a story about routinisation and recognition that these claims are legitimate, as they are—99.7% of those claims are legitimate—and we are saying that most of the 0.3%, are administrative errors, and so on. That message, the more it gets across, means that there is a system in place. We can see it is working and, therefore, we do not have to have the same vigilance locally or nationally. We can move onto other things.

**Q13 Cathy Jamieson:** Just to press that issue of definition of transparency, you mentioned that people should be able to see where the public money has gone. Has that been a definition over the past 18 months?

**Professor Sir Ian Kennedy:** One of the working principles is that in the context of public money, IPSA should render an account for how it uses public money and so should everyone else.

**Q14 Cathy Jamieson:** Could I move onto another area in relation to this? I think it is important, as you have accepted, that the public are able to get information, but it is also important they are able to make meaningful comparisons, perhaps between MPs. You have explained why you chose to publish data on a bi-monthly basis. However, in terms of the normal cycle of expenditure, an MP might make a large claim and in one particular bi-monthly cycle would be at the top of any league table, but over the course of the year they would be paid perhaps less than a colleague. What importance has IPSA placed on ensuring that data can be meaningfully compared between MPs, and that MPs themselves to know where they are in the scheme of things and whether they are perhaps out of kilter with their colleagues?

**John Sills:** I think one of the important things obviously is that we have just published the annual figures, so you can get that sense of the whole picture from that. I think that is very important. In terms of it being every two months, I think it depends on who is looking at it. A lot of people will know that two months clearly is not going to be typical of the whole year for everybody, so I think we have to rely on that summit stone. It is possible to work out the cumulative amounts as well, clearly. I think you can do that, but I think the key thing is the fact that once a year we will publish the whole thing. That has just come out, as you know, and I think that has been very helpful for people to see that.

**Professor Sir Ian Kennedy:** Can I add a gloss to what John said because we are not insensitive to the kind of matters that you are hinting at or raising? Let us take for example a very small item—a toilet roll. It is a perfectly legitimate thing to claim for and should be claimed for, and we have said on the record that claims should be made as that is what the money is there for. Nonetheless, if the Barnstaple Bugle—if I can use that as a colloquial term—seeks to make something of it then that will happen, so not so much disaggregating as aggregating up to a degree might be another way of responding. We have already been thinking of ways of getting generic headings like office costs, and so on, where you do not have to itemise each one but we can find a way whereby we can itemise it. Bear in mind—this goes back to something that, Mr Chairman, you will be interested in as well—we do not operate in a vacuum in this context, because we are subject to audit by the National Audit Office to make sure that our systems are themselves able to demonstrate how money is spent. If we had massively aggregated things, where we did not inquire within that aggregation what is happening, the NAO would be displeased with us and our accounts would be qualified.



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**Q15 Chair:** Do you look at the local media coverage when you are making your assessment of the impact that the publications routine may be having on the reputation of MPs and Parliament?

**John Sills:** Yes, we do. Our communications colleagues in particular follow local media as well as national. Ian talked about how at national level the interest appears to have dropped, but we are very aware, as we talk to MPs a lot, that at local level that is not always the case and that the smallest things can be followed up. Yes, we are aware of that. I think the other point is it is still only 18 months into the system. What will it be like in three years? Will the local media still be following it to that extent?

**Professor Sir Ian Kennedy:** Particularly as one sought to move the agenda on to what we regard as the more important parts of the jigsaw to pay attention to.

**Q16 Cathy Jamieson:** I think Sir Ian answered part of the next question that I was going to ask in relation to that tension between having aggregated up some amounts in order to make it meaningful, but at the same time disaggregating in such a way as to get that transparency, so I won't pursue that particular point other than to ask: in formulating the schemes, what consideration did the IPSA board give to publishing the receipts to support the MPs' claims, and, why did you arrive at the decision that you took?

**Professor Sir Ian Kennedy:** This was a matter of some lengthy deliberation by the board. There was a significant value for money consideration that had we demanded receipts, and published them thereafter, the estimate was it would have cost about £1 million to SCIPSA's administration costs, whereas the way we currently publish costs £250,000. Now that in itself is a large sum, and I can explain in supplementary memoranda why that cost is as it is, but it is a significant saving. Furthermore, we of course sought the advice of many, including the Information Commissioner, whose office advised that the scheme we had in place for verifying, and so on, was such that the publication of receipts would not be a necessary further piece of assurance.

**John Sills:** I think also, if you look at what we do publish, there is quite a lot of detail there. I think it is not unlike the Scottish system, in fact. Certainly, as a citizen I look at it and think, "Well, what more would I need? What value would be added by spending this extra million pounds?"—most of which is the cost of redaction, by the way. You will know from the House of Commons data there is a huge amount of redaction that has to be done if you publish receipts.

**Q17 Mr Raynsford:** You rightly touched on value for money a moment ago, Sir Ian. Can I ask you what criteria or what targets IPSA set itself as regards to value for money and what comparators did you use in setting those criteria or targets?

**Professor Sir Ian Kennedy:** I noticed that question in the material that was sent to me and I confess I am not entirely sure that I can understand it or answer it off the top of my head here, though I certainly will address it later. In terms of what I understand to be value for money, it appears to be a very simple proposition in bureaucratic terms: what are the

objectives and how in financial terms you have met them in the most efficient manner. In fact, to me, value for money is a very complex notion. It depends on who is doing the valuing, because what you spend your taxpayers' money on may be valued by MPs, IPSA and the public in different ways. The public may, for example, think there is more value to be gained from the money by doing this rather than that. That complex notion of who sets the values, in other words, goes back to the conversation about what is supporting MPs or having regard to the principle of support. What does that mean? That is something that we have been significantly concerned with.

That said—it is clearly an intellectually challenging argument that we are still having—we used, if you like, the NAO's approach, which has to do with the capacity to show savings over time and to demonstrate that you are doing whatever you are providing increasingly efficiently. The NAO's report described what we had done so far, and I quote, "as a useful starting point for further cost savings". In terms of costs per claim, IPSA is almost identical to the average of other UK legislatures, "An impressive achievement at the end of its first year". It went on to say—this is, I think, very important in the context of VFM—that our setup was a major achievement. The Office of Government Commerce said that we had achieved the impossible. Public confidence had increased—that is value for money as valued by the constituency, namely the public. We safeguard public funds more effectively than they had been safeguarded before—value for money. There is no systematic abuse—VFM again. Claims are paid with a high degree of accuracy—in other words, no mistakes. Again, I think it is 99.3% of claims are paid accurately. All of those are indicators to us of value for money.

**Q18 Mr Raynsford:** The reason I asked the question is that, as you quite rightly have said, value for money is a complex issue, but very obviously if one was simply measuring terms of the overall cost to the public purse, one could achieve a supposed reduction by refusing claims, which would not necessarily deliver value for money if the consequence was that MPs were either inhibited from doing their job properly or having to meet the costs out of their own pocket. Presumably, that might have some adverse effect on their ability to do their job, or their willingness to do their job. This is why the issue is complex, in my view, and I just wondered what thought you had given to that.

**Professor Sir Ian Kennedy:** I am not sure I understand your opening proposition you would save money by refusing claims. It is not in my gift to refuse claims if they are legitimate and they are within the rules. I think the number of claims—John will have the figures to hand—that are not paid are infinitesimally smaller than the ones that are paid. We have learned over time about claims being made. I can tell you a story, Mr Chairman, which I think illustrates the early days. Someone had a claim and was not quite familiar with an online system yet and so pressed the send button, but just in case pressed it again and again and again, so in fact, probably four or five claims were

being made. Clearly that is an administrative error that we have to get through. Having got beyond that and beyond administrative errors—we still have some, but for the most part we seek to help people to make the claim properly and then they are made and paid—we have no interest in getting between MPs and their legitimate entitlement.

**Q19 Mr Raynsford:** But some MPs do say that they feel inhibited from making claims.

**Professor Sir Ian Kennedy:** That is a different question and, if I may say so, an important question for us. I have said on the record many times that the money is there, voted by SCIPSA to us. It is there for MPs to claim. When I went before SCIPSA last time, which was quite a lengthy process, it was put to me on three separate occasions that I should reduce the amount of money that I was asking for the payment of costs and expenses on the grounds that last year I think close to £30 million had not been claimed. I undertook to take that back to the board, although the board were vehement that that would not be the case. This was our calculation of what MPs were entitled to and this is what we were going to ask for, and we continued to ask for it; we did not resile from that position.

Now, the National Audit Office in the report that you will be familiar with, does speculate as to a number of reasons why claims are not made. Either the item is small, and in addressing Ms Jamieson I sought to address that for the future, or another reason may still be the notion that claims might attract some kind of adverse attention. That is the climate that we are seeking to evolve out of. I cannot with a magic wand—neither you nor I believe in the magic wand school of public policy—make all that go away, but I can say that in a year of doing this system, grinding it out, and demonstrating time and time again that there is nothing here that is other than legitimate, we will get to the point where claims will be made.

**Q20 Guto Bebb:** I was just going to ask about how the scheme operates. Has IPSA made any assessment of the cost incurred by MPs and their offices in actually administering the scheme in terms of the data entry and so forth? Because you made the comparison with the Welsh Assembly system that your cost per transaction was equivalent, but in the Welsh Assembly, for example, most of the data entry is undertaken by the bureaucracy involved in paying out the expenses of Welsh Assembly Members, not by the individual Assembly Members.

**Professor Sir Ian Kennedy:** John, you visited the Welsh Assembly or did other colleagues?

**John Sills:** No, but—

**Professor Sir Ian Kennedy:** You can speak to that and then I will come back to the more general point, if I may.

**John Sills:** Yes. The NAO obviously tackled this issue and attempted to put a figure on the amount. I think there are one or two points here. One is obviously that part of any MP's job partly is going to be about rendering an account of the public money spent. It is not a core part of the job, but it is part of the job. What we have tried to measure, which is the easy bit

for us to measure, is how much time the MP or their staff are spending on the system itself. We have had figures for that; they have been around for some time. I think it was something like 15 minutes a day, an hour or two a week, that kind of thing, but that is just on the system. Obviously other things need to be done as well, and the NAO figure has actually pulled all of those together, I think. To the extent that, yes, we have looked at it, it is what we can see on our system.

**Professor Sir Ian Kennedy:** Forgive me, Mr Chairman, I was going to say that what John said is right, and this goes back to the point about tensions between the application of the Act and the impact it may have. It is right and proper that we all should render an account. The question is: how can that be so achieved so as not to be such a burden on MPs that it detracts from the other things they do? That is a continuing challenge and conversation. In the figures that are put about, one of the things that are missing a comparative figure from what the previous system cost, when one had to collect all the pieces of paper and go, find and make enquiries of the Fees Office, and so on. That has its own cost; no one has quantified that and I have not the remotest idea, therefore, what the comparator would be. Second of all, one has to be alert to the notion of double counting here, because after all, part of the money paid out by IPSA is for staff and part of the role or responsibility of staff may well be to do that.

**Q21 Mr Leigh:** Can I look at some of the key facts in the NAO report? It says that £15.86 is their estimate of the cost to IPSA of dealing with each item claimed. That seems very large to me. Are you happy with that sum?

**Professor Sir Ian Kennedy:** It also says—

**Mr Leigh:** First of all, is it accurate and, secondly, are you satisfied that it is costing so much to administer each claim, some of which are quite small?

**Professor Sir Ian Kennedy:** I would rephrase it. It is costing that much. It also says that the cost per claim has come down £24 per claim over the period of time that the study embraced. Secondly, of course, it is inevitably the case that we have to drive it down further. We have set ourselves a target of 5% per annum reduction in our administrative costs in the first year. That was pursuant, Mr Chairman, to the Treasury memorandum after the election, of 25% over five years. We in the first year achieved savings of 10%, so, Edward, we are not complacent; we would seek to make it less.

**Q22 Mr Leigh:** Have you done any comparative studies with the private sector, say FTSE 100 companies, of how much it costs to administer each claim?

**Professor Sir Ian Kennedy:** I am not sure what you would be comparing. Bear in mind—

**Mr Leigh:** Well, some of the claims are quite similar; for instance, travel. In many businesses you have to live away from home. It is not an entirely dissimilar claim and I just wonder. If you have not done any comparative studies, then fair enough, but—

**Professor Sir Ian Kennedy:** I was making a slightly different point to what one would be comparing

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because a FTSE 100 company system operates in its own context. We operate in the context of being a regulatory body that has to set its own regulatory framework and then operate within it, and that is, of course, expressed to a degree in the cost. John, do you want to add something?

**John Sills:** Yes. I think, as I understand it, that £15 loads all of the costs of IPSA, so not just the service provision but actually the regulatory side as well. Going back to what Ian said earlier, I think our costs are roughly similar to the other Governments in the UK at the moment, but clearly we are looking at all sorts of ways to try and get those costs down. That is a major objective.

**Q23 Mr Leigh:** It says in the key facts that 38% is the proportion of claims MPs submit that are for less than IPSA's average processing costs for each item claimed. Do you not find that rather worrying?

**Professor Sir Ian Kennedy:** The NAO reports that in the first year we made steady and good progress. It then sets out challenges for the next year, which we will seek to achieve.

**Q24 Mr Leigh:** Yes, but still, we are still left with the NAO fact that 38% is the proportion of claims MPs submit that are for less than IPSA's average processing cost. That cannot be an efficient way of handing out public money, I would have thought. It suggests that we have very heavy administrative costs for each sum of money disbursed.

**Professor Sir Ian Kennedy:** I think John has already suggested to you that those costs are loaded with all the other costs of IPSA, they are not just the in and out, pay and rations costs. We can come back to you—

**Q25 Mr Leigh:** The costs incurred in running IPSA in 2010–11 are £6.4 million. Will you remind us what the annual costs of the old Fees Office was in its last year, please?

**Professor Sir Ian Kennedy:** No one, to my knowledge, can satisfactorily put a figure on that.

**Q26 Mr Leigh:** Can you attempt a figure?

**Professor Sir Ian Kennedy:** After our first appearance before the SCIPSA—the day before we appeared there—a letter was written to the Speaker from the old Fees Office saying that the costs of administering the old scheme were £2 million, which was a figure that we did not understand, but it went on to say that the services provided were in no way comparable to the services provided by IPSA, the regulatory role was different, IPSA had a regulatory role and could not take advantage of the parliamentary estate, and so on and so forth. Immediately, I wrote to the Speaker asking for that figure to be explored, a joint committee to be set up between SCIPSA—

**Mr Leigh:** Well, perhaps we could do further research on that, then.

**Professor Sir Ian Kennedy:** Believe me, we have tried to do research. It has ended in the inability to track down any sensible figure.

**Q27 Mr Leigh:** It says again in key facts that £14.5 million is the annualised reduction of expenses paid

to MPs compared to the last scheme. Given that there are only 650 MPs for £14.5 million, that is a very large reduction in the income paid to MPs, is it not?

**Professor Sir Ian Kennedy:** Well, first of all, it is not income, except in one sense. Second of all, of course, we are not talking only about 650 MPs. We are talking about 2,700 staff as well, because the money goes to pay them.

**Q28 Mr Leigh:** I know we are not looking into the future here, but have you done any estimate taking into account the salary paid to MPs and the expenses under the old system compared to the new system? Have you made any estimate of the average cut in the salary and expenses of MPs? Is it possible to do so? Would that inform your report on MPs' pay and pensions?

**Professor Sir Ian Kennedy:** There has not been any cut in salaries.

**Q29 Mr Leigh:** I know there has been no cut, but in the expenses there has.

**Professor Sir Ian Kennedy:** With respect, Edward, you said cuts in salaries or expenses. There were no cuts in salaries because salaries are agreed and they are paid into an MP's bank account. In terms of the expenses and costs, the business costs and expenses that are paid, it is an entirely new scheme, an entirely different scheme, pursuant to different rules, so it is comparing apples and pears. It is fair to remind ourselves in that context that when the National Audit Office looked at the last year of the accounts of the Fees Office, it was unable to do anything other than qualify the accounts. As to £3.4 million<sup>1</sup> of taxpayers' money, it was not even able to discover where that had gone.

**Q30 Mr Leigh:** Another key fact is that £2.4 million is the estimated cost of the time MPs and their staff spend dealing with expenses, according to our survey of MPs. Is that a figure that makes sense to you? Does it worry you?

**Professor Sir Ian Kennedy:** Well, John has already expressed a view that we have tried to analyse that figure and we are still in some disagreement with the NAO as to where that figure comes from. I have already said that it is right that MPs should have to render account. I have already said that rendering of accounts should not divert them from other duties beyond that which is necessary. We still do not have a handle on what the cost is, but when I come back, or colleagues come back, we will seek to dilate on that, Edward. As I say, I am trying here today not to descend into too many matters of detail, not least because I have not been sufficiently briefed on all the matters of detail that might appeal to you. Mr Chairman, those are the grounds on which I agreed to come.

**Q31 Mr Leigh:** The last key fact is that 91% is the proportion of MPs who believe that under the new system MPs have to subsidise their own work. Can you write to us with your estimate of the transfer of

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<sup>1</sup> *Witness correction:* The figure given should have been £2.6 million.

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costs from IPSA to MPs' offices associated with the administration of the scheme? Is that possible to do?

**Professor Sir Ian Kennedy:** We will reflect upon that, but we also reflect upon the fact that by introducing loans of up to £4,000 immediately the scheme began and then introducing the advance payment against vouchers, against—

**John Sills:** Against big ticket items, so against invoices, yes.

**Professor Sir Ian Kennedy:** Big ticket items, so that there is, in our view, now no need for MPs to be spending their own money to the degree that is referred to there. That was an initial problem that has faded away. Some 77% now of the money that is allocated for costs and expenses is dealt with—

**Q32 Mr Leigh:** Before I finish this round of questioning, because we have had this conversation many times, Sir Ian, and I do not want to weary you, but I think for the sake of the record it is important that we have your response to it. As you know, I have argued with you consistently that a more transparent, fairer and more open system would be to pay MPs a flat rate taxable allowance to deal with their accommodation. I just want to give you the opportunity in open session to reply to that point of view, that discussion we have had many times in the past.

**Professor Sir Ian Kennedy:** I reply to it now, as I have said to you and bore you to the same degree that you have never bored me, Edward, by saying a reversion to the system of allowances that prevailed under the old scheme, where there was not accountability and not transparency, is simply not on anybody's agenda. To develop, to evolve to a situation where what are currently disparate groups of money can be aggregated together so that one has larger budgets, is something we have already done as regards the CORE and general office expenses. We have pushed them together so they are now a larger element. That is the evolving direction of travel we are on, but they should be, at the same time, accompanied by the need to render an account and the publication. We are pushing in a sense, Edward, at the same door.

**Chair:** Thanks very much. I think Stephen just has one more question in this area, then we will move on to the next section.

**Q33 Stephen Williams:** Just as a supplementary to Edward's questions about this £6.4 million cost of running IPSA, you effectively have 650 cost centres—that is each Member of Parliament and all the costs that go with them; I assume that is how you account for us in your own internal accounting—so that is £9,846 per cost centre. Now, if you were running payroll and accounting services in the private sector, I do not think you would have any business at that sort of level because you would have probably four or five employees—the Members—a rent charge, electric bill, phone bill, one or two other things. I used to do this. It is one of the simplest accountancy jobs you could possibly imagine to do 650 times over with a £9,846 fee. I think many high street accountants would—could—do it a lot cheaper than that.

**Professor Sir Ian Kennedy:** Mr Williams, I understand the point. It does not exactly grasp the fact that we are not a call centre or pay centre, although our Director of Operations, like yourself, ran such a thing so he does also know what he is talking about in that regard. All I can say is that those figures, which do not take account of the 2,700 staff as well, who are around the country—you have to add that number in—have been examined on, might I say, quite a large number of occasions by other bodies. This includes the body that by legislation we render an account to so as to have our estimate agreed. They have been found to be such that our estimate has been agreed. Now, we can, of course, rehearse that again here. I am not going to do it this afternoon because I do not have all the stuff at my fingertips, but I do say that we by legislation render an account to SCIPSA. We have done so and the Treasury and SCIPSA both approved our estimate. They were interested in the same matters. The National Audit Office commended our value for money, although it said that we had work to do. The PAC will produce its report. At some point there has to be a point at which I say, "Can you possibly refer back, see the arguments and if there is then a question we will come back to you?"

**Chair:** Thanks very much, Sir Ian. We are now going to just examine briefly the issues around the independence and accountability of IPSA moving on from value for money. I wonder if I can hand over to Guto to pick up that section.

**Q34 Guto Bebb:** Moving from the direct detailed questions to a more open question, to whom is IPSA accountable?

**Professor Sir Ian Kennedy:** I am tempted to ask, how long do you have? This is a deeply difficult question. Of course, it is an external, independent, regulatory body. Accountability really consists in a variety of devices that, taken together, produce accountability. One such device is the scrutiny that we are subjected to, quite properly, by the Speaker's Committee, SCIPSA; another is the NAO, which audits our accounts; so both internally our responsibility for public money and externally what we spend on ourselves and what we allocate and the efficiency with which we do that is subject to scrutiny and approval or disapproval. Our estimate can, of course, be denied or changed. Then, of course, we are scrutinised by others in other places, all of which contribute to some notion of being held to account. Ultimately, we are accountable to the public at large.

**Q35 Guto Bebb:** I was going to come on to that. In view of the fact that IPSA was established as a result of public disquiet about the previous MPs' expense scheme, in what way then is IPSA accountable to the public? How would you describe the accountability that you have to the general public and the general taxpayer?

**Professor Sir Ian Kennedy:** Well, when you create an external regulatory body, and I have chaired a number, there is this anxiety first of all if you are in the public sector—I have never worked anywhere but the public sector—the money you receive is taxpayers' money, so you would expect to be regulated by within

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Government, or within a Department, or here by SCIPSA. That is always uncomfortable but you have to live with it. You also need to be able to have such a relationship with the public at large, the taxpayer who is responsible for the money you dispense or disburse. You have to find a way by which you render an account to the public of what you are doing. That is what we do by publishing what we do, by consulting, by a variety of ways of transparency in publishing our claims and so on and so forth. By that token we are seeking to persuade the public that we are acting in its interests.

**Q36 Guto Bebb:** In view of the fact that you mentioned the website as a means by which you are accountable to the general public, were you disappointed that even on the initial run of expense claims the number who logged on were only, what, 140,000 you mentioned?

**Professor Sir Ian Kennedy:** 14,000.

**Guto Bebb:** 14,000? That puts it in context. I was giving you a tenfold increase.

**Professor Sir Ian Kennedy:** Disappointment or pleasure is not really relevant. It is really a measure to us of how—this was Mr Raynsford's question—and whether we or circumstances have conspired slowly to take the temperature out of this issue. I like to think that, subject to today and whatever flows from it, the temperature is reducing. There are more important things to wrestle with. I think your Chairman has identified them absolutely properly, namely the issue of pay, which raises its own question—what does an MP do, as it were? That is categorically not a job for us. That is categorically a job for you, once you have determined what it is that you feel that you bring to the party. Our job is to look carefully at what a modern 21st century legislator and elected representative needs from the public purse to do that job, your having articulated the job. We have seen my reference to Alan Duncan that for 30 years we had a system of remuneration that was not fit for its purpose. We need to get to the next step.

**John Sills:** I think also on our website we do publish a lot about IPSA and that includes board minutes, so you can see what the board has been discussing. In the near future we are going to start publishing board papers as well. The inner workings, if you like, of IPSA are there for the public to see.

**Q37 Guto Bebb:** How do you think that the balance between IPSA's accountability and your independence as a body is currently working out?

**Professor Sir Ian Kennedy:** Well, independence is not something that drops down from the sky and indicates where the lines are. Independence in the public sector in particular is something you negotiate, in that there are certain principles you cleave to and will not surrender, but on the other hand if we are persuaded that an MP or member of staff or member of the public thinks that this is better done in that way, we listen. We are not forsaking our independence; we are actually exercising the independence. Independence is absolutely critical, so that we can make tough decisions that may not endear us to the outside world,

as well as make tough decisions that may not endear us, from time to time, with yourselves.

**Q38 Guto Bebb:** Moving on to the media, then, obviously IPSA have been operating now for 18 months. How important has the media perception of IPSA been to yourselves as an organisation?

**Professor Sir Ian Kennedy:** Well, the media is part of the world in which we live. It is right that we take account of it as a channel for communication to the public whom we seek to serve and reflect their interests. We therefore take account of it. We do not, as it were, seek to amend policies or do X or Y because this is the particular line being taken by the Daily whatever. We make our own minds up on that, but if there are matters in the press or the media that are incorrect, we will correct them. If there are matters where it is helpful for us to take the agenda forward, we might give an interview. I think over the 18 months plus—John will tell me if I am wrong or I will write to you, Chairman, and apologise—I think I have given three or four interviews and I have made about three speeches. This is an important job to ensure that we stay away from what was the previous enjoyment of blood lust to get on with the proper job.

**Q39 Guto Bebb:** With respect to that answer, have you used any external media consultants or do you have a media team within the organisation or a media officer?

**Professor Sir Ian Kennedy:** We do not have a media team. This is a recurring theme—why is it as an organisation IPSA has a Director of Communications and one other? The answer is that we dispense quite a lot of taxpayers' money and there is a distinct interest in what we do with it. We have multiple audiences to serve. We have a website to operate—we have two people to do that. If I can give you some comparative figures of other public sector bodies and regulators, they usually have many more.

**John Sills:** Just to answer the other part of your question, before we appointed the Director of Communications we did use an external firm to help us, but once we had a Director of Communications that ended.

**Q40 Guto Bebb:** To follow up on one response from Sir Ian Kennedy, you mentioned that no media coverage has influenced any decision by IPSA. Obviously, the consultation process and the consultations that you undertake with the general public must have influenced the way you have developed the scheme. Clearly, that does play a part with the media or does it not?

**Professor Sir Ian Kennedy:** I did not follow the question.

**Guto Bebb:** Basically, in your response to my question you stated that IPSA had not changed their policies in response to any media pressure. Clearly, when you go out to consultation and specifically ask people to engage with you, there is a degree there of using the media in order to get feedback. Is that a clear answer in terms of use of the media to develop policy or not?

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**Professor Sir Ian Kennedy:** Well, I guess I was always raised to the notion that you ought ultimately to trust the public to form its own view on these matters. If you ask the right question, if you do it in the right way, you will get a response from the public. Of course, one medium through which the public gets its information about what is happening is the press, but it is not the only medium. You go to any club, pub or whatever and the conversation three years ago was about you know what.

**Q41 Guto Bebb:** Finally, then, you would be happy to state that IPSA is independent of the media in terms of your activities?

**Professor Sir Ian Kennedy:** I would not have thought it is an arguable proposition that we are anything other than that.

**Q42 Chair:** I have just one supplemental on that. It seems to me there is a lot of newspaper coverage, and misleading newspaper coverage at times—just media coverage—of the comparisons between MPs, sometimes just factually incorrect. A lot of it is based on the publication routine that IPSA have been using. Considering one of the aims of the Act is to improve the public perception of Parliament and public confidence in Parliament, do you think that there is a role for IPSA in actually trying to put right those stories, which cause an awful undermining of things that should be seen as legitimate?

**Professor Sir Ian Kennedy:** Mr Chairman, it is, if I may say so, a very important question. We had a conversation like that with the National Audit Office where it was suggested by the Comptroller and Auditor General that, so far from merely publishing that the claim had been paid we, as it were, ticked the record as properly audited and within the scheme—in other words, we made some comment of approbation on the fact that the particular record was within the system rather than without. We undertook to take that away. We have always tried to avoid commenting, editorialising, on the facts, but there is absolutely no reason why we should not, in a sense, introduce some kind of post-audit approval as we go through. I know John is thinking about that. As to whether we can do something at local level if there is a misrepresentation, I think that is something that would fall within the notion of our having a duty to advance the interests of public confidence. Where we would wish to take that, Mr Chairman, is to the liaison group that we have. I undertake to make sure that that is on the agenda for next time we meet, which is relatively shortly.

**John Sills:** I think there is another thing that, obviously, every time there is a batch of publication, our communications team are contacted by people in the media. They take real care to make sure they know what the facts are, what the rules are, and there are always quite a lot of calls around that. We do our best to make sure that people are basing things on the facts.

**Professor Sir Ian Kennedy:** Mr Chairman, it is the old notion that the untruth is halfway round the world before the truth can get out. You know the problem. We do try to do our best and I will take what you say and take it to the liaison group.

**Chair:** Thanks very much. Joan, I am going to jump to the ability of Members to fulfil their duties effectively, which is mentioned, as Ian has pointed out, in the legislation in a slightly roundabout way. I wonder if you could pick up there.

**Q43 Joan Walley:** Yes. Just perhaps before we do that, if I could just go back to one point, you were mentioning just now Members' remuneration. I just would like to bring in the issue about expenses and about allowances and to get from you a sense of whether or not you would expect any changes in remuneration, to enable that money then to be used by Members to pay for the expenses or the allowances that they have. Related to that, could you give us some idea of what allowances IPSA has introduced in the last 18 months?

**Professor Sir Ian Kennedy:** Everything we have done by way of the rules relating to costs and expenses is under the heading of allowances. You will notice the legislation offers a number of parameters for what the word "allowance" can mean, and we regard what we have introduced in relation to expenses and costs as within that rubric of allowances. I then went on to say that if allowances does not mean the aggregation of or the grouping together of sums of money so as to make increasingly global budgets, but rather means a reversion to the system that used to apply, which was not transparent or provided any assurances, no; as long as I am the Chairman of IPSA there is no going back to that. We have also indicated that there is a journey to be explored in terms of larger global budget.

**John Sills:** We have introduced one allowance. There is an allowance that we call the London area living payment for London area MPs. In the new scheme, there is a supplement available to those London area MPs who are in outer London—if you like, in the outer ring. That raises the amount they can have to £5,090 from £3,760 and the intention of that is to help with their travel costs in particular.

**Professor Sir Ian Kennedy:** Because they are outside zone 8.

**Q44 Joan Walley:** Just moving on, it would be helpful to know what definition IPSA has used in respect of the duties of Members and how you go about ensuring that the payment system takes account of the different ways in which Members perform those duties. There is quite a lot of difference between us in different parts of the country, different constituencies with different needs and so on.

**Professor Sir Ian Kennedy:** Absolutely. I remember having a conversation with a member of a particular party I will not reveal, where it was put to me that—this was before the scheme appeared—it was my duty to recognise that there were 650 MPs, all of whom worked in different ways, so my job was to capture the essence of an MP. I thought that there was a kind of intrinsic problematic contradiction there. We are aware that MPs work in different ways and the key that we have to do is to introduce a framework of rules, having regard to business costs and expenses, which need to be applied across the board, while giving MPs sufficient flexibility within that to employ

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different types of staff, different levels of staff, have different kinds of constituency office, and travel whichever way they want. I know, Mr Chairman, you may not be entirely comfortable with this idea, but from our perspective we would wish to move more to greater discretion for the MP rather than to increasingly detailed rules, because of the diversity of MPs. Of course, we can only get to that discretion when there is this growing trust and capacity not to be fearful of what might be said about what is being spent or not spent. That is the evolutionary process.

**Q45 Joan Walley:** In respect of that growing trust, how much time have you spent talking to MPs and visiting MPs in the last three months, or perhaps in the first few months before that, not just in the last three months?

**Professor Sir Ian Kennedy:** As you may imagine we do spend some time with MPs—some of my best friends are. John, you and the policy team, which is only four people, have done what in the last few months?

**John Sills:** Well, over the last year the four of us, including myself, have had about 100 one-to-one meetings with MPs.

**Joan Walley:** A hundred?

**John Sills:** A hundred, yes.

**Q46 Joan Walley:** Has that been here in Westminster or elsewhere?

**John Sills:** No, that is in Westminster. We have also visited about 20 constituency offices and we are doing some of that now as well as part of our MP staffing review. That is just the four of us. I was in Islington the other day; that was not very difficult, but one of my colleagues was in Penzance and another went to Wales. We are trying to make sure that we get a good spread across the country, across parties, and among new MPs and returning MPs.

**Q47 Joan Walley:** How many hours? Have you catalogued this?

**John Sills:** In terms of hours, I have not measured the hours, but in Westminster, if you go to see someone, you normally talk to them for about an hour—you have to get there and back, so, yes.

**Professor Sir Ian Kennedy:** The Chief Executive went to Orkney and Shetland, which is further away than Islington, and spent the weekend there. That is an example of where we have tried to make sure that we are aware of the various differences. I spent time in an urban metropolitan constituency just to understand what it meant to have case load, what it meant to have communities where the assumption is you go straight to the top straight away. It is something that Mr Raynsford will be familiar with. This was in North Kensington. Then, of course, it is all reported back to the board, so we get a sense.

**Q48 Joan Walley:** Just finally, in terms of the needs of Members and the duties of Members, how much are you seeking to define that within the current payment structure of expenses/allowances, or how much are you seeking to accommodate it within the contingency fund arrangements that you have?

**John Sills:** Are you saying how—I am not sure I quite got the question. You are talking about expenses and costs as opposed to salaries?

**Joan Walley:** I am talking about the costs of being an MP, which are part and parcel of the job.

**John Sills:** Yes. Well, for the contingency arrangements in the financial year just gone, there was about another £500,000 agreed, in addition to the existing budgets.

**Professor Sir Ian Kennedy:** Actually, in addition to 173.

**John Sills:** Yes, that is right. It is not a huge amount but it was an important safety valve for those MPs particularly in inner London who needed extra staff and so on. If you are in a hotspot around the country in terms of rent, there was a possibility of using it for that. If you were a starting MP and you needed more money than the office budget allowed, then you could use contingency for all of those things. It is not a huge proportion of the overall budget, but I think it is very helpful.

**Q49 Chair:** When Parliament was recalled recently, I take it that those costs were part of the contingency rather than part of the core office expenditure or the core travel expenditure?

**John Sills:** We certainly agreed to pay them. I am not sure whether they came out of contingency or travel. I think it was probably contingency, but I was on holiday at the time so I am afraid I do not know.

**Professor Sir Ian Kennedy:** I have already misled you, Chairman. The Chief Executive has not yet gone to Orkney and Shetland, but he is due to go.

**Q50 Guto Bebb:** Just a very quick supplementary on the issue of the duties of Members. Some colleagues of mine have mentioned the fact that they believe that the IPSA scheme is basically looking at us as local Members rather than Members of Parliament who legislate on a national basis. For example, the 20-mile rule in terms of your constituency can be problematic because any journey then undertaken as a result of national legislation, or the impact of decisions made in this place on our constituencies requiring travel to other parts of the country, seems to be in need of justification all the time. It almost demeans the status of an MP as somebody who legislates for the whole of the UK.

**John Sills:** Well, actually, you can claim for travel in relation to matters of Parliament. We widened the rules out in the new scheme because before, if, for example, a prisoner from your constituency was in another constituency, you could claim for that. Some MPs were not sure that you could, but you could.

**Guto Bebb:** As a local Member?

**John Sills:** But now, if it is in relation to a parliamentary matter, then you can claim the travel. We can confirm that with the detail in writing if you wish.

**Chair:** That would be helpful.

**Professor Sir Ian Kennedy:** Mr Chairman, I am somewhat embarrassed but I need to go relatively soon.

**Chair:** We are very close now. We will move on to Stephen, who will ask some questions on the fairness

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for less well-off Members, then we will deal with not deterring legitimate claims, and I think we are pretty much there.

**Q51 Stephen Williams:** Just to pick up where Guto left off, obviously each individual Member is different in terms of our working practices and our backgrounds, but also our constituencies are different. In terms of the contingency, I think you just talked about how when constituency offices are in a “hotspot”—I think was the phrase you used—contingency should be used. Should it not just be built into the system? Is it not common sense that office rents in Bangor or Conwy are somewhat different from those in the city centre of Bristol? Yet the expectation is I can rent an office for the same cost as my colleague Mr Bebb. That is not a contingency; it is basic.

**John Sills:** We have thought quite a lot about that. There is a London and non-London distinction. We looked at whether we should split it up more regionally, just as we have for residential accommodation. The advice we got on that was that it was not a good idea, but the other thing when I talk about hotspots, is they are in surprising places. It can be an area where you might expect to be relatively low rent and it turns out maybe there is not enough commercial property in the town centre. We accept that MPs need to have their offices somewhere central that people can actually get to. You can get these unusual patterns. You get real outliers that do not really fit into a capped budget, which is why contingency does its job.

**Q52 Stephen Williams:** Once that is established—and the boundaries are about to change—for a constituency, it should not matter who the Member is or their circumstances. The cost of having a presence in that seat is an established fact, isn't it? It is not really contingency.

**Professor Sir Ian Kennedy:** Mr Williams, you should rest assured, I hope you can rest assured, that these conversations about how to fix rent and what the rents are are not decided just willy-nilly. We take advice from a whole range of advisers and come up with a scheme that we think properly allocates public money in an efficient manner. We have looked at regional variations, we have looked at all sorts of things, and what we have arrived at is a function of professional advice.

**Q53 Stephen Williams:** The other circumstance, Chairman, where our office practices will be different is in terms of workload. I am not going to pick on any constituency here because I will get into trouble, but quite clearly some Members of Parliament get written to more than others, some have different profiles of case work because of the demography of their seats, yet the staffing allowance we have is identical whatever the size of the electorate, whatever the demography. Some of us, therefore, need to supplement that staffing budget with volunteers, with interns, which is a subject of controversy outside Parliament. Certainly, speaking for myself, I have always tried to make sure that interns and volunteers

are rewarded financially for what they do. Should there not be some budget for Members of Parliament to be able to offer internships in Parliament on a fair basis?

**Professor Sir Ian Kennedy:** Thank you, Mr Williams. It is a very important question. I think the answer to that is one ought to do it slightly more radically than you are proposing—not, as it were, finding ways to top up but rather having a root and branch examination of what the staffing needs are. You will know that we inherited the SSRB's recommendation 3.5; we did the mathematics and we added in this and that and we came up with a figure. We announced last year, or at the beginning of the financial year, that we are conducting a review of staffing needs and the associated costs. We will be publishing a consultation document very soon and that will be exactly addressing the issues you raise. That is what we think is a responsible job of an external regulator.

**Q54 Stephen Williams:** I come now to the differences in between Members as individuals. Quite clearly, Parliament needs to represent nations and national interests; we have people from all sorts of economic backgrounds as Members. In May 2010, I came across new Members of Parliament from all parties, not just my own, who were in real financial difficulty when they were elected because of so many costs that they personally had to incur and then had to wait for reimbursement. Later on, contingency and loans came about, but nonetheless we still have a system where the Member has to claim. The Member has to spend for an amount and then has to claim it back, which is quite different from how any other business would operate. Mr Bebb here has a red folder; Sir Ian also has a red folder. Mr Bebb would have had to have bought that and claimed back for it, but I doubt if you had to do the same.

**Professor Sir Ian Kennedy:** Sadly, yes, Mr Williams, but your more general point is well taken. We have introduced now for incoming MPs, for the future, a £6,000 start-up, which seeks to address exactly that. If I may, because this Committee is seeking to widen the compass from what is currently the case to consideration of what might be the case, we proposed—Sir Christopher Kelly also proposed—that some thought be given to, where MPs opt for it, locating an office in some central, publicly owned place fitted out for all the necessary equipment that is required. Then the MP has it and updates it as he or she wishes. If there is a changeover, then you have an office already provided and you have the equipment so you do not have those start-up costs. When we consulted on that, there was a great deal of unhappiness from MPs for a variety of things. I think it had to do with, “I want to run my affair as I want to run it,” but I think it is something that we will revisit because in value for money terms it is well worth revisiting.

**John Sills:** I think the other thing there is what we call in the jargon direct payments. Ian said earlier that direct payments and the use of the payment card now potentially cover up to 77% of outgoing costs. We want to get that figure even higher and we are looking at some more things that will help on that. Now,



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clearly, for new MPs next time around that will be really good because immediately your office rent can get paid, all those big item costs. I think that is probably the key.

**Q55 Stephen Williams:** I would agree then that things have got better as the scheme has evolved and the payment card can now be used for some things, but it still does not cover all items of expenditure, such as phone bill and electric bill. There are various things that in any other walk of life an employee, whether a parliamentarian or not, would not be expected to pay for personally and then claim it back.

**Professor Sir Ian Kennedy:** Well, yes. We can go into that. Phone bills are particularly important but there are others. Remember that the National Audit Office is also there to look into this, so we have to steer a careful course between what might be ideal without the NAO's concern and then take account of the NAO's concern, but we are building on those.

**Q56 Joan Walley:** Could I just come in and ask you on what basis you feel it is appropriate to give new Members funds in advance to be able to furnish or provide the running costs of running their office but that does not apply to existing Members?

**Professor Sir Ian Kennedy:** They are not either/or. Mr Williams identified a specific problem of starting up, I was responding by saying we sought to address that. That is without prejudice to the fact that we introduced £4,000 loans and lots of other things. John, do you want to add to that?

**John Sills:** As Ian said, way back when we consulted on the issues of whether things like that should be provided, at the time I think generally people were opposed to it, but it is something we want to come back to. We are scheduled, not this financial year but the following financial year, to start to take a closer look at those accommodation issues again as part of the thematic review. I think that is an opportunity to bring those issues to the fore.

**Q57 Joan Walley:** If I may, Chair, I think the question is: how does IPSA expect Members of Parliament who have to provide money up front to provide that money until such time as they get reimbursed? It is now admittedly much speedier than it was originally but nonetheless it is having to put that money up front, isn't it?

**John Sills:** Yes, but it is getting increasingly less. As I said, it is 77% now and we are looking to make that smaller. In time, hopefully we will cover pretty much everything.

**Professor Sir Ian Kennedy:** You cannot, with the greatest respect, have that conversation without a larger conversation about the total package of remuneration.

**Q58 Stephen Williams:** How much confidence do you have that you either are near or indeed have reached an expenses regime where an individual Member of Parliament is not financially distressed because of the nature of their job and is out of pocket because of their public duties?

**John Sills:** Well, I am beginning to repeat myself a bit here, but given the increasing amount of direct payments, payment card, things like that, I think that is very important because cash flow is the key issue, isn't it? Those things—the ability to get advances on invoices for big ticket items—mean that now I think the majority of expenditures are covered. As we have just said, some are not. The Operations Director is looking at the moment at a whole suite of further improvements, which I hope we will be able to announce in the not too distant future. What I am saying is that I think the answer is yes, I am pretty confident, but there is more to do.

**Q59 Joan Walley:** Could I just ask very quickly how that relates to staff training, for example?

**John Sills:** Staff training you can claim back for. You can claim for staff training.

**Q60 Joan Walley:** It would be paid in advance?

**John Sills:** In advance? I am not sure at the moment, but we can look at things like that.

**Chair:** Thank you very much. We are now moving on to the final section, which is the deterrence of MPs from making claims, which is quite a big concern. Cathy, I wonder if you would pick up.

**Q61 Cathy Jamieson:** Yes, thanks very much. I was listening very carefully to what was said earlier. I just wonder if you are aware of the problems of MPs who are deterred from making claims and what feedback you have had during the process and what you may now choose to do in the future to ensure that people do actually claim what they are entitled to.

**Professor Sir Ian Kennedy:** We cannot control whether MPs put in claims, and if they do not claim we cannot pay. We have said that the money is there, MPs are entitled to it, and they should claim.

**Q62 Chair:** Could I just come in there? One of the most important things to any Member of Parliament is reputation—it is in a lot of other walks of life but particularly as a Member of Parliament. There are some concerns that clearly not everybody is claiming what they ought to claim. Clearly, those perhaps wealthier Members or those with trust funds are not claiming some fairly major items, and that is quite self-evident from when one looks at the numbers. I think the question behind this is whether you see that there may be a disadvantage for the less well-off and those maybe with families who are forced to claim and risk their reputations on this bi-monthly basis, compared with those who then choose to protect their reputations by simply not making those claims. This is something that did not necessarily exist before.

**Professor Sir Ian Kennedy:** I understand the question; it is well put. I think it is better to see us in an evolutionary process, as I have said before, such that the concern and anxiety about claiming—to the extent that it is necessary to pay up front and claim rather than take advantage of the various mechanisms we have put in place to avoid that—will decrease. We hope to be in a position as soon as we can—it involves, to a degree, talking about costs and expenses as a routine matter, where MPs are behaving

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legitimately and we can demonstrate that, and so on—where MPs are sufficiently confident to claim. Now, if it is the case that those with more money do not claim, that is a matter for them. If it is the case, as you say, that some who are less well-off do not claim because they are fearful, there are two choices there. You either create an environment where they are less fearful, or you scrap the whole lot and just revert to what we had before, but believe you me, the FOI requests will go through the roof. The exploration of every toilet roll and every toothbrush will again be part and parcel of our daily public conversation and it will not really take us anywhere.

**Q63 Cathy Jamieson:** I just wanted to pursue a point in relation to this issue about how claims perhaps risk damaging people's reputations. Could I give an example of that? Many people who have to travel a considerable distance by train, for example, may choose not to purchase a first-class advance ticket, which might be cheaper than a standard train fare, simply because of the controversy that there has been around first-class travel. Is there going to be any kind of change to look at what is the best value for money there?

**Professor Sir Ian Kennedy:** The standard approach across Whitehall is now that first-class travel is not available in departmental terms and so on. We are just following what Kelly said and everyone else. Putting that aside for a moment, what is it that IPSA can do to change public perceptions of MPs? Your Chairman rightly refers to, and I know that he is very concerned about, notions of reputation. Reputations, as we know, cannot be demanded and are not given by me in my gift. They are earned, and currently we are going through a process of re-earning. This conversation is not without its history and we are all re-earning that reputation, which is so important. What I would seek to persuade you of, and I may have some difficulty in doing that, is that IPSA is one of the greatest allies to that process of re-earning that reputation by having a robust system with proper assurance, proper transparency, routinising, demonstrating probity, so that we can move on to more important conversations.

**John Sills:** Certainly, in respect of your example, if we are asked by anyone about first-class travel that has been secured in advance and so is less than the standard open ticket, we would robustly say that is completely legitimate, because it is.

**Q64 Chair:** Thank you very much. I am just going to ask two tidy-up questions and then I think we are there. Thank you very much for your patience and for your time today.

First, we are reviewing the legislation and we will make recommendations, if we think they are

necessary, to change that legislation to ensure that the goals of the original Act, as amended in 2010, are actually met. We have tackled some of those issues today. Clearly, everyone always says we would not start from here, but I ask you to consider whether there is anything that you, the board of IPSA and the executives within IPSA, would like to see changed in that legislation—feel free to mention one or two now; alternatively, you can go away and consider it—that you think would make your job easier or make it easier to achieve the objectives as set out in the Act?

**Professor Sir Ian Kennedy:** I will come back and talk to you, but I will say this, Mr Chairman: the Act as regards what we do merely says, as you know, that it is up to IPSA to create a scheme—a scheme of allowances, but we have had that conversation. It then requires us to be independent, to be cost efficient and to be transparent. On all three we are on a journey, but we think we are doing relatively satisfactorily. I will now go away; there may be conversations we could have about the compliance officer and how that might interface with your own concern and others' about parliamentary privilege. We think the parliamentary privileges matters are resolved. The original Bill I looked at with some degree of horror when I thought how would I as Chairman of IPSA manage a Bill where there was investigating functions and so on, but that fell away, mercifully. I think parliamentary privilege is not an issue. I am happy to have a conversation further. We can talk about that and I will certainly come back having consulted the board on the 20th of this month.

**Q65 Chair:** Thank you very much indeed. My final question is, over the years obviously the executive and the officers provide recommendations to the board. Have any of those recommendations been rejected and is that part of the minuting process of your board meetings? Have there been proposals that have then been rejected by the board that we are not aware of?

**Professor Sir Ian Kennedy:** They say so many things. I will come back to you if I may.

**John Sills:** Speaking as the Policy Director, I think policy making is an iterative process. We talk about options and choices rather than, "This is what we think, yes or no?" It is not that simple.

**Q66 Joan Walley:** Just quickly, on the issue of transparency, presumably board minutes are in the public domain?

**John Sills:** Yes, they are.

**Professor Sir Ian Kennedy:** They already are.

**Chair:** Thank you very much indeed. Thank you for your patience, thank you for your time, and thank you to members of the Committee.

**Professor Sir Ian Kennedy:** Thank you.

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**Tuesday 11 October 2011**

Members present:

Adam Afriyie (Chair)

Guto Bebb  
Mr Edward Leigh  
Rt Hon Nick Raynsford

Joan Walley  
Stephen Williams

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**Examination of Witness**

*Witness:* **Dr Ira Madan**, the House's Consultant Occupational Physician, gave evidence.

**Q67 Chair:** I would like to welcome Dr Ira Madan to our session. It is quite a short session today. This session is about trying to discover from third parties the impact of the Parliamentary Standards Act—that is, the way that it is operating—on MPs. But rather than from the mouths of MPs, we thought it was a good idea to hear from third parties who have had experience of MPs and the way that they operate. That is why you are here today, and thank you very much for giving up your time, and thank you very much indeed for your written evidence, which was pretty comprehensive.

What we want to do today is very quickly pry a little bit more into that evidence and get some numbers or proportions on the number of MPs involved, and just speak a bit more freely about the observations that you have made in writing.

The first question from me is, broadly speaking, roughly how many MPs have been to see you since May 2010, approximately?

**Dr Madan:** I have the exact number. It is 62.

**Q68 Chair:** What proportion of those Members who came to see you were new Members to Parliament in 2010?

**Dr Madan:** It is approximately 50%, so it is about half old and half new.

**Q69 Chair:** Half and half. Can you confirm that the MPs were not coming to see you because they had a complaint to make, but that you were asking them questions as part of your routine medical screening process, if you like? Is that how these things arose?

**Dr Madan:** Yes, absolutely. Members are offered a medical screening every three years and the first part is undertaken by a nurse, who will assess cardiovascular risks, and I will go on and look at the findings from the nurse assessment and ask them more specific questions. In the introduction, I specifically ask on job satisfaction and control over workload, because those are known to be risk factors for poor mental wellbeing, so I specifically ask those questions, and it is there that IPSA has come up as an issue on job satisfaction, and it is usually that opening part of my process.

**Q70 Chair:** Am I correct in thinking that you have worked in Parliament for about 13 years, something like that?

**Dr Madan:** Yes, since 1999.

**Q71 Chair:** Do you also practise in other organisations as well?

**Dr Madan:** I am employed by Guy's and St Thomas' NHS Trust and I am contracted here for one day a week.

**Chair:** So you have a view of other organisations and similar sorts of issues. Thank you very much indeed. I am going to hand over to Joan, who is going to ask some questions about the impact of the new legislation on MPs.

**Q72 Joan Walley:** I wanted to see how much it is impacting on stress levels, as well. Just looking at the medical assessments that you have undertaken since May 2010, you said that in 50% of cases IPSA may have been identified as a contributing factor to health problems. In those cases, what kind of health problems have you identified?

**Dr Madan:** It is very hard to isolate health problems per se. I think what I can say is that the frustrations and difficulties that Members are experiencing with IPSA are contributing to poor mental wellbeing. If people do become unwell, it is normally not just one factor that I can identify; it is a balance. It is an effort/reward balance that I would normally look at, and I think the efforts that MPs are putting into their work have increased for a variety of reasons, and one of those is IPSA. I think the rewards have decreased, so it is just another part that is tipping the balance. That is my opinion.

**Q73 Joan Walley:** How much would you say that those problems have arisen since May 2010? Would you say those same problems existed in a different form before IPSA came on the scene?

**Dr Madan:** There were different problems that people expressed, but those problems remain, and I think there have been additional things since May 2010. IPSA has been a large part of that, from what Members are telling me. Members say—particularly the people who were here before 2010, and I will exclude the year from May 2009 to May 2010, because that is an exceptional year; apart from that year, prior to that—that the bureaucracy of IPSA has increased their workload. They find it increasingly frustrating to deal with IPSA. They have concern that the way the expenses are reported by IPSA is picked up by their local constituency press, where there can be some fairly vitriolic reporting.

I think the other things that have increased pressure on MPs is FOI—that has definitely increased it—and the increased ability of constituents to readily contact

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Members via e-mail in particular. This is as I understand it from Members as they have reported to me. As an occupational physician, one of my roles is to look at trends, and what comes across very strongly is that IPSA—the bureaucracy, the facelessness, the local reporting in media and the effect on their families—is a large component of the increased effort required from Members.

**Q74 Joan Walley:** It would be interesting to hear a little bit more about your sense of what the impact has been in terms of families.

**Dr Madan:** Again, I can only give my view of what Members have said; it is not my role to criticise the system or anything else. Members have told me that they are not able to claim for fares for their children coming up to Parliament. That might have changed recently, but I am not entirely sure about that. Quite a few Members initially were in hotel rooms while they were trying to find accommodation, and when they found accommodation, it was in rented flats that were very small, which made it very difficult for their family to visit them in London. I particularly remember the October school half-term last year. It is half-term for schoolchildren but Members do not have recess during that time, and several Members told me that they could not facilitate their family coming up to London to be with them during that time and it caused quite a lot of friction.

**Q75 Joan Walley:** Do you find, in a sense, that Members are not spending time with their families simply because of the difficulties of overcoming the accommodation issues?

**Dr Madan:** Yes.

**Q76 Joan Walley:** In terms of time spent with families, to what extent would you say that was part and parcel of the workload that comes from being an MP anyway, and that you should not expect to have time with your families?

**Dr Madan:** I agree with that. It is just part and parcel of being a Member. I think most Members would agree with that as well, but I think it is the duty of Parliament—this is my view as a doctor—to ensure that within the work role of Members, Parliament should facilitate family support and access to families as far as is possible and not obstruct it. I feel quite strongly that Members have a very tough job. It is not always appreciated, I think, by press and public, and having the family support and social support is a very strong factor in protecting mental wellbeing. That is known in all professions, not just Members. That is a well known fact. There is plenty of evidence to support that. Therefore, I think, given the pressure that is placed upon Members with their long working hours and being away from home, everything should be done to support time spent with family.

**Q77 Joan Walley:** Finally, looking at the pressure that you refer to and the stress levels, and there is a lot of discussion about stress and safe working conditions, would you say that stress levels have increased substantially since May 2010 or not really that much at all?

**Dr Madan:** I find it quite hard to talk about stress because, as a doctor, I find it hard to define what stress is. I think, when we talk about pressure, it is probably easier for me as a doctor to conceptualise poor mental wellbeing. I think, yes, it is poorer, excluding the year from May 2009 to 2010. There is less job satisfaction, more frustrations and longer hours, and the bureaucracy that IPSA has introduced is contributing to the frustrations and, as I say, the pressure of the job.

**Q78 Chair:** This applied to the new intake MPs after May 2010 in addition to MPs who had been here before. They have found it equally stressful, even though they were not part of the scandal, if you like.

**Dr Madan:** Yes, I think they have. Initially, when I saw Members who had been here prior to May 2010, I think a lot of the frustrations came from them, but now it seems to be as much the new Members. Initially, they struggled with the system of having to find their own staff and find their own accommodation, and several Members have said to me that they had had to take out loans to secure their accommodation and there was a delay in IPSA funding that. That seemed to be a big factor. Now they complain about the time it takes to fill the forms out, and particularly the way that it is reported in their local media and the way that IPSA will report that.

**Q79 Chair:** Given that MPs' reputations are important to them, or the most important thing, do you think that the public pressure from the reporting, or misreporting, in the local media is part of that reward/effort balance that has tipped further the other way since 2010?

**Dr Madan:** Absolutely. Definitely, I think that is one thing that is overwhelming, from my point of view. Members say to me is that they still have people telling them jokes about expenses. If they go to the hairdresser, for instance, people will say, "Are you going to put this on expenses?" They say, "Okay, it might be funny for the first one or two times", but it gets right up their noses and it is a lot of pressure. People will pick anything up in the local papers, and I know for a fact there have been a few Members who have had to claim a lot on their expenses. Some Members do not claim. They tell me they will not claim because they know it is going to be in their local paper and it is going to be picked upon. Some Members who, for various reasons, need to claim everything to support themselves or their family—I have to be very careful here; I do not want to identify anybody—feel that they are being scrutinised. They might be very high up on the list of high-expending Members, and they feel that that is unfair when other Members may not need to claim so much because they have other income from elsewhere. Again, as a doctor, I would feel that it is unfair for them to be penalised in that way.

**Q80 Mr Raynsford:** You stressed in your earlier evidence that you only work one day a week here at Westminster and the rest of your professional life is working with patients elsewhere.

**Dr Madan:** That is not quite right, sorry. I am employed by Guy's and St Thomas' NHS Foundation

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Trust. I only work part-time and I also do academic work. Currently, my only clinical work is here, but previously I have had a lot of experience as an NHS consultant in occupational health.

**Q81 Mr Raynsford:** Right, so this may not be possible for you to answer, but what I am trying to get a feel of is whether the kind of pressures that you have encountered in relation to expenses claims among MPs is replicated in other fields; whether you have people in other professions and other activities facing similar levels of stress, or whether there is something unique about the Westminster situation.

**Dr Madan:** There is something unique about the Westminster system. As far as the claiming for expenses is concerned, I think it is unique here. Currently I am not doing clinical work elsewhere, but I was first appointed as a consultant in the NHS as full time in 1993, so I have near 20 years' experience working in the NHS and also on contracts for private sector industries that contract into the NHS for occupational health, and I have not come across this anywhere else, or any other employees who are concerned about the bureaucracy of the system.

**Q82 Mr Raynsford:** Can I then ask you whether there are other pressures, not necessarily to do with the expenses, that impact on other professions, other groups of people, which are not replicated in the case of MPs, so that MPs are less afflicted with other pressures than comparable groups of people, in your experience?

**Dr Madan:** Yes, definitely. If we could talk about comparable people, so we are not talking about people in manufacturing industries, which clearly have other risks that are involved, but if we talk about other white collar workers and professional groups, yes. For instance, with the medical professions as an example—I do NHS occupational health—consultants would have pressures of the caring duties towards patients and conflicts and ethical conflicts that they quite often cite as a pressure of their job that MPs would not have.

**Q83 Guto Bebb:** Just turning to the issue of Members with disabilities, I understand that you report to IPSA in relation to any additional allowances required by Members who suffer from any form of

disability. Generally speaking, when you have had discussions with IPSA on this issue, have you had any problems with getting them to agree to any recommendations that you have made?

**Dr Madan:** I write a report to IPSA, so I don't have a discussion with IPSA; I just write a report on the functional disabilities, not the medical details of Members but the functional disabilities and what they might need to fulfil their duties in Parliament. No, not that I am aware of. I have seen four Members for those assessments since May 2010 and, as far as I am aware, they have received the allowance as they requested.

I know that two Members with disabilities have been very concerned about the information that I have supplied in the IPSA report—even though it doesn't have medical details—being made public, and they specifically asked me to write at the top of the hard copy I sent to IPSA to say that they only want the information to be kept in hard copy and not to be scanned and not to be kept in electronic format, which I have complied with.

**Q84 Guto Bebb:** The second point in terms of Members with disabilities is that obviously there are differences between the way in which you might identify the need for some equipment, for example, to support a Member, or the allowances. My understanding is the equipment will not be funded by IPSA, but the allowances will. Have there been any issues in relation to that dividing line?

**Dr Madan:** No, I don't think so. There have been a few problems internally with the parliamentary ICT Department providing software, but that has been resolved. We, as a department of the Safety, Health and Welfare Service, can ask Access to Work to provide equipment.

**Q85 Chair:** Dr Ira Madan, I have been quite surprised by some of the evidence you have just given us there, especially with the comparison to other walks of life. I very much appreciate your written evidence and I very much appreciate you taking the time to come here today. As I say, this session is really about third party experience of the work of MPs and the impact of the Act, and I very much appreciate your input today.

**Dr Madan:** Thank you.

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### Examination of Witnesses

*Witnesses:* **Peter Riddell** and **Matthew Parris** gave evidence.

**Q86 Chair:** Matthew Parris and the Rt Hon, I understand now, Peter Riddell, welcome to this evidence session of the Members' Expenses Committee. The aim of the inquiry is to investigate the operation of the Parliamentary Standards Act 2009 as amended in 2010, which created IPSA, to see whether or not that Act is achieving its aims in all sorts of things, like value for money, raising the public confidence in Parliament, not deterring Members from claiming and so on. The reason we have invited you here today, with your experience both of writing about

and being around this place for so many years, is to get some third-party input as to your views of the current arrangements, and any general observations you can make about the standing of MPs in the public domain and any contribution that the expenses or allowances or salary system has to that public perception.

Peter, you have written a book on the subject, which is on the esteem in which MPs are held, and I have to say I thoroughly enjoyed it. It said all the right things. It pressed all my buttons. Please feel free to be deeply

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critical of MPs when necessary as well. One of the propositions you make is about the effectiveness of MPs and about the fact that they may need to demonstrate—we will come to this a bit later as well—that effectiveness. Do you consider the reform of the expenses system, as it stands now, so that it supports MPs better in the way that they do their jobs and in discharging their duties, is part of helping to make MPs more effective in the way that you describe?

**Peter Riddell:** No. What I meant by that point in my book was that the damage caused by the expenses row was not enormous to trust in MPs, because trust was already low. The interesting aspect of the polling, which is now over about two and half years, is that it has lowered the esteem for Parliament as being an effective governing institution. I regard that as much more damaging in that way. That is what I meant by that.

In relation to the creation of IPSA and so on, I think it has largely passed the public by. This is very much an internal argument between you and IPSA, although possible changes would have public repercussions. If one looks at it in public opinion terms just very briefly, there was massive damage initially, and then you get a number of people standing down from the House at the election. You had the prosecutions, people going to jail and so on. I am sure that, if your staff monitor press references to it, there will be a very sharp decline, apart from the prison cases, in the last year. That is not to say it is all internally satisfactory, but in terms of public perception, it has done that.

Has that restored faith in Parliament? No, because I think that what I mean by effectiveness is that it is your broader work, not so much how you are paid and how you get expenses, that affects that. If you can demonstrate your broader effectiveness, your ratings and things that people care about—I would say the work of the Backbench Business Committee is relevant to that in that topics that people care about are raised—and so on and so forth, that is more important than what happens with your expenses, provided there are not any more scandals. That is what I meant by that.

**Q87 Chair:** The reputation of MPs and the reputation of this place appears to be, even historically, at a pretty low ebb, for all the reasons you describe and possibly many others. Do you think it is just totally unrealistic to seek to persuade the public, or even the media, that changes may be necessary to make the Act work better? Is it a futile exercise to try to persuade the public that that is necessary, or shall we just get on and do the right thing, even if it may not sit well with public opinion initially but may enable MPs to do their jobs better? Do you think we should be totally entranced by public opinion of the moment, or do you think we should look at doing the right thing?

**Peter Riddell:** Just briefly, I do not think the public particularly cares about the detailed system. What I would say is that the events of 2009 are so recent that to move away from an independent system by which you receive expenses would be wrong. It would be seen as you paying yourself, which was, in effect, with a very lax system, what happened. It was an internal

system without proper checks and balances, and I think there are real problems in moving away from that. That is not to say that it cannot be improved in many ways.

I also think that the really big issue is moving away from receipted expenses to allowances. That is the only one that will strike a public chord. The rest of it is detail. You might take a hit in the *Mail* or *The Sun* or whatever. They would have a go at you whatever you do, but I think that is the one that would be difficult.

**Matthew Parris:** Just to comment on your first question to Peter. I think the way in which the effectiveness of MPs has been damaged by all this is in terms of their own self-regard, their own self-esteem. If you do feel that you are the laughing stock of the nation and of your constituents and of the media, however thick skinned you may be, it gets you down after a while. I think it hits self-confidence. Self-confidence is almost the main fuel of a Member of Parliament, particularly a backbench MP, and once that goes, everything goes.

I would incline to the view that the public and the media are not going to like anything that MPs decide with respect to their expenses, so you should really concentrate on getting a system that you think is right for you and let the media take care of itself. We have not been invited to give opening comments and I do not want to do anything so pompous, but I do think that the whole thing has been absolutely ridiculous. It is completely overblown, largely got up by *The Daily Telegraph* and then helped by a lot of others. I think enormous injustices have been done to the reputation of the House and to the careers and reputations of individual Members, and you have ended up with what I cannot imagine to be anything but a burdensome and overblown system. I don't know how many people there are in my own organisation, *The Times*, to deal with expenses, but I cannot think that it is anything like IPSA.

**Peter Riddell:** Could I just say that, of course, you have the most sympathetic possible people commenting on MPs here. Matthew is an ex-MP; myself, I have written a book 'In Defence of Politicians'. You would have very different evidence from a lot of my ex-colleagues or Matthew's current colleagues.

**Chair:** We are receiving much of that evidence in writing at the moment and it will form part of evidence.

**Q88 Mr Leigh:** Matthew, when you and I arrived at the Commons—you in 1979, I in 1983—as you know, the system was effectively an allowance system. I do not know what the housing allowance was. Say it was £1,000 a year, but you will remember that we were told, basically, there was an allowance and you just divide it by 12 and you claim the monthly allowance. Then the system started to deteriorate and become ridiculous because there was one colleague, who will remain nameless, who did not bother to have a second home at all. It was felt at that time they had to justify each item of spending and they were told they were still going to get an allowance for £1,000 a year, but they were then trying to make it up, and that is how

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some people ended up in prison, and the rest is history. You would know the story as well as the rest of us. But it was originally an allowance system. In other words, it was not an expense system.

If we return to that allowance system, basically a flat-rate taxable allowance, so that you received, say, an allowance to broadly compensate you for living away from your main home, and you decided whether you want to live in a five-star hotel or sleep on a park bench, it was up to you, and it was taxed, from your experience as a political journalist, what do you think would be the public reaction to that?

**Matthew Parris:** Firstly, I do not entirely agree with your definition of how we saw it. I did see it as an expenses system and I did try to at least take a stab at how many miles I had driven in the constituency and to and from the constituency. I did have a mortgage to pay and the cost of the interest alone on that mortgage was already greater than the housing allowance, so there was no problem there. I think it was a sort of curious hybrid, half-way between a proper expenses system and an allowance system.

There are problems with an allowance system. They have it, to a degree, in the House of Lords, and if the press wanted to have a go at Members of Parliament, they would then find Members of Parliament who clocked in, so to speak, to get the allowance and did not do anything while they were here. Also, as far as the Inland Revenue is concerned, if something is in the nature of a salary, it had better be called a salary. My own view, and I have been writing it for years and never made any headway, and do not expect to, is that MPs' salaries should be doubled and almost all their expenses abolished. As that is not going to happen, I suppose there is no point in detaining you.

**Q89 Mr Leigh:** It is useful that we get your point of view. Is that your point of view?

**Matthew Parris:** Yes, it is.

**Q90 Mr Leigh:** Do you think it affects public confidence that the MPs' staff salaries are referred to as MPs' expenses, or Members' expenses? Is that a problem?

**Peter Riddell:** I agree with Matthew about moving back to an allowance system. The Lords may find they have some problems then, because, as Matthew says, watch Westminster tube and you will see a number of peers leaving after they have clocked on to get their daily allowance. What I would suggest is a recategorisation, because exactly the example you use, of your staff, should not be classified as an expense. It should be paid separately and it has to be legitimate to avoid the Derek Conway problem. It has to be a legitimate staff thing, and that can be monitored. I do not think it should be terribly difficult to monitor. That should not count as an expense. I agree entirely that the lazy populist journalism and some pressure groups classify everything you get as an implication that it is usable, disposal money, which is a nonsense. I think that needs to be recategorised.

In relation to a narrower category of expenses, it should be properly reimbursable. In some respects, in a different mechanism from now, I think bills should go directly to IPSA and things like that. That, indeed,

is the gist of some evidence, which, in my role as Chairman of the Hansard Society, the Hansard Society has submitted to you. I think that is a way around it. You can narrow that, but it would be very difficult to go back to a pure allowance system now.

**Q91 Mr Leigh:** Do you think the present system is dissuading capable people, people without private means, from becoming MPs? Is it any different from your experience of 20 or 30 years ago?

**Matthew Parris:** I doubt it. I do not see any diminution in the quality of people coming in.

**Peter Riddell:** In many respects, it has led to an increase, actually.

**Mr Leigh:** An increase?

**Peter Riddell:** If you look at the last intake on all sides, rather high quality people, I think.

**Q92 Mr Leigh:** So we could be paid anything you like? We could be paid nothing?

**Peter Riddell:** I am as enthusiastic about markets as you are, Mr Leigh, but I don't think the market works purely. The supply and demand balances are imperfect and I wouldn't want to get into neo-endogenous growth theory on this. I do not think it works perfectly like that. However what I think there is—and we will see this a bit at the next election, whether some new MPs first elected, not just people who are affected by the reduction of number of seats on the boundary changes and all that, do feel that—is a discouragement factor. I do not think it stops good people coming forward, but one of the differences is that when I first reported—it may have been during Matthew's first Parliament, so over 30 years ago—you did have more of a class division, if I might put it that way. Many more working class Labour MPs did not expect much of an income. Now, on the Labour side, you are talking about, on the whole, public sector professionals, and on the Conservative side, private sector professionals, with a few very wealthy people and a very, very few ex-manual workers on the Labour side. Therefore, the income levels are up on the Labour side and people expect an income. The data that the Hansard Society has collected shows a substantial number of the new MPs of the Chairman's intake did suffer quite a loss of income coming into the Commons.

**Q93 Mr Leigh:** Mr Riddell, Mr Parris has been very clear about what he thinks: basically, all the expenses should be abolished and they should just get double the salary. What is your view? How would you solve this problem, if you were in charge?

**Peter Riddell:** As I have written several times over the last 10 to 15 years, salaries ought to be higher. It is never going to happen. It is the fault of Prime Ministers and Leaders of the Opposition. It doesn't matter what party they are, they have all ducked it. They should have dealt with it right at the beginning of Parliament, but that is over now. I would have a higher starting salary, I would simplify the whole system and I would transfer over and exclude, effectively, a lot of what is counted as expenses. I don't think staff salaries should be. I think a lot of costs you incur, office equipment and things like that,

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should be directly reimbursed, so it should be a much narrower category of expenses. There are also very solid procedural things that you and many of your colleagues have raised. I think the fundamental nature of the independent payment has to stay.

**Q94 Joan Walley:** I just really wanted to tease out that point. You seem to be suggesting that, because MPs' salaries should be higher, that would somehow negate the need for there to be funding for our offices. You are not suggesting that MPs, whatever their salary is, whether it is lower or higher, should be paying for the costs that are necessarily incurred?

**Matthew Parris:** I am, yes. Yes, I am. I think that MPs should be paid generously and left to find their expenses out of their own pocket.

**Q95 Joan Walley:** So you are effectively suggesting that they should operate as a private business?

**Matthew Parris:** Yes. If a doctor needs a receptionist working in, say, private practice, I assume that the doctor will pay the receptionist out of his or her own pocket. I do not see the need for separate heads of—

**Peter Riddell:** I do not agree with that. I favour a higher salary full stop. Not a doubling, but £15,000 more, something like that, and also a proper mechanism for then increasing it, which is a curse as well, as you well know. I do believe you should have expenses, but I think they should be properly defined expenses. Your researcher or the person you have in your constituency doing case work—because another aspect of it, which is absolutely clear, is the amount of case work MPs deal with has increased substantially for all kinds of reasons, a change in the role of the state and all that, and it is probably going to increase further in the next few years for obvious reasons. I think you have to have that, but that has to be ring-fenced from what we define as expenses.

**Matthew Parris:** One of the reasons case work has increased so much is that Members of Parliament can now, on expenses, have a much larger staff than they used to, so they do more, but there is, in the end, no logical ceiling to the amount of case work that a Member of Parliament could do in their constituency. You could employ 100 people and still be very busy. In the end it needs to be limited by the funds available and also by what an MP can themselves properly oversee, or you end up, in fact, running a little industry in your constituency and shadowing the work of local authorities, the health service, vicars and lots of other people, the Citizens Advice Bureau, who are all doing the same kind of thing.

**Q96 Chair:** We are going to move on to some questions on the ability of Members to fulfil their duties, which is one of the primary purposes of the Act. It is very clear that Members must be able to fulfil their duties. Just before we do, I have one quick question on value for money, which obviously is going to be defined in all sorts of different ways. It strikes me, with the simplifications you describe, and much of what you describe, Peter, is that one could save an awful lot of money—we are talking millions in terms of administration—if the classes of allowance or the way in which it was done was just simplified.

Of course, there will be a trade-off in terms of the amount the journalist could enjoy seeing in terms of the detail, but there is a tension between the costs of administrating a system and then the level of checks that are made on legitimate expenses that are claimed. I just wondered if you could talk a little bit about that tension; that if one were able to reduce cost, the simplification means that the granularity of the detail of what is seen is swept away to some degree.

**Peter Riddell:** I think some of the cost point can be overdone. There were hidden costs in the old system. We know what IPSA costs because it has several accounts that are overseen by a parallel Committee to this one and so on, so I think you can overdo that point. The argument for simplification is on its own terms, not a cost one. It is the burden on Members versus transparency. I would argue simplification just so it is a fairer system. What people want to know—arguably, query, do they really want to know?—is legitimate because you are receiving public money. Anyone receiving public money should be accountable for it. That is absolutely fundamental in whatever route, form, that takes. I think you can simplify that, but you would still be accountable for the big items, and so you should remain.

**Q97 Chair:** Thank you very much. Is there a question of which type of accountability and the way—

**Peter Riddell:** Taking staff costs off generally and equipment costs directly would, from what I understand from talking to your colleagues, make quite a difference.

**Chair:** Understood.

**Matthew Parris:** You do need to cost Members' own time in filing and making their expenses, and the time of their staff. When I was a Member, I cannot imagine that I spent more than quarter of an hour a month on expenses, and it is certainly not like that now.

**Chair:** Yes. Thanks to the Hansard Society and the National Audit Office, we know that there is possibly £2.5 million worth of costs in MPs' offices for completing the forms and doing the work at the moment. That is the kind of trade-off I was thinking of in terms of expense versus the rigidity.

**Q98 Stephen Williams:** Before I deal with the questions I was going to ask, can we come back to this issue that, if we were all paid a very substantial salary and, therefore, operated as a small business, we should, therefore, pay for items as if they were a business? I am just wondering what you think those items should be, because Peter was saying you would narrow down substantially what was a personal expense and take out things like staff salaries. What would be left that a Member of Parliament could claim genuinely as a personal expense? I am struggling to see what it is that I do not incur simply because I am an MP.

**Peter Riddell:** Well, housing, travel. Look at the contentious items.

**Stephen Williams:** The housing I incur because I am an MP.

**Peter Riddell:** No, sorry. What I am saying is taking out of the expenses you charge. I do not agree with



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Matthew, as you know, on his suggestion of just doubling the salary and doing away with the rest of it, because it does not take account of different parts of the country you represent and so on. It is different for Nick Raynsford, who is a boat ride down the Thames, and those who are quite some way away. I would say that the categories that would still come under expenses, which of course are incurred because you are an MP, would be the travel and housing, which essentially have been the most controversial ones anyway.

**Q99 Stephen Williams:** Yes, but they are incurred because we are Members of Parliament. We have to travel from Stoke, North Wales, Bristol and Lincolnshire, and would not be incurred otherwise, so they are expenses of doing the job. They are not personal in any sense. It is just how they have been portrayed.

**Peter Riddell:** Yes, but otherwise you eliminate the category entirely. What I am saying is, taking salaries out, which is misdescribed—I know they are to do with being an MP, but they are MPs' expenses.

**Matthew Parris:** I would allow travel expenses, which are plainly, literally part of the job. I am not sure about housing expenses. If you do not want to have to maintain a second home, then arguably you should not seek a constituency in a place where you are going to have to maintain a second home, and that would be a real decision that people could take if the salary was adequate.

**Peter Riddell:** I regard housing and travel as perfectly legitimate expenses and identifiably so. I wonder how the present Government Deputy Chief Whip from Orkney and Shetland would manage on that basis. I know he is a hardy soul, but—

**Q100 Chair:** At the moment, IPSA under the Act is administrating several different allowances, so even though the allowances have not gone, they are there. For example, there is a London supplement, which is clearly an allowance of a few thousand pounds, if you are in London, so you do not claim for individual items. These things already exist. I just wondered, Matthew, about an extension on your idea that there is a flat salary or Members' allowance, if you like, and then just with a simple regional supplement, whether you are in Wales or Scotland. But there is still, with the essence of what you are suggesting and with the essence of 1911, a way of achieving that. Are you a purist on this or would you—

**Matthew Parris:** No, anything that simplifies is good.

**Chair:** Thank you very much.

**Q101 Stephen Williams:** I come back, Chairman, to the broad-brush question I was going to ask. What sort of beast do you think IPSA should be? This is one of the issues that I think several people are struggling with. Is it a regulator of MPs and a regulator of what it is reasonable for a Member of Parliament to do, or is it a payment body that facilitates the work that Members of Parliament feel they should be doing in order to fulfil their duties both to Parliament and to their constituents?

**Matthew Parris:** Members of Parliament should decide for themselves what they should be doing, and if they make the wrong decisions, their constituents can get rid of them. IPSA ought to be the equivalent of that department in any large organisation that deals with the expenses of employees. I have absolutely no idea why IPSA seems to be so huge or to employ so many people. For 650 MPs, I do not see why you would need more than four or five people to man that office.

**Peter Riddell:** I do not think that is feasible at all. I do not agree with Matthew on that. I do not think the size of IPSA—I am sure it can be slimmed down a bit—is particularly the issue. It is the burden on you that is the issue. I do not think it is particularly large, given the complexity of your lives, in that respect at all. I do not see that.

On your question of what type of beast it is, there was a muddle because the legislation was hurried through rapidly, and it was never clear—indeed, it changed and later the Act was revised—what it was, whether it was the payments agency. My view is it should not be a disciplinary body. It should refer things to the Commissioner and Committee dealing with Parliamentary Standards and Privileges. If there is gross abuse, it should be referred to the Parliamentary Commissioner, who should deal with it, because there is an established mechanism via the Standards and Privileges Committee. IPSA should see that you are all legitimately claiming expenses. If there is a problem IPSA should refer it. This is if there is a gross problem, not just an administrative error. That is one of the problems. It was one of the problems in 2009, when just technical administrative problems, which we all have with underpayment or overpayment of tax or whatever, appeared as something wrong. It should not be that, but if there is a gross abuse—of which there were a number of cases, of course, so I cannot ignore that—that should go to Standards and Privileges, but otherwise IPSA should be a payments agency essentially.

**Q102 Stephen Williams:** Should it just be an accountancy function, not a regulatory function?

**Peter Riddell:** You cannot totally divorce the two. There has to be a compliance aspect too. You have to—

**Stephen Williams:** So it has compliance within it?

**Peter Riddell:** Yes.

**Matthew Parris:** But I do not see the need for this enormous superstructure in the first place. There must be many bodies that employ as many men and women as the House of Commons and that do have systems of expenses and that handle it without all this. I do not know what county councils do, I do not know what district councils do, I do not know what a large number of public bodies do, but all you need is a few people in an office with some pocket calculators, some screens and a book of rules. I simply cannot understand how IPSA has come about or what the need is for it.

**Q103 Stephen Williams:** In your conversations with Members of Parliament, or your observation of how we are performing, do you think IPSA is enabling

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Members of Parliament to fulfil their duties, or is it obstructing Members of Parliament from fulfilling their duties?

**Matthew Parris:** It just seems to be enraging them.

**Peter Riddell:** I think it was a necessary change that needs sorting out.

**Q104 Stephen Williams:** This was partly answered earlier. While I agree there will never be a shortage of people from whatever party wishing to be in this place, is there any danger at all, in fact, that some person who could be a good Member of Parliament, who could contribute to their community, is put off from coming here simply because of the remuneration or the expenses regime, and then democracy is impoverished as a result, or do you think it does not matter?

**Matthew Parris:** I do not. I would like to advance that argument because I am hungry for any argument for paying Members of Parliament properly, but it just is not my observation, in fact, that capable people are being put off. No doubt you could find a capable person who was put off, much more put off, I would have thought, by the indignity that surrounds being an elected MP these days, and IPSA is part of all that too.

**Peter Riddell:** I go some of the way with Matthew on that, but I think the problem is more—and we will see this if people depart at the end of this Parliament voluntarily—the burden of it and the time spent in form filling and things like that, rather than necessarily the salary level. I do take the market argument. I favour higher pay, not quite the increase that Matthew said, but I accept there will always be plenty of people willing to put themselves forward, and many high quality people. The interesting question is whether high quality people say, “It is just unacceptable for our family lives, and we are put under an intolerable burden, and the scrutiny and all that,” although it is interesting that the public discussion has died down an awful lot.

**Q105 Chair:** Just one supplemental question to that. It seems to me that there is a slight challenge in the way it stands at the moment with the bureaucracy and the form filling and the £2.4 million of costs in MPs’ offices just to fill these forms in and get it done, and then of course the bi-monthly publication, where local coverage shows that some MPs have claimed too little and are accused of being cowardly and not claiming what they should do because they were caught out before, while MPs who claim in the higher up table are said to be claiming far too much. So it is a no-win situation.

I just wonder if you can comment on this. It seems to me there is a danger, not about new MPs necessarily coming in, but about existing MPs being in two different classes: those who can afford to write a cheque and keep their reputation by not claiming things, and those who cannot afford to do that, the lesser-off MPs, who are then ensnared within the system and constantly have their reputations undermined, fairly or unfairly.

**Matthew Parris:** It is going to be inherent for so long as there is a general public and media view, and we do need to distinguish between the public and the

media view sometimes, as long as it is a general public and media view that there is something inherently disgraceful in claiming anything at all if you are a Member of Parliament, which to some degree is the view at the moment. But, of course, as in any other field of human endeavour, those people who do not have to worry too much about where the next penny is coming are at a comparative advantage. I have thought right from the start when this scandal broke that the distinction has not been properly made, and should be, between what people claimed for and what claims were met by the fees office. I can well see that it might have been the case, and might still be the case with some people, that people being not sure what claims were allowable and what were not, just put the claim in and left it to the fees office, or IPSA now, to decide. To have seen reputations like Douglas Hogg’s, for instance, absolutely wrecked—and there is not a man of greater honour or integrity than Douglas—just because he was foolish enough to say a moat instead of a ditch and foolish enough just to put the claim in and see whether it was allowed or not is quite wrong. The public are completely confused between claims that were put in and claims that were paid. I think only the latter is of any interest to your constituents.

**Peter Riddell:** On one point there, I think IPSA wanting to be not only a personal interaction has moved to the opposite extreme. I agree with Matthew. One of the points is it should just be consultation because some things are borderline, quite legitimately, just as people do with the Inland Revenue when they are doing their tax thing or doing it through an accountant. You should be able to consult more, and I think they moved so far away from some of the stuff that happened in the fees office and the allegations of bullying and so on. It has gone too far in the opposite direction, so I agree with Matthew on that.

Also, as a point on that, which also is a point made in Ruth Fox’s evidence to you on behalf of Hansard, there should not be publicity when an investigation is happening. It should only be if it is an adverse result. That is exactly the same principle as should be applied by Standard and Privileges. It is not so much whether an MP is being investigated, it should be if they are found wrong, because otherwise there is presumption of guilt that is very difficult to work out. We can blame a lot of the press and there are a lot of legitimate complaints, but MPs also need to be a bit more robust about what they do for people. I find you are all rather defensive sometimes about what you do, curiously, feeling, “Well, no one is going to listen to me anyway, so there is no point in putting up any argument”.

**Q106 Mr Raynsford:** I have been very struck by the contrast between the really very pessimistic tone of both your written submissions to us and a lot of the comments you have made, such as Matthew’s view that doubling the salaries is the right outcome but it is never going to happen. That has been, in a sense, your prevailing tone, but the detail of your comments have all been about a series of pragmatic reforms that look attainable. If I could just summarise what I think is the thrust of those pragmatic reforms, it is: slimming

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down IPSA, no directors of communication for example, picking up the point in your *Spectator* article; focusing on being an effective Payments Agency with main disciplinary functions going to the House of Commons Commission or the Standards body; a greater focus on direct payment where possible to take out bureaucracy; the reclassification of staff salaries and costs as other than an expense; a focus on housing and travel; more scope for pre-claim consultation to determine whether something is appropriate, and no publication of those discussions. That sounds to me like quite a significant reform package, which is attainable, but in your evidence, Peter, you say there is absolutely no point in these MPs whingeing. "Protests for MPs against IPSA are likely to be counterproductive in their impact on public attitudes and portrayed by a generally hostile media as self-interested and whingeing".

**Peter Riddell:** They are totally compatible.

**Mr Raynsford:** Are we just wasting our time discussing this pragmatic reform programme or not?

**Peter Riddell:** No. Those remarks are entirely compatible. The key word there is "whingeing". It is the way you do it that is the key to that. If you do the "Poor us. Pity us", which is what I meant by "whingeing", you will get nowhere with your voters and with the public as a whole, and it will be totally counterproductive. If you do it in a practical, pragmatic way, say, "This makes more sense", you will achieve things. That is not to say it will make the slightest difference, honestly, to public attitudes. It goes back to the Chairman's initial question: should you get on with it anyway regardless of public attitudes? What I am saying is the tone in which you do it should not be one of outrage, "Poor us". That is what I meant by "whingeing", and I stick to that completely. Get on with it in a practical way, not that I think it will necessarily produce great benefits in public attitudes.

**Q107 Mr Raynsford:** I am going to pick you up on another point, because you end your written submission to us by saying MPs should really concentrate on proving their effectiveness and that is the only way to change public attitudes, but we know very well that there is a complete conflict between what local opinion is, where most people think their MP on the whole is doing a good job, and general views about MPs, where they mostly think we are a complete bunch of wasters. How can we possibly, by proving our individual effectiveness, ever overcome that problem?

**Peter Riddell:** What I am arguing is that sorting out what we are discussing today is a necessary condition but not a sufficient condition. There is, as you say, a complete divorce between those in Greenwich saying, "Great guy, Raynsford, fantastic", but then down the river, "Absolutely hopeless". That gap has narrowed a bit. The expenses scandal did not do wonders for that necessarily, but it is still there. There is still a clear gap between individual MPs and Parliament as an institution. But it is to show Parliament is more effective as an institution. It is to press on with things that demonstrate its effectiveness at holding the Government to account and raising issues your voters

are concerned about. I am not saying it is a panacea, far from it, but that is what you have to do.

**Matthew Parris:** I think the changes that you may contemplate making to the expenses system should be justified on their own merits, and probably can be. They cannot be justified on their likelihood of making the public love Members of Parliament, which is not going to happen for a while. To a degree, the whole expenses fuss has been a result of public dislike and distrust of its political class rather than a cause of it; that people have been unconsciously looking for a stick with which to beat the legislature. At some deep subliminal level, there is a feeling that we have not been very well governed for the last 15 or 20 years and that we have somehow been led astray. That is translating into a contempt for the whole political class. Were that to change, you would need a real game-changer. It will not just be achieved by patient, diligent constituency work and telling people a little bit more about it. It will be achieved by the House of Commons at some point, and I cannot imagine what the issue will be, doing something pretty heroic as a House of Commons. When that happened, it will be a game-changer. You could perhaps begin to shift that underlying distrust of the House as a representative institution.

**Q108 Mr Raynsford:** Coming back to Peter's comment, I accept entirely that we will get nowhere if we are seen to be whingeing, but is it possible to present a pragmatic reform programme, including cutting down IPSA bureaucracy and identifying where it is an unnecessarily expensive and probably unnecessarily restrictive regime, without being open to the accusation of whingeing?

**Peter Riddell:** The tone with which you do it is the key. Some of the tone of the anger last summer and early autumn (2010) I put in the whingeing category, however justified you felt it was. It was pretty soon after the expenses row; it was only 12 or 15 months. Now things are at a lower level. There is less public interest, less media interest, and also some people have gone to prison. Don't ignore the cathartic effect of that. It is more possible than it would have been a year ago to do that. I don't say you get thanks for it. I am sure you will get some unhelpful headlines, "MPs try to get out of" and all that. You will get some of that, but I think that is, in practical terms, doable.

**Q109 Guto Bebb:** Can I just go back to one point you made in relation to the fact that MPs in their own constituencies seem to be more popular than they are on a national basis? You mentioned the fact that that gap is narrowing.

**Peter Riddell:** It did narrow in 2009 to 2010.

**Guto Bebb:** I was just wondering, because in my experience the issue of transparency is an important one. In terms of IPSA, I think it is important that there is transparency in terms of the expenses scheme. But due to the fact that IPSA has undertaken to publish league tables every two months, it seems to me that those league tables have been completely ignored by the national media but they are being picked up on by the local media. I remember coming home back in November last year, I think, to be told by my daughter

that I was top of the league. I was top of the league of the most expensive MPs in Wales. Now, obviously I should be grateful to IPSA for allowing me to be top of the league for once, but the question I am asking in effect is: is the sort of publication process where you do a league table every two months damaging, and transparency would be better served by having expenses published on a regular basis as part of a package of reform? If you had expenses published every time they were paid, in other words a real-time system, would that avoid these very false league tables?

**Peter Riddell:** I agree with you, every two months is completely ludicrous; it is mad. Real time gets to exactly the problem the Chairman raised of cost. If you do it in real time, everything is incurred. Unless you have wonderful IT systems, the cost will go up. I am not an expert in that at all, but I think the trade-off is there. Certainly, having league tables every two months is mad and ludicrous. I can see an argument for real time, but again it gets into expense, cost and all that.

**Q110 Guto Bebb:** I was only asking, with the cost of IPSA being £10,000 per MP, surely the real time can be afforded within the current budgets.

**Peter Riddell:** Yes, but you take my point.

**Guto Bebb:** Yes.

**Q111 Joan Walley:** I was going to ask some questions about media perception but, in a way, I think you covered those at the start, saying really that MPs should just get on and do what is the right thing to do and the media will take care of itself in terms of coverage that MPs get. I am just thinking perhaps more so in terms of your evidence, Peter, and this quote that you have, "The key is to increase knowledge about what MPs do both in Westminster and in their constituencies, and for MPs to highlight what they are doing on behalf of their voters." That cannot be done without there being some cost to it, whether or not it is in time, whether or not it is in resources, whether or not it is in just the whole way in which Parliament and MPs within Parliament are presented. I just wonder whether or not you feel there is any role or responsibility for the media and for the press to be involved in that, particularly the lobbying journalists as well. How do we look at how Parliament is reported? Obviously MPs are component parts of that. I am just thinking about the Hansard Society as well; how we get this engagement.

**Peter Riddell:** As Chairman of the Hansard Society, we do our bit, and a little more funding would be gratefully accepted; considerably more funding. Why should I be unambitious?

**Joan Walley:** I did send your report to the Kidsgrove Youth Parliament yesterday.

**Peter Riddell:** Certainly we do our bit, but I would not claim we are more than a soft voice in a gale, in practical terms. But Mr Bebb raised an interesting dilemma, which is the difference between my former colleagues in the lobby who report national politics and what is reported locally, which of course is much patchier now with the decline of lots of local and regional papers. That is the distinction. I think the

engagement should be between you and local papers. What is said nationally is not relevant to an individual MP in their consistency, unless it is particularly bad. Sometimes I feel there is almost a fatalism by MPs in relation to the local paper or the local media—local media is much more than papers now; it is websites, it is community and so on—of just explaining more of what they are doing.

**Matthew Parris:** I do not agree with Peter that MPs need to be more positive about what they are doing. All the MPs I know are forever shouting from the rooftops about how hard they are working for their constituents. They feel that nobody is listening, and I think a lot of the time no one is listening, but I don't find MPs are backward in coming forward with their achievements as constituency MPs. Local newspapers are dying and, I suppose, in about 10 or 20 years, there will not even be any local newspapers, so that cannot any longer be the main means. If you are suggesting, for instance, that *The Times* should have a page every day that is dedicated to recording the good things that MPs are doing in their constituencies, the press is just not like that. It would not happen.

**Q112 Joan Walley:** I think the point is, do the media have a responsibility to report in some way, given that so much has changed over the last 50 years?

**Peter Riddell:** Let me take the point. Parliament, for your voters in Stoke, is far more accessible than it has ever been because of the internet. Anyone can click on and hear debates with a three-hour gap. They can find out what is happening in committees. No one has to buy a bit of paper, buy *Hansard*; it is all online. The Information Department is trying to improve that, and an awful lot has been done in that way. In many respects, Parliament is very accessible, and with imaginative use of the internet can be made more so. I am not a pessimist. I am an optimist. I must admit I spent far too much time talking about the decline in reporting in the papers of Parliament. That is long dead and, anyway, a lot of it is very boring. If you want to find out what your MP is doing, it is dead easy. Just have a couple of clicks on the internet.

**Matthew Parris:** I am not sure that the public, as opposed to perhaps political commentators in the media, think that an MP's main function is to do things in the constituency, to open a Pelican crossing or make representations about the roofing of an old people's home and that kind of thing. They know MPs do that, and they like to see their MP doing that, but I think a lot of people would think that an MP's main job is what they do at the House of Commons in Westminster, and that is where I say that sooner or later the House of Commons will do something heroic, and that will change the atmosphere far more than a million petitions about the right speed limit for a village in the constituency.

**Q113 Stephen Williams:** Can I ask what might be a mischievous question? Matthew said that Parliament need to do something heroic, and he wasn't quite sure what it was, in order to restore the reputation of the House of Commons. The only thing that constituents and friends have said to me recently that they thought Parliament had done a good job on was duffing up

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Rupert Murdoch in a session somewhat like this, of course the ultimate employer of both of you at some point in your careers. Do you think that the perception of parliamentarians would be improved if it was set in the context of what the people who report what Parliament does are paid, what their expenses regimes are, whether indeed they pay the receptionist at *The Times* out of their salaries as you suggested earlier?

**Matthew Parris:** I pay my secretary out of my salary.

**Stephen Williams:** They are very keen to write everything about what we claim, but we know nothing about what the lobby gets paid in this place.

**Matthew Parris:** No, absolutely, and most of us get paid a good deal more than most of you.

**Joan Walley:** Together.

**Peter Riddell:** On that point, when I worked for *The Times* until the middle of last year, one of my jobs for 15 years was signing off expenses. It wasn't Matthew's, because Matthew was a freelance, and as he said, Matthew pays his secretary out of what he earns as a freelance. Every single item of expenses on *The Times* had to have a receipt, every single item, and that has been true for 20 years. There were abuses in my early years in journalism, although not where I was working because I was on the *Financial Times* then, but it is mainly because of the HMRC. They will not allow any expenses, so there was an absolutely strict expenses regime. Everything had to be totally, literally down to the last penny in that.

On what we are paid, that is where I was employed, as Matthew, by a private sector employer, and that is up to the employer. Certainly, as a journalist I was

paid more than MPs were, and that is up to the market. I do not think you have any right to know what we earn. However, there is disclosure on the journalists' register of any other income or any other activities we have, and I think that is dead right. It should be full disclosure so no one is abusing their position if they have a pass here. What we earn is a private matter, otherwise you have full disclosure of all—do you know how much your doctor or whatever are earning?

**Q114 Stephen Williams:** A doctor's salary would be known, pretty much.

**Peter Riddell:** Not so much now. Not now. Your colleagues are fighting battles on that today down the other end of the House. I think, certainly on expenses, the old abuses of the past are gone, but I would not deny there is an element of hypocrisy in a lot of press comment sometimes when I read about MPs' salaries, not the views that Matthew and I have, written by people who earn, in many cases, at least a third more than an MP earns.

**Matthew Parris:** I was just going to say, up to a point—Lord Copper—on expenses, it is perfectly true that journalists do have to submit receipts for their expenses. How the receipts are obtained has sometimes, in the past, been another story.

**Chair:** On that happy note, I have to say thank you very much indeed for providing evidence today. I think it has been thoroughly enjoyable. I feel enthused and I feel that we MPs must be far more heroic in future, and I hope that this Committee will play a role in that activity. Thank you very much indeed.

**Tuesday 18 October 2011**

Members present:

Adam Afriyie (Chair)

Guto Bebb  
Mr Edward Leigh  
Priti Patel

Mr Nick Raynsford  
Stephen Williams

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**Examination of Witness**

*Witness:* **Dr Fiona Alexander**, General Practitioner, gave evidence.

**Q115 Chair:** Dr Fiona Alexander, welcome to our inquiry today. What the inquiry is about overall is that we are examining the Parliamentary Standards Act 2009, which introduced IPSA and all of the new payment schemes and arrangements for Members of Parliament. We are looking at the Act and saying what the aims of the Act were and asking whether or not they are being achieved. We are very interested in the evidence that you gave because we are very concerned to find out in the operation of the Act and the way that IPSA do things if that is having an impact on the well-being of Members of Parliament and on the institution and whether there may need to be some changes at some point in the future. So thank you very much indeed for coming along today and giving up your time, and thank you for your very well written evidence.

Can I start by giving you a few moments to talk us around your paper, a brief introduction to what you sent to us, and then we will ask more specific questions?

**Dr Alexander:** About eight years ago we were approached to offer emergency services to both the House of Commons and the House of Lords because there was a gap in medical care. Since that time I have been the clinical leader for that within our practice. I have seen a good proportion of all Members that have come through in that time, so I have quite a broad experience of the kind of problems that have presented and also got to know quite a few people. People don't tend to come unnecessarily. They are very stoic; they are very robust as a general rule. So I have seen some changes over the past few years, which is what prompted me to say I would like to come, because I have noticed over the last 18 months there has been a change in my perception about the kind of problems that walk through the door and the psychological and physical state of the people that I see who are both Members of the Lords and the Commons. To anybody else maybe that is a subtle difference but my job is to look at people, to assess them within a very short consultation. That is what I have been doing for the last 16 years. That is what I do with my NHS patients and that is what I do with Members of the House who come to see me.

It has struck me that they are less well. That is in the context of there being about 10% of the Members who attend the surgery, so that leaves 90% that I don't see. But when you look at it over a course of eight years, in the first couple of years things were very different. We had a high percentage, 25%, of the patients that came to see us in the first few years was for something

simple like ear syringing and over the course of time things have changed, but none more so than in the last 18 months. We had our lowest attendance in 2010 when there was a general election with the expenses publicity and I think people were thinking about what they were doing and after the general election we didn't see much over the summer until last September. Then we have had a notable increase in the number of people coming to see me.

It struck me very much that they are tired. We had a higher incident of chest infections last winter. You could argue that in the winter there are lots of chest infections but when I look at my general practice—we have 12,000 patients—you get a general feel about what is happening across the board. They were more unwell compared to previous years in comparison to other people. What I mean is that there had been a change in the kind of chest infections that came from the House of Commons and House of Lords, which I think is a reflection of the fact that they were more rundown. Previously I had been giving them antibiotics and they would go away and be fine whereas on this occasion there were several Members who came two or three times and just could not shake the infection.

The body language of people walking in is very different. Not what they say, because they don't come in and complain, it is just the way they talk, the way they look, their physical actions, the speed they speak at. If I do ask them, "How are you feeling?" they don't complain too much about what is going on but you can just tell that life is not easy. For example, the things that strike me are, when I say to someone, "I don't think you should be alone tonight. Where are you going, who is looking after you?", and they will be in a hotel room. I think if that is a one-off that is fine, but that is not conducive on a regular basis to good health.

**Q116 Chair:** Am I right in thinking that the MPs are certainly not coming to you to complain—they are coming for a medical condition and then you are making other observations?

**Dr Alexander:** Yes. They don't come to complain. Nobody ever comes to complain. That is not the nature of the kind of people that work in the Lords and Commons; they don't. If you ask them, they still don't really complain. They accept that as part of their working life, but it is evident that it has changed with the 24-hour accessibility now, which was not present even eight years ago. There is less family contact, there are more things to do, and I think from the point

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of view of this somebody asked me, are the expenses part of the problem? I think no matter what all the other stresses are, and there are clearly a lot of other stresses, if somebody doesn't have a stable place to live, doesn't eat regularly in a home rather than in a hotel or a restaurant, doesn't have access to their family and doesn't have access to a nice stable lifestyle, they are not going to be healthy and they are not going to be able to do the job properly. Clearly, from what I am seeing, a proportion of them, they come to see me.

I commented that their gastrointestinal problems have rocketed from three to about 18 in the space of that time. That is significant because that is things like acid, which is stress-related; irritable bowel, which is definitely stress-related. All those things in the people that I saw, you couldn't really relate them to anything else. It was just as if it had come on recently. That could go with a poor diet or excess workload—a number of reasons—but clearly it is something that is out of the ordinary for the last eight years. There is no other year with a figure like that.

**Q117 Chair:** I am quite surprised by that.

**Dr Alexander:** Yes. So I would be interested to know, if you ask the questions of all the people that we have not seen, how many of them—because they get on with it, they ignore it, and very often people won't complain. If I ask them about something, they will then say, "Oh yes, I've had so-and-so and so-and-so". I have had people come and see me and just say, "I've got a bit of a cough" and then when you go into the questions you find out there are a whole lot of other things underneath and they are just not very well.

**Q118 Priti Patel:** You have touched on the clinical sample base in terms of the number of patients you have at your practice. What I am interested in is obviously in the past year or so there was a lot more significant illness, the numbers that you have alluded to sound quite disturbing as well. Are you able to say if that is among older Members of Parliament, newer Members of Parliament? Obviously since the last general election we have seen quite a change in the people here.

**Dr Alexander:** I had a look at the figures. If we break it down to take the whole numbers of patients, about 25% are Lords and 75% are Commons that come in, and of the Commons about one-third are new and two-thirds are old. That has been the case last year and this year. That was stable and it has not changed since at least this Parliament.

**Q119 Priti Patel:** In terms of the illnesses that you refer to, are they more specific to Members of Parliament or are they similar to the general sort of people that you see as a GP?

**Dr Alexander:** The chest infections are very common whoever you are. I was just struck by the fact that normally they would shake them off whereas this time people that I did see had been ill for two or three weeks before they came to see me and still took two

or three weeks to shake off the infection afterwards, which is a long time to have a chest infection and I wouldn't expect it to last that long unless there was an underlying cause.

**Q120 Priti Patel:** On the numbers, I know you referred to the winter period last year for chest infections, which obviously is a high activity time for people to get ill, but have they been quite consistent this year, for example, going into the spring and the summer in numbers that you are seeing?

**Dr Alexander:** We have had a lot over last winter. In the summer people don't often get chest infections due to climate, temperature and other factors. Chest infections are September onwards through to about March or April and that is reflected across the whole of general practice. Looking at the figures, it is just that there were about 25% more and they were taking longer. That means that some people were less able to do their job due to ill health for whatever reason and they never give in. They won't take time off sick.

**Chair:** Guto, would you like to pick up on a little bit more maybe around the reasons for the illnesses?

**Q121 Guto Bebb:** Yes, thank you. In relation to these symptoms and the complaints that you have been articulating, are they generally classic examples of illnesses related to stress?

**Dr Alexander:** I think you could say the gastrointestinal ones are very commonly related to stress. Whether it is the acid or whether it is irritable bowel with abdominal pain or whether it is diarrhoea, all of those are very well recognised as being related to stress, exhaustion and working practices. Chest infection per se is not, but the length of time it lasts indicates to me that somebody is rundown, tired and possibly not looking after themselves as well as they might.

**Q122 Guto Bebb:** In terms of any reasons for this, is it in your view easy to pinpoint an issue that is causing this upsurge in complaints from MPs?

**Dr Alexander:** You can't ever pinpoint one issue and I am sure, looking around everybody, there are half a dozen issues that you could pinpoint. From my point of view, if we are asking specifically about whether their living conditions will affect it, clearly they will because if you don't have adequate support, if you don't have adequate living conditions, then that will affect the way people eat and sleep and their general well-being and that has a direct impact on their health and their ability to do their job properly.

**Guto Bebb:** Wow. I feel depressed.

**Chair:** But enlightened. I think that is probably the clearest exposition I have heard of the impact on MPs in the current Parliament in the context of the country and also in the context of previous Parliaments. Thank you very much indeed. It is very much appreciated. Thank you for giving up your time and thank you for making the effort to keep us informed.

**Dr Alexander:** Thank you for asking me.

### Examination of Witness

*Witness: Martyn Taylor*, Compliance Officer for IPSA, gave evidence.

**Q123 Chair:** Hello, Martyn. Welcome to our inquiry. We very much appreciate you giving up your time. I know that you are acting Compliance Officer, among other things, and you have had your hands pretty full since you took over the role. I very much appreciate you taking the time to come and see us and to hopefully enlighten us about some of the issues around compliance and some of the challenges that maybe have been faced in the past and which hopefully are going to be resolved for the future.

Let us start by talking a little bit about your independence. I appreciate you are in an interesting position because you are an acting officer and not the permanent replacement. You talk in your paper to us about being functionally independent but your appointment was made by IPSA, you are paid by IPSA and you will probably return to IPSA afterwards. Can you just talk me through what you mean by functionally independent? Also, have you had to remind the board that you should be functionally independent, especially given that you have been working for IPSA?

*Martyn Taylor:* Sure. Thank you. By functionally independent I mean that in carrying out the functions as defined by the statute, that is to conduct reviews into determinations made by IPSA about MPs' expenses and to carry out investigations into claims made by MPs, I am independent. The board has no place in those investigations or in those reviews. It does not interfere in those investigations or those reviews. You are right that the post-holder is appointed by IPSA, recruited by IPSA and paid by IPSA, but it is worth remembering that the permanent role is a fixed-term five-year post that can't be renewed. So in that sense they have no particular reason to be beholden to the board.

**Q124 Chair:** To be a bit clearer, your functional independence in practical terms means that you carry out investigations without interference and the reviews without interference. And the publication cycle as well?

*Martyn Taylor:* That also. IPSA does provide the Compliance Officer with procedures for investigation, which are the result of a process of consultation. Certainly I have had some involvement in framing the ones that are currently under consultation, Experience of the past year or so has shown that the original procedures were not working quite as well as they might and so the time was right to look at them again. Hopefully the new set will make matters a little easier. But beyond them framing the way that the investigations are carried out, I am independent.

Within those procedures are some provisions about publication. They do give the Compliance Officer discretion over not so much whether or not he publishes but when he publishes. So there is independence in that area as well. It is probably the least helpful bit of independence he has in truth but it is there.

**Q125 Chair:** The written evidence that you have given us, did you show that to IPSA before sending it in?

*Martyn Taylor:* I ran it by the chairman so that he was aware of what I was saying. It seemed courteous to do so. Yes.

**Q126 Chair:** Were any changes made subsequently?

*Martyn Taylor:* No.

**Q127 Chair:** Were any comments made or any helpful suggestions?

*Martyn Taylor:* He picked up on a couple of points of grammar. That was pretty well it.

**Q128 Chair:** Were there any points of substance?

*Martyn Taylor:* There were no points of substance made, no. He thanked me for giving him sight of it and that was it.

**Q129 Chair:** Are you aware of any situations in the last 18 months where a Compliance Officer, or you in your role or being nearby or anyone holding the function, has had to remind the board about the independence of the role?

*Martyn Taylor:* No. My experience of the board is that they are quite clear that it is not for them to be involved in the investigation. Their job is simply to recruit the person to the job and to provide the Compliance Officer with the means he or she needs to fulfil the duties as set out by the Act.

**Q130 Chair:** Just moving on a little bit, do you think it is appropriate that the administrator and the regulator and the compliance function are all pretty much housed together in the same operation, if I can put it that way? Do you think there is any possibility that that may create unnecessary tensions?

*Martyn Taylor:* I certainly don't think there is a problem with the administrator-regulator elements of IPSA. It is a small organisation, a small outfit. It has a fairly defined remit. The regulation on IPSA's side is about setting the rules of the scheme and ensuring that the rules are adhered to. They need to work with the administrators on that. You have seen twice now already they have amended their rules to some extent. Some of those changes are undoubtedly the result of feedback they have received from the administrators. I can't see much value in splitting up a small organisation like that into two separate organisations. I don't know whether that would be the proposition. The compliance function is tiny. It currently is just me and one member of staff and me only three days a week. It makes sense for them to share offices, to share services. Whether you would house them with IPSA or house them elsewhere I am pretty ambivalent about really.

**Q131 Chair:** Are you aware of any other bodies set up in the same fashion? I remember the National Audit Office report said that IPSA was unique in the entire world in terms of having a regulator with an administrator and a compliance function. Obviously



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this is not your core function as the Compliance Officer but I was just wondering if you are conscious that there are other models of doing this and that there could be even the vaguest possibility of there being another way of doing it.

**Martyn Taylor:** I am sure there are possibilities of doing it in a different way. Whether it would be a better way, I don't know. I am not aware of any other bodies that work like that.

**Chair:** Thank you very much indeed. I am going to hand over to Nick now. He has the next line of questions for you.

**Q132 Mr Raynsford:** Can I take you, Mr Taylor, to your written submission and in particular to annex A, the breakdown of cases, where you say that to date some 41 investigations have been opened, 39 have been closed, 18 after a preliminary investigation, 21 after a substantive investigation? Then you go on to list the categories. Overwhelmingly they are general administrative expenditure issues. Is that a correct picture?

**Martyn Taylor:** That is right. That is a correct picture, yes.

**Q133 Mr Raynsford:** Can you just tell us a little bit about the type of cases?

**Martyn Taylor:** Yes. You may know that I published last week the results, the reports, of some 21 investigations, 20 of which were about the use of party political logos on websites, which is a breach of the scheme. Those fall under the general administration category. That is the larger part of those ones.

There have been some preliminary investigations and complaints around mileage, around travel more generally and some subsistence claims complaints. I should make clear that there is a difference between the preliminary investigations that were carried out and the complaints that the post-holder looks at and decides whether or not to progress to, firstly, the preliminary stage and, secondly, the substantive stage.

**Q134 Mr Raynsford:** I am a little bit confused, because you have mentioned travel and subsistence but that is a separate category and there are only four cases listed in that.

**Martyn Taylor:** That is right. So that covers mileage ones and it would cover anything in addition about subsistence. There have not been any preliminary investigations into subsistence. There have been some enquiries and complaints about subsistence.

**Q135 Mr Raynsford:** Going back to the general administrative category, which is clearly the very large proportion, are there any other particular groups that come to your mind apart from those involving the use of party political logos?

**Martyn Taylor:** There was one that I am aware of that was about IT, whether or not there was an over-claim on IT. There wasn't, so it was closed at the preliminary stage.

**Q136 Mr Raynsford:** In your written submission you say at paragraph 32 that you regard the

requirements around conducting preliminary investigations before carrying out substantive investigation burdensome, both for the Compliance Officer and for MPs who may be subject to investigation for minor technical breaches. Is it your view that a large proportion of these cases are minor technical infringements?

**Martyn Taylor:** Certainly some of them may have been. At the time the investigations were opened it wasn't necessarily clear. There had been an apparent breach and a decision was made to look into that further. You don't necessarily know when you open an investigation where it is going to lead but we can look back at them and we can say some of those might have been more technical breaches. It is a young function. I think there are lessons to be learnt as we go along.

**Q137 Mr Raynsford:** In your judgment, in what proportion of the cases that you have had to deal with was the problem really just to do with a lack of understanding of the rules, rules that are in some respects complex and difficult to understand, and the absence of advice?

**Martyn Taylor:** I think in the cases that I have dealt with I have not encountered areas where the rules are particularly complex. I published one last week about accommodation. The rules on that are quite clear. The ones around websites and the rules about the absence of party political logos are quite clear. I don't think I have encountered any where complexity around the rules has caused a particular problem.

**Q138 Mr Raynsford:** Of the 21 cases that you have recently provided comments on, you said that 16 were partly the fault of IPSA because its validation procedures should have stopped the reimbursement. Is there not an issue here about why people were not advised better at an earlier stage before getting into the whole panoply of an investigation?

**Martyn Taylor:** What I also make clear in those reports is that I set them in the context of when the breaches occurred. It was within a period fairly shortly after the scheme was launched when there was a general learning process under-way, both by MPs and by IPSA. IPSA failed in a number of areas at that time and I make that quite clear. I am not sure that the advice about websites needs to be much clearer than it is.

**Q139 Mr Raynsford:** Finally, can I just come to the issue of cost-effectiveness? In your report you indicate that the cost of the compliance operation in 2010–11 was £307,000. Your statistics show that you had 18 complaints during that period, May 2010 to March 2011, which according to my calculations means a cost of £17,000 per case. Do you regard that as cost-effective?

**Martyn Taylor:** If I may, I would rather not reflect on the past here apart from to say that in those first months there was a lot of work that needed to be done to set up the whole process for the compliance office; setting up the processes and procedures for investigations; working with IPSA on the initial set of procedures for investigations; testing the

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investigations within the office; recruiting staff. Quite a lot of work needed to be done in advance of any investigations being launched. Where we have got to now is the position where we have a clearer picture of what the caseload is. As a result of that I have realised some quite considerable savings. I think the staffing level is probably about right now but it is something that will need to be kept under constant review.

**Q140 Mr Raynsford:** Can you tell us what you expect the cost of the compliance operation to be in 2011–12?

**Martyn Taylor:** My projection is that it will be around £265,000 out of an estimate of £340,000.

**Mr Raynsford:** Thank you.

**Q141 Guto Bebb:** Just turning to the issue of handling cases then, as a Compliance Officer to what extent are you allowed to determine your own criteria for resolving cases?

**Martyn Taylor:** To quite a great extent. Certainly I have the freedom whether or not to open an investigation, and I would take into account various factors before doing so. Once I get into an investigation there are certain procedures I need to go through, which are either set out in statute or set out in the procedures, but when it comes to the actual case resolution I don't feel particularly bound in the way that I would act.

**Q142 Guto Bebb:** You mentioned you had some freedom to act in terms of whether you wanted to open an investigation or not. It seemed to me from your own submission and from the guidance that the issue is this fact of whether opening an investigation would be disproportionate or not. Is that correct? Secondly, if that is the case, how would you define "disproportionate" in this context?

**Martyn Taylor:** Certainly I would consider when deciding whether or not to open an investigation whether that is the right route to go down for the alleged breach of the rules. By proportionality I would mean the nature of the alleged breach, the amount of money involved in it, what the likely cost of an investigation might be to the office and whether that would be worth it, and if not what the alternative means of resolution were. Is it something I can refer back to IPSA, for example, for them to get in touch about? An important element is that it is transparent. I think, though, that the proportionality aspect is critical to whether or not this position is executed successfully or not.

**Q143 Guto Bebb:** A final question. Where you have undertaken an investigation or looked at a case in question, have you ever had difficulty in accessing records from IPSA, for example, or having access to IPSA board members on specific issues?

**Martyn Taylor:** No. One of the changes, though, that hopefully will result from the current consultation is that I will no longer need to open a preliminary investigation before I can make enquiries of IPSA or of an MP about a particular complaint. It should be a more fluid and easier process before I then decide

whether or not to open a substantive investigation. But no, I have not had any problems receiving information from IPSA when I have needed it.

**Q144 Priti Patel:** This is just really for information, I guess. I am generally interested in the complaints procedure and I see what you have outlined in your paper about preliminary investigations. I would like to know, are copies of the original complaint sent to Members of Parliament straight away when a complaint has been made as well as notification that they are being investigated? Also, if the investigation does not go ahead and in your capacity as Compliance Officer you decide that it might be vexatious, for example, would you still notify the Member of Parliament that a complaint has been made?

**Martyn Taylor:** My practice has been not to alert a Member immediately when I receive a complaint but when I decide how to deal with it to let them know. So if I receive something that is obviously malicious, vexatious or a nonsense, I will let the Member know that I have received such a complaint. Equally my practice is that when I launch a preliminary investigation or a substantive investigation I will alert the Member to whom the complaint is, unless there are very good reasons not to do so.

**Q145 Chair:** Can anybody complain about an MP? Could somebody from overseas complain about an MP, a foreign national?

**Martyn Taylor:** I wouldn't necessarily know if it were a foreign national but, in effect, yes. We receive a range of complaints from a range of people including, as it happens, from MPs. There is certainly a good chunk of those that come from local political opponents. A lot of those have little merit; some of them have been progressed to investigations.

**Q146 Chair:** Am I right in thinking that as obviously the acting Compliance Officer, but with the Compliance Officer function, you are judge and jury on whether or not an investigation should be opened, whether it is preliminary or substantial? That is your function; you take it on your own shoulders?

**Martyn Taylor:** That is my function, yes. There is, of course, a right of appeal.

**Q147 Chair:** To whom?

**Martyn Taylor:** To the First-Tier Tribunal.

**Q148 Mr Raynsford:** Can I come back to the issue of transparency? In response to the Chairman's question at the outset you said that the Compliance Officer was independent in determining when the name of an MP against whom a complaint had been made was published but not whether it was published. Does that imply that IPSA requires you to publish names?

**Martyn Taylor:** No. The procedures do set out that if there are exceptional circumstances the Compliance Officer may defer publication and I suppose deferred publication could mean indefinitely.

**Q149 Mr Raynsford:** But only in exceptional circumstances?

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**Martyn Taylor:** Yes, and it would be for the Compliance Officer to decide, I think, what would be exceptional circumstances.

**Q150 Mr Raynsford:** So normally the assumption would be that the Compliance Officer would publish the names?

**Martyn Taylor:** Yes.

**Q151 Mr Raynsford:** Even if this was a matter of a relatively small, trivial or indeed vexatious complaint?

**Martyn Taylor:** Yes. The statute pretty well presumes that it would be published as well. If it is a matter that is small and trivial—as I have said, I think this is a learning process at the moment—it may be that in future those cases don't necessarily get progressed to a full investigation.

**Q152 Mr Raynsford:** Have you, or to your knowledge has your predecessor, ever been in a position of worrying about the publication of a name that could be damaging to someone's reputation in a case where there was little merit or substance to the complaint?

**Martyn Taylor:** To date the only names that have been published are those of completed investigations, so that is the 21 I published last week. It is something that I am acutely aware of. I need to be very careful in the way that I handle these cases so that I do not unfairly damage an MP's reputation. I certainly hope that in those cases where IPSA had fault I balanced it in a way that people would be able to see that it was a game of two parts, as it were. I have worked closely with MPs and Ministers in the past. I think I am pretty aware of the different pressures that many of you face and I am alert to that.

**Q153 Mr Raynsford:** Would it not be more consistent with the concept of the independence of the Compliance Officer for the Compliance Officer to be able to reach a decision as to whether or not a name should be published rather than having to operate within a rule that applies in all but exceptional circumstances?

**Martyn Taylor:** I suppose the concern would be that both I and you could be accused of backroom deals, secrecy and all the rest of it. I have talked to the Parliamentary Commissioner of Standards about this and he certainly has said that he has found publishing names at the start of an investigation was a way of reducing that sort of tone of debate.

**Q154 Stephen Williams:** Can I just pick up some loose ends? In your memorandum you make it clear you are the third person to discharge these duties. Mr Lockwood was the first interim who worked for three to four days a week, you say in your memo, then Mr March, who was employed permanently but left after three months, and then you. There is a curious phrase in paragraph 21 of your memorandum, "On 27 July Mr March left and IPSA's Chairman, Sir Ian Kennedy, invited me to take on the Compliance Officer's duties on an interim basis from 28 July". So one person left and you started the next day. Does that mean you were already working for IPSA?

**Martyn Taylor:** I was working for IPSA. I had been with IPSA since January of last year. So, yes.

**Q155 Stephen Williams:** So there was no open competition procedure for quite an important post?

**Martyn Taylor:** There will be and there is currently one under way for the permanent post. I think that is why it is right that the interim post can only be filled for a short period of time, the six-month period. There were quite a large number of investigations under way at the time the vacancy arose. It strikes me there was some sense in having somebody in the post who was at least familiar with the functions of the Compliance Officer and somewhat familiar with some of the cases. It meant that I could step in and pick it up pretty quickly without extending for too long the period in which the investigations were continuing. I took on the role. I reviewed the cases and I dealt with them as swiftly as I could. I think if you had gone through an open and fair recruitment process immediately when the vacancy arose, you would have had a hiatus for quite a long time and left a lot of people in limbo.

**Q156 Stephen Williams:** So your successor will be appointed by early January by the sound of it. Is that right?

**Martyn Taylor:** That is the intention, yes.

**Q157 Stephen Williams:** But you will have dealt with most of the cases. From what you said, your two predecessors opened lots of cases but you have closed most of them in your temporary period.

**Martyn Taylor:** That is right, although I am still dealing with a number of complaints, some of which may progress to investigations.

**Q158 Stephen Williams:** In such a short space of time, three people doing the role so far and four people in less than two years would be considered quite disruptive in most organisations. Do you feel that would be a fair description of how it has affected people?

**Martyn Taylor:** It is not ideal but I don't think it is desperately problematic in that it is a very small function. It is now one member of staff and the Compliance Officer. That member of staff is knowledgeable and knows what she is doing and the role is not particularly complex. It should not take very long for the new office-holder to work their way into it. It is not ideal but we are where we are.

**Q159 Stephen Williams:** You are part-time at the moment. Is that right?

**Martyn Taylor:** I am part time.

**Q160 Stephen Williams:** What do you do for the rest of your time?

**Martyn Taylor:** I look after my 10-month old twin daughters. My successor will be recruited on a part-time basis as well.

**Q161 Stephen Williams:** Continuing Mr Raynsford's earlier string of questions, the cost to the organisation is quite significant for that part-time position. Would you say that was fair?

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**Martyn Taylor:** I am not quite sure what you mean.

**Q162 Stephen Williams:** Costs were in the order of £300,000. You were predicting it might be in the order of £250,000 going forward. For a part-time position with one support member of staff, I think that seems quite a lot

**Martyn Taylor:** I think for the next financial year it will be significantly less again. We have not done an estimate yet but I would imagine it will be somewhere below £200,000. We have offices that cost; there are shared costs with IPSA. I reckon the staffing costs next year will be about 50% of what they were this year.

**Q163 Stephen Williams:** I have not seen the advert for your replacement. Maybe that is something we should have seen. What sort of skill set should they have? Should they have run a payroll function in a major plc or worked in HMRC perhaps?

**Martyn Taylor:** My assessment of this is that it is not a traditional compliance role. It is not necessarily like a compliance job in a bank where you are dealing with possibly a lot of quite complex data, complex transactions. The Compliance Officer's remit is pretty tightly defined. I can only open an investigation if I have reason to believe that there is a wrong claim or a wrong payment. I can only start an investigation if I receive a complaint about it. I can't say, "I will have a look at this particular area and see if there is anything strange going on with that". So it narrows down what is required. I think a critical aspect of the job is exercising judgment as to what is or is not proportionate in conducting an investigation and looking for alternative avenues for resolution if they are available, within IPSA for example.

**Chair:** Thank you very much indeed, Martyn and I hope life goes well with your twins. Thanks very much for coming.

### Examination of Witness

**Witness:** **Sir Christopher Kelly**, Chairman, Committee on Standards in Public Life, gave evidence.

**Q164 Chair:** Welcome, Sir Christopher Kelly. We are pleased that you found the time to join us today. I commend you on your efforts in monitoring standards in public life and on the level and depth of research and effort to which you go to make sure that your findings are valid and sustainable. I very much admire the work that you do and I think you have been doing a very good job. Thank you very much indeed for preparing the evidence you have put forward to us. It has been incredibly useful in our deliberations.

I am going to ask a couple of introductory questions and then we will move on to different lines of questioning. I think my first general question to you is clearly, given that IPSA did not adopt many or some of the recommendations in your Committee's report, do you think that some of the problems we are seeing are a result of the rejection of some of your recommendations?

**Sir Christopher Kelly:** I don't think I would claim that, no. They are independent; they were set up to be independent. We thought we had done a thorough job. I don't find it surprising that if you set up an independent organisation and give them statutory responsibilities they should want to look at things again. There clearly were a number of difficulties, to put it no stronger than that. I am not sure I could claim it was as a result of not accepting our recommendations. Some of our recommendations were, anyway, left to be fleshed out. They were about the principles that we thought should be followed by the scheme, and quite deliberately we left some of the details to be worked through. We did not think that we were necessarily competent to deal with those because they were the sort of thing that needed to be done in discussion and consultation.

**Q165 Chair:** Thanks very much. In paragraph 17 of your evidence you make it clear that there is some way to go, perhaps, to achieve the right balance

between preventing the misuse of taxpayers' money, if you like, but also enabling the organisation or the function it performs, the administration it performs, to be able to do those functions well. I wonder what kind of things you had in mind in writing paragraph 17, just to tease it out a little bit.

**Sir Christopher Kelly:** Had you asked me to make an introductory statement, there were only one or two things I would have said, but one of them is that we were quite clear, as a Committee, when we were writing our report that basically what we were tasked with doing was to make recommendations about an expenses scheme that would support Members of Parliament in doing their jobs.

Of course, given the history, it was important that that scheme should be done in a way that commanded public confidence but the whole purpose of an expenses scheme is to support people in doing their jobs. It did seem to the Committee that, at times, that balance has been struck in the wrong place, that some of the things that were being done looked as if they were making your job more difficult rather than easier. Quite a lot of those things, as far as I can tell sitting where I do now and no longer concentrating on this area, have since been dealt with as a result of the consultation and, no doubt, there is further ground to be made up there.

**Q166 Chair:** It was quite interesting that when Sir Ian came before us he made it very clear that the wording in the Act didn't quite say that the purpose should absolutely, categorically be to support MPs in doing their duties. I wonder again, from your evidence and from your observation, if the Act were to be opened up—and that is what we are reviewing at the moment—do you think it would be worthwhile having a quick review of that particular objective to make sure it was clearly demonstrated that that was the primary purpose?

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**Sir Christopher Kelly:** I am not a lawyer, of course, and Sir Ian is, so I hesitate to express a view on that other than to say, having read what he said, I looked at the legislation, and it seemed to me it was capable of being interpreted in a way that reinforced the fact that the purpose of the organisation was to provide a cost-effective, value-for-money way of supporting MPs by reimbursing their expenses, but, as I say, I am not a lawyer. You will need to ask people more expert than me.

**Chair:** Thank you very much indeed. That is my preliminary questions. You have done excellent work on public confidence, the definitions of it, the measurement of it and I think Priti is going to pick up on—

**Q167 Mr Leigh:** Can I just ask one question? It is just to take up the point that things were different, that IPSA haven't done the same. One of the things that they have not done is take up your idea, which is in paragraph 11, "In our report, we made a recommendation that a commercial agent should be employed with the task of finding and maintaining rented accommodation for new MPs, similar to a scheme in place in the MoD". I just want to try and understand your thinking on this because, as you appreciate, Members of Parliament are quite different from normal businessmen; they don't just go on business trips occasionally. They spend half their life with their family, many of them in one place, and half their life with their family in another place. I just wondered whether you would like to spend half your life with your family in an MoD housing estate?

**Sir Christopher Kelly:** With respect, that was not the suggestion. If you read the recommendation carefully, you will see that is not the suggestion and the suggestion was that consideration should be given to doing the same thing that the Ministry of Defence does for officers who are deployed in Whitehall or elsewhere away from their normal station.

**Q168 Mr Leigh:** Yes, but they are deployed for a short time.

**Sir Christopher Kelly:** No, some of them—

**Mr Leigh:** My question I have put to you is that MPs are very different from other people. They spend half their life with their family in one place and half their life with their family in another place. Would you really want to spend half your life with your family in, frankly, an institution?

**Sir Christopher Kelly:** Well, if you let me finish, if you look at that scheme you will find, I think, that the people covered by it are not in an MoD housing estate. They are put into rented accommodation in the centre of London, in the case of those who are posted in London. The point of that recommendation was exactly the opposite of what you are suggesting. The point of that recommendation is in a sense the same sort of idea as the notion that you ought to separate out salaries of your staff and office accommodation. The notion is that if there is going to be a move away from mortgage interest towards rent, that giving the responsibility for finding the rented accommodation to an agency would mean that the agency would then have to take on board all those issues of how much

you had to pay in order to have a reasonable flat of the right size for whatever your family or other circumstances were, in a reasonable distance from—

**Q169 Mr Leigh:** You realise it would be fantastically expensive for the taxpayer going through a commercial agency, irrespective of the fact it wouldn't be any kind of home. When people are with their family for half their life, they do like to have some sort of home. Irrespective of that—we will leave that on one side—you don't think that it could just lead to an exponential increase in costs using commercial agencies in central London to provide a family home for MPs?

**Sir Christopher Kelly:** I don't think you can have it both ways. Employing an agency is not necessarily an expensive way of doing things because you get scale and it is entirely neutral on the type of accommodation. The type of accommodation that is provided is something that somebody else can specify. The point of having an agency is it can be done more cheaply, or that is what the Ministry of Defence told us, it can be done more cheaply, and the need to justify what is spent in order to provide that standard of accommodation passes from the individual MP and goes to the agency. Since an awful lot of the difficulties that arose with MPs' expenses were about the provision of accommodation, it seemed to the Committee that the notion of taking that possibility of criticism away from you was a good thing to do rather than a bad thing.

**Chair:** Thank you very much indeed. We are slightly digressing but thanks very much indeed for clarifying your comment.

**Q170 Priti Patel:** I am interested in public confidence in MPs' expenses and the system, full stop. Obviously in your capacity as Chairman of the Committee on Standards in Public Life you must see quite a bit of data and viewpoints on public confidence. I would be interested in your view on that. Also I wouldn't mind knowing your view on IPSA, whether or not you do think the public do have confidence in the new system of MPs' expenses.

**Sir Christopher Kelly:** I suspect I see the same surveys as you do. The Committee runs its own survey, which happens every two years. The last survey we did was in December of last year and January. I am over-simplifying, but what that showed was a continuation of what had been apparent in earlier surveys of a downward trend in confidence in MPs.

At the same time as we did that—it was a questionnaire survey—we commissioned an online survey asking the same questions in an effort to see whether you got the same results and, therefore, whether in future surveys we could do it more cheaply. Those questions were repeated in July by the University of Nottingham and what that showed was that since January there has been an increase in confidence, still to a low level but an increase in confidence.

Has IPSA contributed to it? Was that the second question?

**Chair:** That was the question.

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**Sir Christopher Kelly:** I think there are two things that are important for confidence. One is the public understanding that the level and detail of MPs' expenses is now determined by an independent body and not by the House itself. I think that was an important thing to happen.

I think the second thing that will affect confidence is the disappearance of stories about the misuse of expenses, and that depends upon two things. It depends on whether or not there is any misuse of expenses, clearly, and on the way that the press report what happens. My impression is that the degree of media interest has gone down, as you would expect it to go down. There is a precedent, I think, in Scotland where stories about MSPs' expenses have not gone away but since they reformed their system, the degree of interest in MPs' expenses is, I understand, much less than it was, to an extent that some of the things that they brought in, when they initially brought in the scheme, they have now stopped doing them.

**Q171 Priti Patel:** On that point, it is also about the language that is used externally when this is discussed particularly in the media. For example, under the current scheme we have allowances like the London weighting allowance, which is set and it is not controversial and it is set by IPSA so it is independent. How would you view public confidence with regard to allowances versus expenses, which seem to be much more expensive and costly to administer?

**Sir Christopher Kelly:** This is clearly a key issue. When we did our inquiry, now some time ago, the Committee did look at the notion of allowances rather than expenses in general. We came down against them for a number of reasons, but one was because it seemed to us that it was, I think the right word is, invidious if all expenses were paid as allowances rather than expenses. I know that there are some precedents for that in other countries, including Zimbabwe for example, so there are certainly some precedents for it.

**Q172 Stephen Williams:** And Canada.

**Sir Christopher Kelly:** And Canada, thank you.

**Mr Leigh:** And Germany.

**Chair:** And Denmark.

**Sir Christopher Kelly:** Forgive me. There are some precedents for it, but if you pay everything as allowances then what that means is the individual Member of Parliament then has to make a choice as to whether or not they spend money on things that help them provide better services for their constituents or whether it goes into their own bank account. That seemed to us to be wrong, because people ought to be reimbursed for the expenses properly incurred.

That clearly does not apply in the same strength if what you are talking about is only a portion of expenses and I know that you, Chairman, are particularly interested in housing, in a housing allowance. I think the same argument does apply to some extent but the more important argument in that context is actually history. Since credibility and trust and confidence are so important, the notion that the response to a situation in which it appeared that some of your colleagues and former colleagues were

exploiting the previous system would be to move over to a system in which, instead of having to justify what they needed in order to provide them with a decent level of accommodation, they were simply handed a sum of money. I am not sure that that would improve public confidence.

**Q173 Chair:** Sir Christopher, do you recognise the tension here? It is not one way or other, but there the Act has multiple aims: improving public confidence, savings, value for money for the taxpayer, and allowing MPs to do their job on behalf of their constituents. There are many aims and many of these can be in conflict depending on which particular system is chosen, so it is a matter of judgment as to which approach to adopt.

**Sir Christopher Kelly:** Indeed. I couldn't agree more. Using a commercial agency based on the MoD experience, which found so little favour with Mr Leigh, was a partial attempt to find a way of reducing the cost and the time that MPs needed to spend on particular—

**Q174 Chair:** If we could look at a few details, and just forgive me if you do not know the answer. There are several allowances that IPSA have created and extended, in fact, such as the London allowance. I have not ever read anything or seen any MP undermined for accepting the London allowance. That is the only part of the scheme that seems to be uncontroversial and not bringing MPs—this is my personal observation and that of others. I just wondered—

**Sir Christopher Kelly:** People are very familiar, of course, with the notion of London weighting because it does, or used to, appear in many people's remuneration. I was talking specifically about housing and the history of housing.

**Q175 Mr Leigh:** Can I just follow up on this, because it is a key point? It rather goes back to my last question. If you have an expense system, you do recognise that it does distort behaviour, it does create perverse incentives. For instance, the current perverse incentive that if you were an MP before the election and you were paying for your house or flat with mortgage interest, you are no longer allowed to do so. So what you do is you let out your house or your flat and you rent at vast cost a flat next to you. Now, that is going on on a very considerable scale at a lot of cost to the taxpayer.

So I am sure you will accept that an expense system does both create perverse incentives. Also, it is often very bureaucratic; it involves a lot of expenditure in overseeing it and people spend up to the limit of their expenses often. Don't you recognise that, or don't you agree that there is at least an arguable point that if you have a flat rate allowance system, people get on with their lives, which is what most people want to do anyway. They make the choices of where they live, and most people live sober, modest and industrious lives at much less cost to the taxpayer? Don't you at least accept that is an arguable proposition?

**Sir Christopher Kelly:** I accept the proposition that it would be a lot simpler and administratively easier to

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pay a supplement rather than to expect people to claim expenses. Yes, of course, that must be true. Whether that meets the other objectives of the system is another question.

**Chair:** Can I move on to independence? I am just conscious of time. I don't want to take up too much of your time, because I know we are all busy.

**Q176 Stephen Williams:** I just want to pick up where Edward left off in case Sir Christopher gets the impression that everyone on the Committee is in favour of broad allowances, because that would not be the correct impression. Wouldn't there be a danger if allowances were given to MPs for accommodation or whatever it happened to be, that MPs who already have London accommodation, because they are effectively Londoners who take a seat somewhere else, would be at an advantage over MPs who represent part of the country, live in that part of the country and need accommodation?

**Chair:** If you could answer that one briefly, because I want to get on to independence.

**Sir Christopher Kelly:** I imagine you would have to deal with that issue by introducing variable allowances to cope with different circumstances, in which case you get back to an expenses system.

**Q177 Stephen Williams:** On the question of IPSA itself, what sort of beast do you think it is? Do you think it is a body that has a contract to administer an expenses and payroll scheme, or do you think it has more the nature of a regulator of Parliament?

**Sir Christopher Kelly:** Two things about that. I think it is a body that was given a very difficult task. It was asked to set up a new organisation and a new system against a very tight deadline because everyone thought it was important for the new system to be in place before the start of the new Parliament. I think that the effects of having to do those things at a rush showed in the organisation and I am very interested in the verdict of the NAO that IPSA had done—I am paraphrasing—remarkably well in that element of things.

The real thrust of your question, I think, goes back to the very first question that the Chairman asked, which is in the Committee's view the purpose of the organisation is to make sure that you are supported in the job that you do by having your expenses reimbursed efficiently and effectively in a value for money way while, of course, providing confidence to the taxpayer that that is done in a way with integrity.

**Q178 Stephen Williams:** But if Parliament were Marks & Spencer and IPSA were the contracted-out payroll department of Marks & Spencer, I think there would be a reasonable expectation they would efficiently administer the payment of salaries to the manager of a small team of staff and the expenses that are associated with that, but you would not necessarily expect them to say how they interact with the customers in the shop, what time of day they turn up and what time they can travel to work. That is what I am getting at. IPSA is more regulating the behaviour of MPs and that is governing what we claim rather

than supporting what we need to do in the discharge of our duties.

**Sir Christopher Kelly:** Of course they have to be a regulator too, because when the responsibility for setting your own expenses was taken away from the House so was the responsibility for regulating it. That was part of the package. When the Committee was doing its work, one of the things that we understood quite clearly was that the way that Members of Parliament went about their work varied enormously. All members of the Committee spent some time with different Members of Parliament to make sure that we understood what it looked like from a local level and it is quite clear that people do their jobs in different ways, and that is as it should be. So what we thought we were trying to do was devise a scheme that allowed for the fact that people did their jobs in different ways, lived in different parts of the country and had different types of constituencies and, therefore, could quite reasonably claim for different forms of expenses.

If the scheme is having the effect of making you do things in different ways solely—then that clearly is something that needs to be looked at, in my view. It should not. An expenses scheme should be supporting you. Within the limits set by the scheme, the scheme should be supporting you in doing the things that you, as the elected representatives of the people, determine that is what you should be doing.

**Q179 Chair:** Thank you very much. One supplementary on that. The most important thing to an MP individually, and what we strive for in the public domain, is improving public confidence in MPs, and the reputation of individual MPs has now improved. It strikes me that if an MP is able to subsidise their work, which it appears that 91% of MPs are doing, then somebody who is wealthy and able to fund their own work—they may have independent wealth, such as a trust fund, an inheritance or an inherited home, or have been successful in a business career before arriving in Parliament—has a great advantage in politics by being able to defend their reputation by spending their own money under the current system.

**Sir Christopher Kelly:** I think there is something wrong with the system if significant numbers of Members of Parliament are having to subsidise their own work to a significant degree. I have seen that statistic too and if that is what is happening, then clearly there are issues there that need addressing.

**Chair:** Thank you very much.

**Q180 Mr Raynsford:** Could I firstly ask a little bit about transparency issues? In paragraph 13 of your submission, you refer to your report in which you recommended that rejected claims should be published as well as accepted ones, but you then go on to say, "We continue to believe that it was right initially to do so but we also believe that there could be advantage in reviewing that requirement in the light of experience". Can you tell us what prompted you to that view and could you expand a little on how you would see this theme taken forward?

**Sir Christopher Kelly:** It was partly based, as the next sentence you have not read out says, on what

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happened in Scotland where I think the view was taken that given the history—I mean, you can't get away from history—confidence required that people could see what was going on. I think what happened in Scotland was that people could see that people weren't making outrageous claims and, therefore, there was no particularly interesting further evidence to be gained from publishing rejected claims. If that is also the situation here, then it seems to me to be a perfectly reasonable thing to cease publishing rejected claims, particularly if you can also rule out those claims that are rejected because people have misunderstood, which I understand is the vast majority, but the response to that might be a greater willingness to provide advice about claims in the first place.

**Q181 Mr Raynsford:** Is there any reason why you didn't go slightly further in your response to us and say you do recommend now that this should be changed?

**Sir Christopher Kelly:** I think it is an empirical issue, not one for expressing opinion. Has the situation progressed so much that that step could be taken without a further drop in confidence? As I say, I think that is an empirical issue rather than one on which to express a view of principle.

**Q182 Mr Raynsford:** Can we go on to the compliance function, which, of course, was established on the basis of your Committee's recommendation? Has it operated in the way you intended and do you think it has proved cost-effective?

**Sir Christopher Kelly:** I have to be frank and say I don't know the answer to that question. I have not been following it in sufficient detail to provide a proper answer. There clearly is an issue, which is one of the subjects of the consultation paper that IPSA has issued, about whether Members of Parliament who are being investigated should be named at the point at which they are investigated rather than when the investigation is complete. The consultation paper, as I understand it, proposes that in future Members of Parliament should only be named at the end of the period. Speaking personally, I have no difficulty with that. It seems to me to be an entirely sensible and fair thing to do.

**Q183 Mr Raynsford:** Do you think the Compliance Officer should have the degree of independence to determine whether names should be published or not?

**Sir Christopher Kelly:** I would have to think about that.

**Q184 Mr Raynsford:** I put this question to the Compliance Officer earlier against a background in which a certain number of cases are clearly the subject of complaints that may appear to be either malicious or pretty trivial and in which someone's reputation could be damaged as a result of publication.

**Sir Christopher Kelly:** Sorry, I thought you were asking me the question the other way round. If you moved to a system in which names are not published, do you think—

**Q185 Mr Raynsford:** No, where names are publishable at the discretion of the Compliance Officer rather than determined by rules.

**Sir Christopher Kelly:** Speaking personally, I would have sympathy with the view that the rules should be that names are only published at the end of investigations. I am not sure that I understand why the Compliance Officer should have discretion about that if there was a straightforward task.

**Q186 Mr Raynsford:** If someone has been the subject of a malicious and vexatious complaint, their name is still published even though this might result in their reputation being damaged.

**Sir Christopher Kelly:** Sorry, published by whom?

**Mr Raynsford:** By the Compliance Officer.

**Sir Christopher Kelly:** But only at the end of the process—

**Mr Raynsford:** Yes.

**Sir Christopher Kelly:** But surely in those cases the Compliance Officer would be saying, "This Member of Parliament had a malicious complaint made against him and I have investigated it and it is entirely without foundation."

**Q187 Mr Raynsford:** But in your earlier response you did say that the public attitude would be influenced both by the absence of abuses and the way in which the press report those matters.

**Sir Christopher Kelly:** Yes.

**Q188 Mr Raynsford:** Is it, in your experience, not the case that occasionally the press may be tempted to present some issues in ways that do not altogether exonerate an individual?

**Sir Christopher Kelly:** Of course it is, but if the Compliance Officer is clear in the way in which he expresses his judgments and if he says, "This complaint is entirely without foundation" it is quite difficult to write a story. Even for some newspapers it is quite difficult to write a story that suggests the contrary.

**Chair:** I am often surprised. Thank you very much.

**Q189 Guto Bebb:** Can I take you back to the issue of the provision of advice by IPSA. The Compliance Officer made the case that quite a few complaints about MPs are made by political opponents, for example, and yet when an MP is unsure how to progress a claim, IPSA seems to be very reluctant to offer advice. Do you think that can be justified?

**Sir Christopher Kelly:** I am very sympathetic to the notion that IPSA ought to be prepared to offer advice. It may be that during the early stages when they were overwhelmed with work, as it were, that was difficult for them. Even accepting that they are a regulator, I know of other regulators who are prepared to offer advice and I have some sympathy with the notion that they should be prepared to do so, but that is not an issue for me to decide.

**Q190 Guto Bebb:** On some occasions, MPs have been advised to just put in a submission and see what happens, but in view of the issues surrounding MPs'



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expenses you can understand why MPs would be reluctant to take the risk, I suspect.

**Sir Christopher Kelly:** Absolutely. I understand that completely.

**Q191 Guto Bebb:** Secondly, in terms of the cost of the scheme, I think I am right in saying that something like 38% of all claims cost more to process than the actual amount of the claim in question. Do you have any views about how a system can be developed that is less costly and difficult to justify in terms of costs?

**Sir Christopher Kelly:** I have seen that figure. I don't understand enough about it to know whether it is the cost of claims now or whether it is based on the cost of claims over the past period, in which case it presumably does not take into account some of the changes that have already been made, including, for example, the greater use of credit cards and so on. Clearly, anything that could be done to reduce the costs is greatly to be welcomed, and there may very well be ways of doing that without in any way endangering the integrity of the scheme or the way it appears to the outside world.

**Q192 Mr Leigh:** As you know, MPs have to do everything online now. This is immensely bureaucratic. I don't want to go into all the details, but presumably the whole purpose of this, from your point of view, would be to have instant transparency. If the whole thing was published that should work quite well. You apply for a journey from London to Newcastle and immediately, the moment you apply for it, it would flash up. So it is bureaucratic, but in fact it can't be published immediately because it all has to be redacted to remove people's home addresses and the rest of it. I wonder what you think the public actually gain from this. The MP has all the bureaucracy of doing this, but the public doesn't gain because there is no instant transparency anyway. It is published on a bi-monthly basis, which encourages newspapers, almost, to store up all bad news. I just wonder what we gain from this online system over the paper-based system. As long as the claim is backed by an invoice, what do you think is wrong with a paper-based system?

**Sir Christopher Kelly:** I am not sure I have a view on that.

**Mr Leigh:** If you do not have a view, that is fine.

**Sir Christopher Kelly:** I think I regard it as a matter of detail rather than principle—

**Q193 Mr Leigh:** But I am just saying in terms of public confidence or transparency, that is all. But if you don't have a view, that is fine.

**Sir Christopher Kelly:** I am not sure that I fully understand the question. Whether it is more practical to do it online or on paper, I would find it surprising if it is not cheaper online.

**Q194 Mr Leigh:** We need not go into all of it, but if I just tell you that it is quite a bureaucratic system because you have to, for instance, type in everything online, then you have to get an invoice out and all the rest of it, so in fact you are duplicating a paper-based

procedure with an online procedure. That explains some of the heavy costs of the present system. Everything has to be checked and double-checked online and on paper. I am not an expert either, but I suspect that explains a lot of the increased transactional costs of IPSA compared to the old Fees Office.

**Sir Christopher Kelly:** This seems to me to be absolutely the sort of issue on which sensible consultation has a chance of producing the right answer. It may be that this is another issue of the maturity of the scheme. There are plenty of examples, including, for example, in the submission of tax returns, where people are familiar with the notion that you submit your tax return but you have to retain the receipts in case somebody then decides to ask to see them. Whether there is some move that is possible in that direction as the scheme matures, I really don't know. I think people would need to talk about the advantages and disadvantages.

**Q195 Chair:** I am conscious of the time. One supplementary there is that we used to publish all the receipts. IPSA no longer publishes those receipts. Do you think that is a good or a bad thing? Obviously there is a cost-benefit equation here, but it seems to me that if one has collected all the receipts the public do ask, "Why aren't they publishing the receipts?"

**Sir Christopher Kelly:** What does transparency mean? Transparency means that there is visibility about what it is that is being claimed and granted, and that someone has the confidence that if something has gone wrong that will be properly investigated and dealt with, and if it is an error dealt with as if it was an error, and if it is someone doing something they shouldn't have done that it will be properly dealt with by some form of sanction. That is what is required. Everything else is a practical detail about how best to implement it.

**Q196 Mr Leigh:** The final question. We all completely understand that you have to have an independent body that sets the level of the salaries and the expenses and all that. We all understand that. What I am struggling with is, what happens if an approach adopted by IPSA, for the sake of argument, firstly, undermined public confidence in Parliament, secondly, cost the taxpayer too much or, thirdly, failed to sufficiently support MPs in performing their duties? What options would the country have, or Parliament have, to change the situation, or should they just say that IPSA is independent and, therefore, if it fails to support that there is nothing they can do about it? Should we have the option to change the board? What do you think?

**Sir Christopher Kelly:** This is an issue about accountability, isn't it? IPSA has processes for accountability in the same way as other organisations do. From my observation, it certainly operates with a lot of attention from Members of Parliament. It has, I think, shown evidence of responding to criticism. The scheme is now in its third iteration. It is different from how it was at the beginning because it has heard

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criticisms that have been made, it has issued consultation papers and it has responded to that consultation. Isn't that the way the process is supposed to operate?

**Q197 Mr Leigh:** So ultimately, Parliament should have no further sanction?

**Sir Christopher Kelly:** Parliament is sovereign, of course. You don't need me to tell you that. Parliament can do whatever it likes, but you began your question by saying you accepted that IPSA should be independent.

**Mr Leigh:** On the level of salaries and on expenses and allowances, yes.

**Sir Christopher Kelly:** You have presumably, for reasons that you accept, given it a degree of independence and you can't really be surprised if it exercises it. As I say, I think the only question that remains is. Are accountability processes adequate? I would have thought the evidence was that they are responding to criticism in an appropriate way.

**Q198 Chair:** Two brief, brisk questions to finish. The first one is, on that subject, it seems to me that the public still believe that MPs control their own pay and conditions, even given all of the handing over of pensions. It is still reported in such a way that most of the public believe that MPs still control what they are doing, even if it is a conspiracy theory. Therefore, the actions that IPSA undertake can continue to undermine the way that Parliament is viewed by the public. Naturally, we have handed over to independent control, and most MPs are satisfied with the fact that they set the rates and design the schemes. The aims of the Act are pretty clear. If it were not fulfilling the aims of that Act, and measurably so, do you think that Parliament would have a duty to intervene at some point?

**Sir Christopher Kelly:** You could never say never. I think the public reaction to that would depend upon the circumstances and how bad the situation was.

**Q199 Chair:** This is my final question to you. I have given you a lot of praise, and I mean it. Your reports are researched well, the measurement systems are great on public confidence, it is in-depth, you take different views from different angles on the way that politicians and public figures are regarded, and I have great respect for that work and the way it is presented in a very impartial fashion. If you were asked to perhaps measure the public confidence in Members of Parliament and public confidence in Parliament, would that be a task that you would be prepared to take on at some point, given that, from what we have seen so far, IPSA is not necessarily measuring it in as professional a fashion as you have been?

**Sir Christopher Kelly:** I am not quite sure I understand the question. We do it already in our biennial surveys.

**Q200 Chair:** If you were asked to do it more frequently and have a bit more of a focus on it?

**Sir Christopher Kelly:** We only do it every two years, partly for costs reasons—it costs money to do it—and partly because attitudes don't necessarily change that quickly, or if they do it is not necessarily very sensible to measure fluctuations because things do change. In our surveys I mentioned in answer to the earlier question, in January confidence in journalists was higher than we had expected because, after all, journalists had played a role in uncovering what the public thought was the expenses scandal. By July, it had become apparent what had happened at News International and elsewhere and the situation had reversed itself. So I am not sure regularly monitoring this question produces information that is particularly useful. Doing it about every two years is, in my view, about right.

**Chair:** Thank you very much indeed for your time.

**Sir Christopher Kelly:** A pleasure.

**Chair:** Thank you very much indeed for your evidence. This session is now closed.

**Tuesday 25 October 2011**

Members present:

Adam Afriyie (Chair)

Guto Bebb  
Mr Edward Leigh

Priti Patel  
Mr Nick Raynsford

**Examination of Witness**

*Witness:* **Hugh Thomas**, Former Head of Compliance for the Conservative Party, gave evidence.

**Q201 Chair:** Welcome to our review of the Parliamentary Standards Act 2009, as amended in 2010. I want to thank you for taking the time to come in. I understand that you were previously head of compliance for the Conservative Party and in that role just give us a quick canter round the sort of compliance issues you advised on in that role, to give us an idea of your background.

**Hugh Thomas:** Certainly. I started with the Conservative Party in about January, February 2008 and stayed until January 2010. In that role, initially the focus was on the adherence of the party with the Political Parties, Elections and Referendums Act 2000 in liaison with the Electoral Commission, and increasingly during the period I was involved with the political leadership advising the leaders of the Commons and the Lords, and the Whips in both places on issues concerning transparency, expenses, the implementation of the Right to Know forms the Conservative Party did at that time, and all other related matters much more invasive on the political side than possibly my predecessors.

**Q202 Chair:** In terms of your work, the advisory role on compliance matters for the MEPs, again just talk us a little bit around the areas in which you were assisting there.

**Hugh Thomas:** In about, I think from memory, June 2008 there were some issues that arose concerning expenses in the European Parliament and David Cameron asked me to oversee a review of everyone and everything over there. From that period until the end of my time with Central Office, I put in place a robust transparency system on expenses, the Right to Know form for Members of the European Parliament, which is still in place. After I left Central Office, the leader of the MEPs in Brussels asked me to take on a direct role, which I commenced at the beginning of 2010 doing similar issues, expanding Right to Know into things concerning transparency generally, liaison with other European parties and the implementation of lobbying transparency, which is the latest issue.

**Q203 Chair:** It would be fair to say that you have good experience, not only of compliance matters generally but also within a political context, a public facing context, and tied up with issues of transparency as well; would that be a fair statement?

**Hugh Thomas:** Yes, I have had the privilege of being involved in quite a lot of interesting things in the last few years.

**Chair:** I bet you have. Nick, can I hand over to you to go through the compliance questions?

**Q204 Mr Raynsford:** Can I just take it a little bit further and pick up the point you make in the second paragraph of your written submission that you worked as legal counsel or compliance director for a number of large UK and international financial institutions. Can you just tell us some of them?

**Hugh Thomas:** Yes, of course. I was Global Compliance Director with Deutsche (Private Wealth Management) for about five or six years. Prior to that I was Senior Counsel and Compliance Officer of what was then Merrill Lynch International Bank and I was counsel for UK, France, Spain, Holland, North Africa and money-laundering officer for the whole of the West European and North African region.

**Q205 Mr Raynsford:** Can we now turn to your experience of the role of compliance officers and your perception of the compliance officer at IPSA? In your experience is the compliance officer role at IPSA similar to or different from those of other significant organisations, including those you have worked for?

**Hugh Thomas:** It is nothing like what I have ever seen before. I think I would probably describe it, as I think I did in my written submission, in my experience as more an investigation officer than what I would call a compliance officer working closely with the board of directors of that organisation.

**Q206 Mr Raynsford:** In that role, how do you see the compliance officer advising the board on the basis of your experience elsewhere—I am not talking about IPSA but elsewhere? Would you have seen a role for the compliance officer suggesting changes, improvements, either with provision of greater clarity in the rules or changes to the procedures, or the provision of more advice to people who might otherwise not understand the rules; would that be a normal part?

**Hugh Thomas:** It would be very much a normal part, which is why the restrictive nature of the job spec, if I can put it that way, of the IPSA compliance officer was somewhat surprising. My role in other organisations has been very much the conscience of the board and the chief executive, with unfettered access to any documentation or people I wished to speak to at any time, the ability to commence a review of any aspect of the organisation, not just a client complaint, which I suppose would be the comparable thing. Also to advise the senior executive on strategic developments that would have compliance/legal implications.

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**Q207 Mr Raynsford:** There is no problem, as far as you can see, in the combination of those roles of advising the board and also helping to ensure that good advice is made available to people who make use of the system and submit claims?

**Hugh Thomas:** Absolutely not. If I can draw the analogy with the City and my roles, without exception in all the organisations where one's role is clear, and it is under the FSA regulations that one has that responsibility, the chief executive of a regulated firm may have the ultimate neck on the block, so to speak, with regards the legislation, but his or her compliance officer is very much their right-hand aide-de-camp, so to speak, at their side.

**Q208 Mr Raynsford:** That sounds as though you feel that to do the job properly the compliance officer has to be integrated into the organisation rather than in some ways semi-distant from it, yet the structure seems to imply there should be an independence of the compliance officer from IPSA.

**Hugh Thomas:** One can be independent and still integrated. Let me explain: my reporting lines in compliance roles were short and direct to the more senior level, so as a compliance officer you always had direct access to the designated board director or the chief executive. That gives us the independence to tell the XYZ sales director, "I am sorry, old boy, that is not appropriate." So that gives one independence but you are still integrated; you know how the organisation functions.

**Q209 Mr Raynsford:** Should a distinction be drawn between regulation and compliance? Have those separate roles become a bit confused in your view in the definition of the role of the compliance officer at IPSA?

**Hugh Thomas:** I do not see a definition of regulation at all in the role of the compliance officer at IPSA. It is more that they use the word "compliance" and I would use the word "investigation".

**Q210 Mr Raynsford:** You also say in your report that you cannot envisage any large organisation dreaming of checking or verifying every single transaction and you say, "The NAO reported that of the 134,696 claims that were processed in 2010–11, all had been checked at least once, and some more, but only 0.5% had been rejected. If this was a 'risk-based' approach then the usual commercial approach would be to reduce the sampling size on the basis that the system seemed to be working." You do not have any reason to change that view?

**Hugh Thomas:** Absolutely not.

**Q211 Mr Raynsford:** Do you believe that IPSA would benefit if it adopted a risk-based approach?

**Hugh Thomas:** Yes, and it was my impression, even before I read the detailed submissions from the NAO and the Public Accounts Committee, which from my perspective reassured me that without the access to their detailed audit, which they did, my gut feeling was right.

**Q212 Mr Raynsford:** Can I finally ask you in your understanding of the legislation, which clearly governs the operation at IPSA, is there anything in the legislation that would prevent the operation of the compliance officer according to the broad approach that you have set out?

**Hugh Thomas:** Yes. The role and the details of the compliance officer were brought in by the Constitutional Reform and Governance Act 2010, so somewhat of an afterthought. It was not in the 2009 Act at all. Although I have commented that I do not think there is any substantive changes needed at all to the principal part of the Act in order to make it efficient and cost-effective, it seems a shame to me professionally that a role is not able to function in a way that would be most effective for the organisation and also to its users, being your good selves.

**Q213 Mr Raynsford:** So changes to the 2010 legislation in your view would be necessary to allow the compliance officer—

**Hugh Thomas:** To change the compliance officer's spec.

**Chair:** Thank you very much indeed. We are going to come on to the independence and accountability features of the current set-up.

**Q214 Guto Bebb:** Good afternoon. Having read your evidence, an interesting concept I think we need to look at is the fact that IPSA is both a regulator and an administrator, so do you think that that arrangement causes confusion in any way?

**Hugh Thomas:** Yes, it can. What surprised me when I looked at the legislation in a bit more detail, is that there are quite broad powers that IPSA does have to delegate function but of course not responsibility. I think the confusion would be, in my experience—it is a relatively small organisation—that if you have staff with experience who are used to doing, if I can describe it that way, then they may not have the same experience and ability in the overseeing, so that is the confusion of the doing and the overseeing if they are too close.

**Q215 Guto Bebb:** We saw from your evidence, in addition to being compliance officer to the Conservative Party that you also worked with Members of the European Parliament. Are you aware of any other country that has a system that is similar to the way in which IPSA has been established, in terms of being both the regulator and the administrator?

**Hugh Thomas:** No. As far as my own research indicates that is not the case. In the European Parliament, there is quite a clear distinction; the Administration Division does the payment and the audit function that comes in periodically reviews against legislation and regulation.

**Q216 Guto Bebb:** And you would argue that would be a better system?

**Hugh Thomas:** Yes.

**Q217 Guto Bebb:** Finally, and obviously I am not putting words in your mouth, is it possible for an

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independent body to be responsible for the administration of the scheme without setting the payment levels and so forth so that in effect there is this division of labour? Is that possible within the Act as it currently stands?

**Hugh Thomas:** It is not possible to have an independent body deal with it, but it is highly possible under paragraph 19 of schedule 1 to delegate the function but keeping the oversight responsibility.

**Chair:** Thank you very much. Edward, can we pick up on taxpayer value for money?

**Q218 Mr Leigh:** The Act states: "IPSA should act in a way which is efficient, cost-effective and transparent." Do you think IPSA is fulfilling its statutory obligation?

**Hugh Thomas:** In a short answer, no. I came to that conclusion looking at the evidence provided to your Committee and others, but in a similar way to what I mentioned to Mr Raynsford earlier, the more detailed findings of the National Audit Office and the Public Accounts Committee did confirm to me that my impression and my professional experience is, "There must be a better way of doing it, chaps." That was my informal comment.

**Q219 Mr Leigh:** We have already had questions around this, but if they did move away from this practice of checking and verifying every single claim do you believe they could still fulfil their statutory obligations, and maintain public confidence?

**Hugh Thomas:** Indeed. One thing I have direct experience in is transparency and making the public aware of what is being done, so I understand the principle of transparency publication, and there is some thought about the frequency of that. I would argue for as frequently as possible; real-time preferably. That is what happened before the last Parliament with the Right to Know form I was involved in. I think a risk-based approach, which is justified, and a transparency publication of whatever is submitted when it is submitted, so utility bills will be less frequent than other things, for example, must be the right way forward.

**Q220 Mr Leigh:** IPSA operates a scheme in which some allowances are used, such as a London allowance. Do you think that an extension of allowances would offer the taxpayer better value for money?

**Hugh Thomas:** In theory, it could be by reducing administration. My concern on that, in my professional experience, is that by using allowances you are reducing transparency. I can see the argument of certain allowances being in place, like the London allowance, but if you were to go to a broader allowance covering general expenditure, for example, then I think, as a taxpayer I may—

**Q221 Mr Leigh:** What do you mean by "general expenditure"?

**Hugh Thomas:** Office prerequisites.

**Mr Leigh:** I do not think anybody is suggesting an allowance system for offices.

**Hugh Thomas:** My point in principle is that allowances are less transparent than—

**Q222 Chair:** So in limited circumstances for them to be very carefully considered, but you are not in favour in general terms to cover office expenses and everything else?

**Hugh Thomas:** That is correct.

**Chair:** Understood, thank you very much. Priti, can you take us on to the section about Members being able to fulfil their duties and public confidence?

**Q223 Priti Patel:** Yes, absolutely. Good afternoon. I would like to take you to paragraph 33 of your written submission, where you say the way in which the scheme has been administered is less than helpful to Members of Parliament. Could you elaborate on your view a bit more, and in particular should the Act itself make it more explicit that the primary function of IPSA should be to ensure that Members and the House can function more effectively and if so, how?

**Hugh Thomas:** Yes. I did note in the 2010 Act that there was a proposal to extend the scope of cost-effectiveness to the effective function of MPs and their parliamentary function, although that has not been fully implemented yet. I would wholly endorse that approach. It seems to me that by merely proceeding as they are at the present time they are not able to help Members get things right. I know from my own experience working with Members of Parliament and MEPs and others that one needs to be pervasive with regard to getting to know the Members, what their concerns are. I think that being less than helpful to MPs is my impression: they appear to be too distant from what Members are dealing with on a day-to-day basis, from what I have seen.

**Q224 Priti Patel:** On that point, do you think that they need to be more hands on, more advisory, or just provide more guidance to Members of Parliament?

**Hugh Thomas:** They need to be more your "trusted adviser", rather than "Your investigator is about to fine you."

**Priti Patel:** That is very helpful, thank you.

**Q225 Chair:** Thanks very much. Last couple of questions from myself about the future. You state in your evidence that more effective implementation of the Act is required. I just want to explore very briefly what sort of things you were thinking about.

**Hugh Thomas:** I would wholly endorse what the NAO have mentioned about a risk-based approach. With my professional experience in compliance in the City it would be very unusual, to put it mildly, to have any other approach than a risk-based approach. That is how things happen, and how I would suggest that the vast majority of the general public would expect them to operate.

I think there is great opportunity for IPSA to look at outsourcing, as it has been seen to be very effective in other parts of Government. Outsourcing can bring not only cost benefits but also a more focused

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approach, and careful SLA's—service-level agreements—could put people on their mettle. Those are the two things I would suggest in addition to, subject to if it is appropriate, any alteration of the compliance officer's brief to make them a more trusted adviser and pervasive in the House.

**Q226 Chair:** That is very helpful. If—and it is a big “if”, and I hope it will not be the case—the aims of the Act were not being met regarding efficiency, cost-effectiveness, supporting MPs, public confidence improving and so on, what should be done? In general terms, with your compliance hat on, looking at it from that direction, what should be done and by whom if IPSA were to fail to make those necessary changes? Let us say three or four years from now public perception is worse, it is costing more money: who should act and where is the accountability, in effect? Who should do what to put the situation right?

**Hugh Thomas:** In terms of accountability, the accountability is back to Speakers Committee. I suppose the Speakers Committee and Mr Speaker would have the nuclear option, as I would call it, but it might be rather inconvenient in terms of legislative time. I would say by whom it should be done would be the Speakers Committee. They, after all, as I noted in their proceedings, hold the purse strings.

**Q227 Chair:** Finally, we talk about IPSA in a generic way, as if it is a single person or a single entity, but ultimately the board are responsible for the decisions that are made and if the aims of the Act are not being achieved, I guess they should be held responsible, but again, if so, by whom? Should Parliament have a motion that removes them or should the Speakers Committee make a recommendation? Once again, from the compliance point of view, standing back from it, what would be your observation in terms of the accountability to the public if the board were not seen to be making the right decisions?

**Hugh Thomas:** It certainly was the case—it is deliberately set up as a corporate entity so whether they are executive or non-executive directors of it, they carry the can. They would definitely be responsible, especially the chief executive. How that is done would have to be ultimately by the House who put the legislation in in the first place, acting through the Speakers Committee.

**Q228 Chair:** Hugh Thomas, thank you very much indeed. That has been very helpful, and thank you for coming in person to talk through your evidence. That has been quite enlightening as well, so I very much appreciate your time.

**Hugh Thomas:** My pleasure. Thank you.

### Examination of Witnesses

*Witnesses:* **Dr Ruth Fox**, Director and **Matt Korris**, Research Fellow, Parliament & Government Programme, Hansard Society, gave evidence.

**Q229 Chair:** I would like to welcome the representatives of the Hansard Society to our inquiry. I would like to thank you as well for your very well-written and well-presented evidence. Also, I wish just to thank you for existing as an organisation that has the ability to objectively look at how Parliament is functioning, whether it is fulfilling the expectations or the duties that are expected in a democracy and also reviewing whether it is functioning correctly as well. First, could you talk us through, just in general terms, what you think the aims of the 2009 Act were, as amended in 2010? What do you think were the general aims of the piece of legislation?

**Dr Fox:** I think the overarching aim was to do something that would restore confidence in the system by which MPs' expenses and future salaries, and so on, were paid, and in doing that the key purpose was to replace self-regulation with independent regulation, to establish a degree of transparency that had not existed before. That essentially was the key objective. Then there was the objective of needing to support MPs in the work that they did. The difficulty there is obviously how that is defined.

**Q230 Chair:** That is very helpful. In terms of the actual payments scheme for MPs, rather than the part on independence and public confidence, although that may form an element of your view, what do you think should be the objectives of the kind of payment scheme that is employed to do so? What should be the

objectives of that scheme in terms of the measurable results, let us say, at the end of the initial period?

**Dr Fox:** In terms of the scheme and the way it is administered or the amounts that are available to Members to do their—

**Chair:** All of it.

**Dr Fox:** All of it? Okay. Clearly in terms of the levels of funding that are available to support Members in their duties our sense, certainly from our Year-in-the-Life research—and Matt can talk a little bit more about this, is that Members feel that perhaps the staffing budget is insufficient at present. In terms of our research, the 50–50 view is that accommodation is about right, 73% say travel is about right, 60% say constituency office rental is about right, and so on, so there are fairly mixed views but bordering on the side of it is not far off being a reasonable representation of what Members need.

More broadly, our concern is about how the system is administered. From our perspective, we have long said—and I said it right at the beginning of the process with IPSA—that the way in which payments are made is a big concern. The aim or purpose was to move to a system of transparency and accountability, yet it seemed to me to be a backward step to move to a system where direct payments were replaced with significant sums of money going through Members' accounts and Members having to make, particularly in the early months of a Parliament, some very big decisions about what it was that they needed, and

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paying that money out themselves with no guarantees that they were going to get it back, certainly at the beginning.

**Q231 Chair:** Two more questions, but I will be as quick as I can. First, you said that the restoration of public confidence is a key aim of the legislation, and we need to judge whether that confidence is being restored. Do you think that public confidence is being restored now after a year and a half or two years of the operation of the Act?

**Matt Korris:** I think the fact that the expenses issue has disappeared from the national media largely takes it off the agenda and away gradually from the public mindset, so that has the effect of at least of no longer being something that undermines trust, but any change in the system was bound to move the story on. As to whether the creation of IPSA, the administration and so forth, improves trust or not, I think in general with the transition, as time goes by, we are moving to a situation where it ceases hopefully to be an issue.

**Dr Fox:** Can I just add to that? I think there is a real difficulty in trying to link cause and effect between the creation of IPSA and confidence when, for example, one could reference a general election that had a cathartic effect. The public had their say at that election and a significant number of Members left and a significant number of new Members came in. Also, there are the cathartic effects of seeing a number of MPs go to prison. I do not think we should underestimate that, because it does redress the view of “us and them”, which is a lot of what public debate is about, and it is not what perhaps the public thought it was. It has maybe taken a long time, but the public may feel there has been a sense of accountability. Members may not feel that, and there may be a sense of rough justice among Members, but in terms of public perception, that is quite an important factor in the restoration of confidence.

**Q232 Chair:** That is very helpful. Finally, do you think that the principle that the payment scheme exists to enable or support MPs in doing their jobs needs to be enshrined any more tightly than it is in the current legislation? Do you think it needs to be clearer as an objective, given that we are in a democracy where MPs, believe it or not, ought to perform a reasonable job for their constituents in the country?

**Matt Korris:** The legislation says that the system should support MPs doing their jobs. I would probably not suggest that getting any more prescriptive is required. It is an operational factor, and clearly the operation needs to be got right, but I am not sure that a legislative solution for being prescriptive as to how IPSA should support you doing your jobs is necessarily the best approach, and nor will it necessarily be the best approach in the long term. It might solve the problems now if you said, “We want this and this and this to do our jobs properly”, but looking to the future you would then have to come back and amend it to adapt to change in operational requirements.

**Q233 Priti Patel:** I would like to build upon some of Adam’s points on public confidence and trust in

particular, because MPs are always on the end of a sort of misperception and all the rest of it. We have IPSA, which is doing its thing right now, and you have talked about public confidence. I guess perception has moved on, because the story has moved on. However, there does seem to be still a bit of a gap in understanding in terms of what MPs’ roles are, expenses, and so on. Do you have any thoughts or views on how that gap can be bridged and closed and what role IPSA could play in doing that?

**Chair:** We are worried by your pause in answering the question that it is going to be incredibly difficult.

**Dr Fox:** That is a hugely difficult question: if only we had a silver bullet. Public attitudes are complex, contradictory and rarely uniform, and being able to solve these difficulties with an eye to the changing tide of public opinion is incredibly difficult. What our Audit of Political Engagement shows is that in general, despite the tide of events, no matter what the issues are year to year—and we have been benchmarking the same questions and the same attitudes for eight years now—by and large, public attitudes are fairly stable. You will see some ups and downs as you have a crisis point to do with expenses, but then it settles back to a fairly settled level.

In terms of understanding of MPs, there is a problem in that what the public want MPs to do is largely in tune with what you do do. The problem is the public do not think that is what you are doing. So it is not that the work that is being done and the nature of it is wrong, it is the public understanding of it, and that is a huge educative issue. I do not think it is something that MPs and Parliament on their own can solve, and I do not think it is something that is going to happen within the course of this Parliament. The Hansard Society has worked for many, many years, decades, on citizenship education. I do think there is a real issue in terms of education—political literacy—among the future generations and where that goes. It is not something that is going to happen overnight, and it is the responsibility of Members; it is the responsibility, quite importantly of political parties as well. I do think political parties as organisations have a responsibility here.

Part of the issue is about the nature and the work of MPs and the expectations that fall on your shoulders. It is partly about the way parties operate and the way they present themselves and the extent of your responsibilities. The public see that through election campaigns and through general campaigning, year-in year-out: what are your responsibilities, what are the responsibilities of local councillors, and what are the responsibilities of MEPs and so on? Where are the boundaries? I think the media also have a responsibility. Whether they will take it up is a completely different question, but they have responsibility.

It is a mixed bag and I do not think there are one or two measures that are going to be taken that are going to address those, but you could look to IPSA, for example, and say they have a responsibility in terms of the information they provide and the context of the information that they give at the time they publish it. That is a concern we have raised in our evidence. They have a public education responsibility, it seems

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to me, even if it is not enshrined in the legislation, that goes alongside the work that they do, and they could make a contribution. Certainly they could not solve it, but they could make a contribution.

**Q234 Priti Patel:** That is very helpful. I have a couple of other points that I want to touch on. You touched on the whole issue of transparency and payments going into Members' bank accounts and that that was a step backwards. Again in terms of perception, that is not good, if there is a view that that is untransparent and that is a backwards step as much as a forward step. What do you think IPSA could do around that in terms of transparency? Is it your view that such a system might perpetuate the appearance—I use the term “appearance”—very strongly of abuses?

**Matt Korris:** I think a system that has all the money going through Members' bank accounts has the potential to be abused, while direct payments, where the money is not going through your hands, hopefully have less chance for abuse. One would like to think—and I am fairly confident—that, especially in the near term, neither system is going to be abused because of the attention that has been put upon it, but the fact that the system has the potential for abuse, down the line people will look at it again and go, “Well, the opportunity is there.” They will feel the need to scrutinise why money is going through Members' bank accounts. So a system which diverts the money around you rather than through you, I think is probably better for public confidence and trust in the system going forward.

**Chair:** Edward, could you pick up on fairness for less well-off MPs and those with families?

**Q235 Mr Leigh:** You have done some research on this, but what impact has the operation of the Act had on Members and their families, do you think, and on family life?

**Matt Korris:** Are you trying to point to the operation of the Act rather than just the—

**Mr Leigh:** Or IPSA, the way IPSA operates, compared with the last election anyway.

**Matt Korris:** Certainly the general transition for new Members coming to Parliament is quite a change, and the evidence we found in our research is that new Members have expressed considerable dissatisfaction with the induction they received from IPSA, and that was ongoing six months later when we asked them about the administrative performance of IPSA and they expressed considerable dissatisfaction. I think it was 79% of the new MPs responding to our survey said they were dissatisfied with IPSA and how it was working. Certainly in the text responses we got to our survey, Members were saying, “IPSA has made my life really difficult.” You will see in the submission quotes from new Members saying how much of a burden it has been, and especially dealing with family.

**Q236 Chair:** Do you believe that, out of interest? It is just in one or two bits of evidence it seems that it is not believed—that somehow it is not true that it was causing difficulty for Members. Do you believe them as the Hansard Society?

**Matt Korris:** I think in general we do. We have both worked for Members of the House in the past, so I think we come to this with a fairly experienced knowledge of what the daily life of an MP looks like, and therefore when we get survey responses with new Members saying they were working on average 67 or 69 hours a week—and that is before travel—that matches our experience, as we have seen this place in operation. If you are working a 69-hour week, especially if you have family commitments on top of that, in a new and challenging job where you have to set your own priorities and set out a lot to do, I do not think that that is an unreasonable thing to say.

**Q237 Mr Leigh:** I was also asking about the impact on family life, time spent with children, and that sort of thing.

**Dr Fox:** In terms of whether we believe them? Our research was based on anonymous surveys—people had the option to anonymise their details—but we also invited Members to give their details so that we could go back to them, and question them, with the promise that we would not reveal identities in the course of whatever we published without their permission. Almost universally they have given their identities. We are able therefore to pin individual stories to individual MPs, and they gave a lot of personal information. If that research had been anonymous it might have been a different story, but the fact that it is so personalised I think underpins, from our perspective, that it probably is accurate.

Bear in mind however, that that was earlier on in the life of MPs in their first year, so things have changed a little bit. You now have the payment card and IPSA say 70% of payments can now be dealt with on that, and I think there is probably a bit of easing-off in the problems, but I am convinced that those stories are accurate.

In terms of impact on family life, we received free text responses to the survey, so we cannot quantify it—it is more qualitative information that we are getting back—but the responses were overwhelmingly negative. There were a lot of them. There were concerns about the ability to manage the hours and the travel, and about accommodation issues. Those were the ones that kept coming up. It is not just IPSA, but it is that interaction of the culture and working systems of the House, coupled with IPSA's system and particularly then real frustrations with the bureaucracy of the online system and the difficulties.

**Q238 Mr Leigh:** What about the impact on MPs of modest financial means? What did you find regarding MPs who have no outside earnings or private means?

**Matt Korris:** The surveys we have done, the research we have done, does not particularly identify the ongoing effects on Members. The question we asked at the start of the surveys was, “How has becoming an MP changed your salary?” More than half of new Members who responded to the survey said they had taken a salary cut, and more than a third a salary cut of more than £30,000 a year. There are certainly issues about changing financial circumstances for new Members, but as for whether that is necessarily the



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reason for the challenges they are facing, I am not sure you can make that connection directly.

**Q239 Mr Leigh:** Do you think that MPs without independent financial means might be dissuaded from standing for Parliament in future compared to previous years?

**Dr Fox:** I am not convinced that that is necessarily the case, because I am not convinced that a lot of people out there who may be candidates in waiting are necessarily aware in detail about the depth of these problems and the difficulties they have caused. I think a more interesting and more enlightening question will be in three to four years' time how many of the new intake decide to stay on, or rather how many decide to stand down—not because of the reduction in seats but because of the culture of the House and the difficulties they face.

In terms of the family issues, certainly anecdotally, and this is based just on individual conversations with Members, we certainly picked up personally in the early months, quite a lot of concerns about the fact that having come into the House, a number of them have taken a salary cut. Perhaps they had not had a salary for a while as candidates before coming into the House, but they found that they were having to pay out a lot of money upfront with no guarantees about the swiftness with which they were going to get the money back, whether they were going to get all the money back, and so on. They found that very difficult, and particularly those with young families found the arrangements for settling their accommodation quite difficult. But again, IPSA has responded to some of that by saying at the start of the new Parliament they will look at things a little bit differently.

**Chair:** Guto, do you want to continue along the lines of deterrence?

**Q240 Guto Bebb:** First of all, I am sure your research will back up the view that many MPs do place a higher premium on their reputation—whether that is reflected by the public attitude towards them is another matter entirely—but do you think the fact that MPs do so has resulted in some Members under the current operation of the Act deciding not to claim legitimate expenses?

**Matt Korris:** We do not have any evidence in our research for that. Anecdotally, there seems to be suggestion in the conversations we have had that some Members are not claiming all that they would be entitled to. There is certainly the issue that if you are making a claim for a small amount of money—perhaps £2 or £5—and you know how long it is going to take you to work through an online payment system, you might simply decide, “This is not worth my time. My time is worth more than a £5 claim, so I am just not going to bother with it.” But that is anecdotal rather than research-based.

**Q241 Guto Bebb:** So in view of the fact that you are saying that there is no actual research—it is anecdotal evidence that you have—is there any evidence that you have collected, which would indicate that better-off Members are in a position to ignore the expenses

procedure whereas less well-off Members have to go down that route, which means obviously putting their reputation at stake. Is there any evidence of that?

**Matt Korris:** The research does not cover that directly I am afraid.

**Dr Fox:** Just to clarify, the research is a much broader project than just IPSA and expenses. It looks at a whole range of issues, so IPSA was just one strand and what we have done is extract the strand for the evidence.

**Q242 Guto Bebb:** That is appreciated. The other thing is there has been publication of the fact that the amount of money paid out by IPSA has been significantly less than in the last year of the previous discredited regime. Do you think that the difference in what was paid out represents a saving to the taxpayer, or does it reflect the fact that the system has deterred claims by Members?

**Dr Fox:** It is quite difficult, because there is no research that can get to the bottom of how many Members have not claimed—it is quite difficult to prove that. But obviously the NAO have done their study and have put an estimation on it of £2 million plus, in terms of staff time that has been perhaps spent in the system.

If you add in the number of claims that probably have not been submitted—I would suspect probably in most instances they are quite low-level claims, rather than the real big ticket items, which, in the course of a week or a month may not add up to much, but over the course of a Session or Parliament they will for an individual Member—you may well find that there is a discrepancy. If the old system had a degree of fraud or corruption, whatever word you want to put on it, it was not working well and it was being ill-used, and people were getting money they were not entitled to, so you would expect the new system to be paying out less if that were removed and extracted from it.

The problem is that we do not know exactly how much the Fees Office administration of the system cost in comparison with IPSA, so it is quite difficult to make these kinds of comparisons. But I have said all along through this process, since I first went before the Committee on Standards in Public Life and with IPSA, that you cannot have good democracy on the cheap. I recognise that in the current economic circumstances the issue of cutting costs is an important debate, but simply trying to drive down the cost base does not necessarily represent value for money. It may represent less payment, but it does not necessarily represent value for money, and the question is what is it in the system that we are valuing in terms of supporting the work of Members.

**Q243 Priti Patel:** We have already touched on the theme of MPs' reputations, and on page 4 of your submission, alongside transparency, you give an example in which published data can effectively mislead the public and effectively harm the reputation of an MP. Are there other examples where this has been the case? I am looking at this from the point of transparency, public confidence and how, in particular, data can be published in a meaningful way to the

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public so that MPs' reputations do not come under false attack and suffer harm? Can we have some meaningful comparisons—this goes back to my earlier point—to help build that understanding in the eyes of the public about the role of the MP?

**Dr Fox:** In terms of transparency, we struggle to come up with an example in recent days, where the data has been released, of what you are talking about. There are plenty of examples, whether it is FOI, whether it is party funding, where you can deluge the public with information and if it does not have context to aid interpretation and understanding, then how useful is that information? I very much take the view of Baroness Onora O'Neill on these things. Her work on trust and transparency and so on is that it is no good deluging information and data and so on unless it has context. I think the concerns we alluded to in our report and recommendations are about the way in which the material and data about expenses are published. Is there a danger that it is all about deluging the information out there without the context of understanding what that money is used for? For example, the publication takes place every two months, but Members will have different payment times for items, so the two-monthly league table frankly is meaningless. It is the annual sum that reflects a Member's work.

I think the public would be very understanding of a situation in which MPs make the argument, "You know what, staff are not an expense." Staff at the Hansard Society are not the expense of the chief executive. They are an essential ingredient of the job, a necessary part of the job and support provided, but they are not something that is personal to you in a financial way. That, to my mind, is just one obvious area where it should just be taken out. The staff salary entitlement is X: Members will pay up to that, depending on their circumstances and the number of staff they need, but I do not see any reason why that needs to be published and linked individually to Members in a personal way. I think the public would be understanding of that.

**Q244 Chair:** I think the subtext I hear from what you are saying is that there are different ways in which one can have a transparent system. Argue with me, but would it be fair to say that transparency needs to have a purpose and therefore you choose the type of transparency that achieves that purpose, whether it is public confidence or whether it is something else?

**Dr Fox:** Transparency is also about the avoidance of secrecy. That is an important element to it. You do not want to be seen to be trying to hide something and therefore everything is out there in order to be seen to be transparent, but beyond that, what is the purpose? If the information that is being provided is to be of any use to anybody, whether constituents or the media

and so on, context is important. It seems to me you have to have both, but simply deluging lots of information out there will not necessarily lead you to any kind of informed perspective.

**Q245 Guto Bebb:** Just coming back to that issue—Mr Korris touched on this, and I think in evidence it has also been touched on—and the claim that the publication of expenses has killed the issue of MPs' expenses as a national story. I think the evidence is that it has killed it as a national story, but it has created an easy story for the local media every two months. Is that the experience you had in terms of feedback from MPs, or have you any other comments, because the league tables are certainly appealing at a local level?

**Matt Korris:** It has not appeared in the research but anecdotally, yes. We have certainly seen that that has taken place. I go back to what Ruth said: a two-monthly cycle of publications does not reflect overall spending and all the work you have been doing, and give any meaningful comparison whatsoever.

**Q246 Chair:** If there are no other questions, I have one final question. I think you say in your evidence that more than half the MPs took a pay cut as they arrived here in Parliament, which is not the perception out there but, hey, one cannot win them all. Historically, to what extent do you think from, say, 1911, when the payments were first introduced, the allowances and expenses and all these clever schemes, even to this day, have been in some way a substitute for merely increasing the headline figure that is paid to MPs? I just wonder if you have any insight into that.

**Dr Fox:** I think from the 1970s onwards—and I am not as familiar with the pre-history before that—Governments were imposing pay settlements and inflation squeezes and so on, and there was no desire, as there is not now, for Governments to be seen to be putting MPs pay up. I have always thought that the big tidal point or change was 2001, when a decision was made to put the additional costs allowance up by 46% on one vote. It was a free vote.

I was working for a Member at the House at that time and I can completely understand, given the difficulties we had with the budget prior to 2001, why that would be. It was a necessary increase in the resources available to Members to do their job, but I think what happened was that the regulations and the culture around how that money was then managed did not change in proportionate ways and carried on being seen as something that could supplement salaries by too many Members.

**Chair:** Thank you very much indeed, Ruth Fox and Matt Korris, for coming in from the Hansard Society. That has been very useful and has helped us supplement the evidence you provided in writing.

### Examination of Witnesses

*Witnesses:* **Sir Ian Kennedy**, Chair, **Andrew McDonald**, Chief Executive, and **John Sills**, Director of Policy, IPSA, gave evidence.

**Q247 Chair:** Sir Ian, I would like to welcome you back to the Committee, and again I appreciate you sparing the time. John Sills, welcome back, and Andrew McDonald, thank you very much for taking the time to speak to us today. On 13 September, we were not talking about future policy, and that was because you had a board meeting on the 20th. I just wonder, Sir Ian, whether you could just give us a bit of an insight into what occurred at that meeting and any outcome from that meeting.

**Sir Ian Kennedy:** My hearing is very poor. Forgive me, I did not hear the question.

**Chair:** The question was that last time you came to see us there was a board meeting scheduled for 20 September and I was just wondering if you could let us know what sort of outcome there was in that board meeting that may be relevant to the inquiry we have.

**Sir Ian Kennedy:** As I recall, your briefing papers prior to my coming here suggested that that meeting would be one in which we would make, as a board, decisions about changes or progress. I think if you check the record I said that was not the case: the board would be considering papers with a view to the review that is going to take place towards the end of the year, but there was no matter before the board, which would be, as it were, of specific reference to what this Committee is addressing, albeit everything the board considers is of interest and relevance to this Committee.

**Chair:** Thank you very much indeed, Sir Ian.

**Q248 Mr Raynsford:** Sir Ian, you state in your written submission that the legislation does not itself specify what constitutes the public interest; that is for IPSA to determine. Taking into account the views of the public and others, including MPs, as well as the intentions of the legislation, and the fundamental principles which underpin the scheme, I am in some difficulty because, as I understand it from the next paragraph of your submission, you say, "IPSA should have regard to the principle that it should act in a way which is efficient, cost-effective and transparent. The second is that it should have regard to the principle that members of the House of Commons should be supported in efficiently, cost-effectively and transparently carrying out their parliamentary functions." Are those the two fundamental principles or are the nine or 10 listed in annex A of your submission the fundamental principles?

**Sir Ian Kennedy:** Both are fundamental.

**Q249 Mr Raynsford:** You cannot have both. They cannot both be fundamental principles.

**Sir Ian Kennedy:** Help me as to why the organisation cannot internally, in terms of setting its own vision, have certain principles, which after all were the principles, as I recall, which were suggested by Sir Christopher Kelly for the most part, and then also take account of those principles that are set out in legislation?

**Q250 Mr Raynsford:** If you are talking about fundamental as against subordinate principles, you would presumably have some sort of pecking order. All I was saying was, you have an annex, in which you refer to fundamental principles. It contains 12 separate proposals. It would be quite difficult to see those as fundamental principles in the same way as the two that are enshrined in legislation. I am trying to get an understanding of your reading of what are the fundamental principles.

**Sir Ian Kennedy:** I can do no more than say that the two principles set out in the legislation are those that guide us in carrying out our statutory duty, but also in our understanding of what the public interest might be. We also have to take account of other principles, which are set out in that annex and which are set out in our original vision document and on which we consulted.

**Q251 Mr Raynsford:** As you rightly say, that includes the "views of the public and others, including MPs". Can you now try and give us your definition of the public interest?

**Sir Ian Kennedy:** As I understand it, the public interest in this context—and I shall preface it by saying that, in my experience, it is the role of a regulator, which is an independent regulatory body established by whatsoever means, above all else to seek to serve the public interest, whatever the statutory scheme within which it operates. The context in which we are seeking to reflect the public interest is to strike the right balance: we must, on the one hand, provide for the taxpayer a system of assurance and accountability, which is robust and reliable, and which is backed by transparency, so that where taxpayers' money is spent can be determined and is spent within the rules that have been agreed; and, on the other, we must do that in a way that seeks to support MPs and the performance of their parliamentary duty. We have to weigh those two objectives and strike the right balance; that is what independent regulators do.

**Q252 Mr Raynsford:** What is the right balance?

**Sir Ian Kennedy:** Give me a particular example; I will give you an example if you like. Sir Christopher Kelly, if you remember, was very strongly opposed to the notion of members of family being employed by MPs on the public purse, and indeed the view of the public to the extent that one could gauge that, and certainly of commentators, was certainly very much persuaded that that was the right way forward. We, on the other hand, took evidence and were persuaded that there was real merit to the electorate locally, and to the taxpayer therefore, in MPs having that opportunity to employ a spouse or related party, because we had lots of evidence that the spouse usually worked longer hours, had very good contact with the electorate and so on and so forth, so we had to weigh where the public interest lay and we made our decision, which was not necessarily welcomed by all.

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**Q253 Mr Raynsford:** Your judgment in reaching that decision presumably was that this was in keeping with the second principle that you should facilitate MPs in the performance of their duties, providing these are done in a cost-effective and efficient way.

**Sir Ian Kennedy:** In part yes, but it was much larger than that. It was, where do we think that the taxpayer is going to get most value for their money in this specific context, and the answer was we thought that maintaining the system, which we developed a little bit, and we called it related parties, was in the interests of the taxpayer and provided good value for money.

**Q254 Mr Raynsford:** Would it surprise you that we had a witness earlier this afternoon who, when asked whether IPSA was satisfying the statutory requirement that it should act in a way that is efficient, cost-effective and transparent said he considered that you were not.

**Sir Ian Kennedy:** I am never surprised by what is said about IPSA, and there we are. I can say this to you, Mr Raynsford, that we have to appear before SCIPSA, which is the committee to which we have to render account and present our estimate, and their statutory obligation is to ensure that what we do is done in a cost-effective and efficient manner and they have, as has the Treasury on the occasions that we have appeared before them, approved our estimate, having reached the view that we do, that we are acting in a cost-effective manner. So I guess it is: whom you listen to at what time, you get the answer.

**Q255 Mr Raynsford:** If I tell you the witness was someone who had a career as a compliance officer in major international companies and said he knew of no example of any company that would have a system that involved checking every single claim individually, whatever the magnitude, without a risk-basis for the procedure, would that surprise you?

**Sir Ian Kennedy:** No, but bear in mind it is very important not to confuse apples with pears. In large companies, first of all, those who choose online expenses, which are systems that are quite common, there is ordinarily a manager between the ultimate rendering of the account and the person doing the accounting, and in the context of MPs and so on there is no intermediary person. The responsibility falls first on the MP and then on IPSA. Secondly, we are talking about public money—we are not necessarily talking about shareholders or other money—and, thirdly, we are talking not in a historical context, we are talking in the context in which things went badly wrong.

Against that we have adopted what is clearly a risk-based approach. We initially set the level of risk we were prepared to accept high, because that was the climate and that was tenor of the times. You as MPs and we as the operators of the system get more used to it, as we are more and more persuaded and as the public is more and more persuaded the claims that are rendered are legitimate as to 99.3%—we talked about this last time. So the notion of checking each and every one comes back on to the agenda. I am not going to discuss here the precise mechanisms we might use to slowly introduce a more risk-based system because I would not want to give anybody the

notion of how to game the system. But clearly it is on our agenda and the board is actively considering it.

**Q256 Mr Raynsford:** I will now just draw your attention to the second group of witnesses we heard this afternoon from the Hansard Society, who essentially gave us some pretty convincing evidence that public confidence in Parliament may have had spikes up and down, but in general there was very little change in the pattern from their first survey in 2004 and the most recent one they have conducted. Can you be confident that you can judge whether the mood of public confidence has changed sufficiently to enable you to adopt a more risk-based system?

**Sir Ian Kennedy:** Those are two different points, if I may make so bold. The adoption of a greater risk-based approach is a function of our estimation over time by reference to the data we have received as to where the risk is properly placed.

**Q257 Mr Raynsford:** But is public confidence not in any way relevant to that?

**Sir Ian Kennedy:** Of course, and it is our job to enter that debate and make it clear, as we have done many times, and as I have said publicly, that claims are now increasing as to the proportion I have just mentioned within the scheme. That being the case we think—and it is not we alone, it is you and the National Audit Office—there is an improvement in public perception of how public money is being handled in the context of costs and expenses and that they can attribute that to IPSA.

Once again, I am afraid that in some ways you pays your money, you takes your pick. We have significant evidence from the NAO, which persuades us of a significant movement in confidence based upon IPSA's work and based upon what the NAO said, that there is a very significant sense that public money is now much better looked after than under the old system.

**Mr Raynsford:** We will come back to the NAO later, if I may. Thank you.

**Q258 Guto Bebb:** We shall come to the NAO now—good afternoon. The evidence that you presented, I think in paragraph 18, mentions the National Audit Office conclusion that some £14.5 million less was spent on the expenses system in 2010–11 compared with the system in 2009–10, but the National Audit Office have also stated that they are of the view that MPs are subsidising their own work. If you ignore the second National Audit Office statement, is it not clearly the case that it is difficult to argue that the £14.5 million of savings are entirely a result of the Act? Would you accept that point?

**John Sills:** I think the £14.5 million will have been primarily down to underspends on staffing in that particular year, and that is partly because it took time to get things going, as much as anything else. The other areas where there was a reduction in spending through policy changes, if you like, was primarily around accommodation, because a number of London area MPs were no longer able to claim for accommodation expenses; and to some degree the reduction in spending on communications. We still

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built into the general budget some money for communications, but it was not as much as the old allowance. So I think those three areas—I have not seen the detail of the NAO's figures—will have been the main causes.

**Q259 Guto Bebb:** Do you accept in any way the comments of the National Audit Office about MPs subsidising their own work?

**John Sills:** I think the NAO surveyed something like 200 MPs, a lot of whom were telling them that, so of course we have to accept that. I think the point we have made in our evidence and here before, and so on, is that we need to try and encourage people to claim what they are entitled to claim, because the money is there.

**Q260 Guto Bebb:** In view of the fact that you take the issue quite seriously, have you as an organisation done any research to identify why this is the case and why MPs possibly have been deterred from claiming expenses, which they should be claiming? Have you done any research on this?

**John Sills:** We have consulted pretty widely, for example, on the third edition of the scheme—we got a lot of returns from MPs, so we get it from there. The NAO themselves came up with four or five key reasons, which included the simplicity or otherwise of the system but also the concern about publication. So, yes, I think to that extent we do have evidence. We are also looking to develop what we are calling a user survey at the moment where we will ask MPs how they are finding the system, and so on, and that will give us further evidence in the coming months.

**Q261 Guto Bebb:** Finally, on the evidence that you have collected, is that available in any way, shape or form to be shared with this Committee?

**John Sills:** All the stuff from the consultation is on the website and I was quoting the NAO report as well, so again they have that evidence.

**Q262 Chair:** Can I just continue with that for a minute? You say that IPSA exercised its independent judgement about what best met the public interest and that you did so on the basis of evidence-based analysis; that is in paragraph 21. We are quite curious to see some of the evidence, otherwise it would appear it is just the chairman making a judgement without seeing what the evidence was on which the judgement was based. I just wonder whether you could give us some examples of some robust evidence on which things are based so that there are no accusations.

**John Sills:** Of course. First, where we mentioned that was particularly in reference to the connected parties issue, which Ian has already discussed, we looked at the evidence rather than just how people felt about it. For the first edition of the scheme, a lot of research was done into issues such as rentals across the country, where we used the Valuation Office Agency's data to establish the right levels, and did quite an intensive exercise there. On accommodation in London, we have done a lot of research into property rents across different parts of London to see what is

available for the prices, and we did that again for the third edition.

There is another thing we did, which we will be able to share with you very soon, and we are very keen to do so. We are close to releasing a paper which we worked on in March to advise the board on the full range of issues for the third edition of the scheme after the consultation. That goes up to annex M, so there is a lot of data in there and I think if you get a chance to read that in detail you will see we have worked hard to make sure we have evidence for what we are doing. That will be quite soon.

**Q263 Chair:** One more question from me, and then I think Priti may want to go into the transparency area. You mention a number of revisions to the scheme, and we have mentioned them again today, including changes to the rules on family accommodation; the supplement to the London area living payments; a widening of the definition of extended travel; that is all in paragraph 22. Is it possible that these measures, especially the family accommodation allowance, might be interpreted by the public as MPs again being given special treatment that other members of the public may not be receiving?

**John Sills:** I think you do get that sort of accusation from time to time, but there probably was not as much of that as we were expecting, because we did make a significant number of changes back in March. But on the whole, I think, things were quite well received and I like to think that is partly because we have explained why we are doing things and it is not a knee-jerk reaction to issues. I think what we have also tried—and there is more to do on this—is to get across this message that these are legitimate parliamentary costs, and we are trying to do that and we will carry on doing that because that is very important.

**Q264 Chair:** In what way have you tried to communicate that to the public?

**John Sills:** I think if you were to read, if you have not already, the report on the consultation in March, for example, we structured the whole report around showing that these are business costs. We have structured the new scheme around the same thing, so it is almost a subliminal message. We keep on trying to get across that these are legitimate.

**Q265 Mr Leigh:** Just on that, after the changes you made in March, how many members of the public complained?

**John Sills:** I am not aware of a great welter of complaints.

**Q266 Mr Leigh:** How many members of the public complained?

**John Sills:** I don't know. If you want an exact number, I don't know.

**Q267 Mr Leigh:** Will you let us know please?

**John Sills:** We can have a look at the emails.

**Chair:** Perhaps write to us afterwards, that would be helpful.

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**Q268 Priti Patel:** Good afternoon. You state the fact that claims that are not paid are published is very much likely to act as a deterrent to MPs against making any inappropriate claims—that is in paragraph 25. Do you acknowledge—I know the system has moved on a bit—that a number of claims were not paid due to, dare I say it, administrative difficulties both with IPSA and Members of Parliament, and that when they were made public, they were almost made to be seen as if they were inappropriate claims, and that is very much down to the publication of them and the interpretation of some of these claims by members of the public.

**Andrew McDonald:** A couple of points, if I may. First of all, it is clear that early on, there was confusion in terms of understanding of the scheme and, in its early months, its administration. We have said that—we have acknowledged it—and for our part we have apologised for it. We seek not to make any judgment when we are publishing claims. It is important that we do not seek to discriminate between claims when we are publishing them.

What we have sought to do—and this is a change since the early months of the scheme—is ensure that we give Members every opportunity not to put a claim in, not to lodge it formally with the system, if they have not supplied appropriate evidence, so we return it to Members so that they can supply the appropriate evidence before it is lodged and formally counted as a claim. That has reduced the number of not-paid claims within the system where it is simply because Members have failed to provide the appropriate evidence. With the appropriate evidence supporting the claim, the claim is then on the whole paid. We see that pattern reducing over time.

**Q269 Priti Patel:** Has there also been, in relation to that, a reduction in the number of administrative errors on the IPSA side as well, because obviously MPs have been going through their learning curve, they were making errors, IPSA made errors as well, but since the system has moved on, have the number of errors gone down on the IPSA side?

**Andrew McDonald:** If we distinguish two things. First of all, in terms of errors of publication, there are 12 since the system started. That is a remarkably good record. In terms of validation, our record in terms of accuracy has equally improved through that time.

**Q270 Priti Patel:** Claims are published on a bi-monthly basis, and I think we are awaiting another set to be published quite soon. Do you believe that this system of publication allows members of the public to make meaningful comparisons between Members of Parliament within the region or across the country? I say this very much within the context that we took evidence earlier from the Hansard Society, who referred to the fact that the public can read things about Members' claims but without the context they lack the understanding to get a full view as to what this means basically.

**Sir Ian Kennedy:** When we dealt with this point last time—it is a well taken point, if I may say so—what we thought would allow for the kind of overview is the annual publication. We have only been going a

year, so there is only one year, but all things being equal, as one carries on, one is going to get the annual report, rather like an annual audit, and everybody can, as it were, look at that. Meanwhile we have the bi-monthly publication. It is said by some, “Why bi-monthly, why not quarterly?” on which we do not take any particular theological view. What we do say is that we have examined very carefully, as we are obliged, by reference to the proper use of funds, whether it should be publication in the instant, as it were, or alternatively six-monthly. We have examined both of those, and as regards the publication instantaneously, perhaps Andrew could comment further on that.

**Andrew McDonald:** A rolling publication would be extremely expensive, especially if it were to include the process of checking back with MPs whether or not the data they are about to release is accurate. Monthly publication, if we take that as perhaps a more viable option, would be about 10% more expensive than the bi-monthly system we operate at the moment. The board has taken the view that it is appropriate to stick with the bi-monthly publication cycle. As Sir Ian says, there is no theological position being taken here; it is a judgment call on frequency between what is appropriate to get the data out into the public with some regularity without holding it all back and then making a big event about its publication once every year or so.

**Sir Ian Kennedy:** It has become increasingly routinised. It is now understood by MPs, and the iterative process before publication we regard as very important. Rolling publication would not allow that, or some would come onstream more quickly than others, because you would still be in a conversation with one MP but not another, so that is unsatisfactory. We do not want to be in a position where the publication becomes another opportunity for some kind of blood lust by whomsoever, so bi-monthly is, if you like, a compromise, which gets us into a routine but gets the information out. On your well taken point about the fluctuations and hiring staff here but not hiring staff there, we are aware of that and that is what the annual publication is intended to do.

**John Sills:** You mentioned, for example, the regional context, which I agree is very important. Just to take one example, a Scottish MP is going to have very high travel costs and we are looking, I think, at seeing if we can make some changes to the way you can search the data and so on. That is going to take a little while, but we are aware if we can make it a bit more user friendly it will enable people to do that sort of thing.

**Q271 Priti Patel:** It just seems there is this huge issue about public perception and public confidence. It sounds to me like there could be an opportunity to increase the amount of information and to boost public confidence; transparency is clearly there and obviously you are working on more transparency, but it is the context—contextualising the information—that helps to explain why claims are of a certain nature.

**Sir Ian Kennedy:** Absolutely. One of the conversations we had with the Public Accounts Committee, with Amyas Morse sitting alongside, was

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about whether there might be introduced some mechanism whereby we say that this is the bi-monthly publication and all of this was a legitimate kind of signing-off of the audit. There is a downside to that, that claims were not paid, which might provoke someone running after that particular hare, but that is something I immediately undertook to take back and see if we can devise a way whereby not just annual, but bi-monthly we can, if you like, editorialise without editorialising.

**Q272 Priti Patel:** Finally, if I may, Sir Ian, on your point of blood lust, there is still a general interest in reporting on Members of Parliaments' expenses. Maybe it is too early to conclude anything about local newspapers and the impact of their reporting on bi-monthly claims in particular, as well as the impact on Members of Parliament, but because of the microcosm of bi-monthly claims, there could be a bit more forensic analysis in the press. Do you have any analysis of whether that is putting Members of Parliament off making claims?

**Sir Ian Kennedy:** As regards the last point, I do not have that evidence. We have categorically said we would wish MPs to claim for that which they are entitled, and I mentioned last time that we resisted SCIPSA's invitation to reduce the amount of money we were going to ask for because we said that was MPs' money for them to claim.

We do see, first of all, a dropping off of attention in the national media, there is no doubt about that. We were asking the people who know about these things within SCIPSA only the other day, is there a similar falling away in terms of local press and media, and the sense is that first of all it has become more regionalised: it is the emergence of regional league tables rather than any particular MP. Secondly, there is discernible falling away of interest. We have always taken the view that if we do this routinely—and you are quite right, we have that obligation as well as everybody else to say this is routine, these are legitimate; it is a robust scheme, it is giving assurance—the more one gets used to that and publishes these figures about compliance, something more interesting will appeal to the local press.

**Chair:** Edward, do you want to just ask a few questions on bureaucracy?

**Q273 Mr Leigh:** You say that IPSA, in paragraph 68, is able to measure how long MPs spend on the online system before submitting their claims. Do you have any evidence on other parts of the submission process, how much time MPs spend on, for instance, consulting the rules, clarifying issues with IPSA by email and phone, or time taken by online crashes, or duplicating the whole online process with a paper-based system as well, or time taken away from position; can you measure all that?

**John Sills:** First, we have the NAO evidence on that which, as we said in the paper, would suggest that it took 51 minutes per claim on average, the online side 13 minutes per claim; that leaves another 38 to do some of the things that you suggested there. The second answer to that question would be again through the user survey that we are planning that will

give us, I hope, a better understanding about those issues.

**Q274 Mr Leigh:** Does that worry you, the length of time?

**John Sills:** Yes, we want to make it as short as we can, obviously, but in terms of the bit we can control directly, which is the online side of it, it is 13 minutes.

**Q275 Chair:** Do you just want to say a little bit more about that? You are not just controlling the 13 minutes online; you are controlling the entire expenses system and payments system and checking systems, and publication of systems, I just wonder if you want to expand a little bit on that. I just felt that was an attempt to minimise it to 13 minutes.

**John Sills:** That is just the online expenses, submitting claims. It is just that piece. As I said, if you take the NAO figures and reduce them down to average minutes per claim then it is 51 minutes.

**Q276 Chair:** I am sure you would not wish to create the impression that the only bit that you can control is the 13 minutes, that was all I was inviting you to—

**John Sills:** No, it is just that one element that we are able to measure directly.

**Q277 Mr Leigh:** A lot of the 51 minutes, just from our personal experience, is dealing with the online system and the complexities of it. I know we have been over this before but it is worth emphasising, as it is a very important point. I thought the original point of the online system was that you could publish in real time, and I can understand that, but you cannot do that because you have to redact for security reasons people's private addresses and things. I know we have been over this before, but I am still struggling with the reason to have quite a complex online system and a paper-based system at the same time. I quite understand having a paper-based system because, of course, if you claim for a gas bill you submit the gas bill, but I am still struggling with why you have to have an online system as well, which is often difficult to cope with, given that you cannot publish in real time. I do not see the point of it, but perhaps you can enlighten me.

**Andrew McDonald:** Two points that might help. First, the online system is not something that is uniquely of our creating. It is a system that is in place in organisations employing thousands of staff. We have evidence of 1,500 organisations that use the same system. It is not a peculiar creation of our own; it is one of the standard market products. In terms of the amount of time that MPs use to submit expenses, aside from the time spent online—and if you look at a 12-week moving average, the amount of time spent online has reduced since the system was introduced—presumably similar activities were going on under the previous system, so I think one has to ask what is the comparator, because claims had to be prepared and lodged with the Fees Office under the old system,

**Mr Leigh:** A paper-based system.

**Andrew McDonald:** It still required the collation of evidence, submission and discussion with the Fees Office.

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**Q278 Mr Leigh:** Nobody is denying that. If you claim for something you submit an invoice. Anyway I think we have gone as far as we can on that.

**Sir Ian Kennedy:** If I may, Chairman, there is a degree of unreality in picking that figure out, as if in the previous system, you could magic it away and it did not involve anything. In fact we know—and you have experience of this—you would phone the Fees Office, you would have the green book, which you would have to peruse, and you would seek advice on it. No one, to my knowledge, has ever calculated the time taken to deal with that, but I venture to suggest that it is not a dissimilar time to the time currently taken sending an email or looking at our guidance. Then there is the online procedure, which frankly is, as some of your previous witnesses have said, arguably a cheaper system, a more modern system, and furthermore reduces the risk of error, which is very important, given the need to preserve reputations of MPs. It would be pretty awful if pieces of paper got lost or the wrong thing was published. With the online systems, as Andrew has already indicated, in many, many, many thousands of claims published we have 12 wrong and in each case we corrected it very quickly. That is 0.2%.

**Q279 Priti Patel:** Just very quickly on the electronic system, with the IPSA system, has some work been done to compare it to another system, like a corporate system, an SAP or something like that, in terms of the time it takes to process a claim?

**Sir Ian Kennedy:** LWT is a very good example, as it uses exactly the same system, but the time is a little bit difficult to compare, because you always have the manager interspersed between the claimer and the ultimate paying system, so that adds time, but it is the corporate mechanism for assurance that we do not have. We rely upon on you and then on ourselves. It makes it more efficient.

**Chair:** Thanks very much. Nick, would you like to pick up on the NAO report?

**Q280 Mr Raynsford:** Yes, I did say I would come back to the NAO report. When some of us read it we felt they had taken a fairly balanced view of the subject highlighting some positives and some negatives. When I look at your evidence it does appear to be, shall we say, slightly less balanced. You focus a lot on the positive comments from the NAO and there is very, very little in your evidence to us about the negative points made by the NAO about it, so why is that?

**Sir Ian Kennedy:** If that is the impression you gain, that is the impression you gain. Certainly, as I said to the Public Accounts Committee, which was the body that was receiving the NAO's report, those matters that the NAO pointed to as worthy of being further improved we would go away and improve them, of course we would. We are working on that as we speak.

**John Sills:** Can I add to that? The issues raised by the NAO, such as whether MPs are subsidising, how long it takes, all those kind of things, we have addressed those. In one of the annexes, for example, we went through every single question that you very kindly gave us in advance last time, and I think those

questions pretty much cover the issues raised by the NAO, the negatives as well as the positives.

**Andrew McDonald:** And in the standard way we will be submitting our reply to the Public Accounts Committee next month, dealing with each of those recommendations made to us.

**Q281 Mr Raynsford:** In the last session when you were here, the Chairman asked you whether there were any points in the NAO report that surprised you. You responded to him by saying close to a third of MPs were rather in favour of the old system and could not understand why there was a need for a change. Are you aware the NAO figure was actually 23%?

**Sir Ian Kennedy:** I thought it was 33%. If that is the case, I apologise. But I would say in my defence, Mr Raynsford, it is important to know that I had 24 hours' notice of all of the questions that were being raised, so the capacity for me to remember every detail is beyond me. Had you come back to me immediately and pointed that out I would have apologised at the time.

**Q282 Mr Raynsford:** But is it not slightly odd that an organisation that has a role to improve public confidence, and you have emphasised this in response to earlier questions this afternoon, should be highlighting the 23% or 33% saying, "No need for change," and not highlighting the fact that 70% of MPs agreed the previous system needed major change, and that was in the NAO report.

**Sir Ian Kennedy:** Mr Raynsford, with the very greatest respect, you asked me whether I was surprised by anything and I replied that I was surprised at a significant proportion of those responding, despite the history, which had only been 18 months previously, still thought there was nothing wrong with the old system or it was worth reintroducing. I was surprised by that. That has absolutely nothing to do, with the greatest respect, to the negatives or positives of the NAO report.

**Q283 Mr Raynsford:** I think it does.

**Sir Ian Kennedy:** All right, well we will differ.

**Q284 Mr Raynsford:** You reply expressing surprise based on incorrect reading of the evidence and you fail to have regard to the evidence in that report that says that 70% of Members of Parliament said there was a need for a major change. Do you not think that is slightly odd? Does it not imply a lack of balance?

**Sir Ian Kennedy:** No, I have already answered the question. I am not going to answer it again, save to say you asked me what surprised me. If I got the figure wrong, I am not surprised by that; I apologise for it, but that was what it was about. If you want to make the larger point of why we were stressing the positives and not the negatives, I do not think that is a fair assessment of what we have done.

**Q285 Mr Raynsford:** Were you surprised at some of the other points in the NAO report? 85% of MPs saying they had to spend time dealing with expenses that was hindering them from doing their jobs, 90%



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saying they were having to subsidise their work. Weren't those causes of surprise?

**Sir Ian Kennedy:** We had enough information to suggest that that was a widely felt view. We were working to deal with that.

**Q286 Mr Raynsford:** It was no surprise therefore that a very high proportion of MPs, according to the NAO's report, were finding it at the very least an obstacle to the efficient discharge of their responsibilities, which is one of your responsibilities, one of your principles, to assist MPs in the proper efficient discharge of their public responsibilities?

**Sir Ian Kennedy:** Let's go back and say that that is not our principal obligation, as you describe it, but I will not pursue that for a moment.

**Q287 Mr Raynsford:** We had a discussion about that earlier—the principal obligation.

**Sir Ian Kennedy:** Yes. If you ask me was I surprised, I have already said that we had enough understanding of where MPs were as regards the system in its early days, this is some time ago, not to regard that as a matter of surprise, but you should not deduce from that that we were unconcerned by it; quite the opposite, because it was a matter of concern and it remains a matter of concern.

**Q288 Mr Raynsford:** But it is not covered in your evidence to us.

**Sir Ian Kennedy:** Sorry?

**Mr Raynsford:** It is not covered in the submission you have just presented to us. Those issues are not covered.

**Sir Ian Kennedy:** With the greatest respect, I think the whole tenor of what we are saying is how we are seeking to restore or work towards the restoration of public confidence in MPs, which is in the interest of MPs, while at the same time seeking to devise a system, which is robust, gives assurance, is transparent and within that context allows MPs to do their job.

**Andrew McDonald:** If I may, the evidence that we were aware of, those views we were acting on, was on the way in which we have tackled the service improvements to MPs, not least the rollout of the changes a fortnight or so ago, making it easier to claim in respect of mileage, equally making it easier to purchase rail tickets. So there is evidence that we are aware of that concern and we are acting on it.

**Chair:** Thank you very much indeed for coming to see us again. It is very much appreciated. I know you are very busy getting schemes up to date and trying to make improvements, so it is very much appreciated. That is the end of the session.

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Thursday 27 October 2011

Members present:

Adam Afriyie (Chair)

Guto Bebb  
Mr Edward Leigh

Priti Patel  
Mr Nick Raynsford

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**Examination of Witnesses**

*Witnesses:* **Dave Hartnett**, Permanent Secretary for Tax, and **Mary Aiston**, Personal Tax Product and Process Director, HMRC, gave evidence.

**Q289 Chair:** Welcome to our inquiry, Dave Hartnett. Thank you very much indeed for sparing the time, and I would like to welcome Mary Aiston as well. This inquiry is looking at the Parliamentary Standards Act 2009, as amended in 2010. What we are looking at are the objectives of the Act and then, in the operation of the Act subsequently, whether or not the objectives have been achieved and to what extent, and whether or not we are going to make some recommendations for some changes. The reason that your evidence has been very useful, and also quite vital, is that if there are any recommendations for any changes, clearly we would need to feel confident that HMRC think that they may be viable options and we have an understanding of that. It should be a very brief session, and thank you very much indeed for coming in.

Can you confirm that HMRC's aim is to treat MPs, as far as possible, the same as everyone else when it comes to the taxation and treatment of their expenses, while also taking account of distinct aspects of an MP's role?

**Dave Hartnett:** We aim to treat all taxpayers the same in relation to the legislation, which touches all of them. With MPs being largely within the legislation that applies to income and benefits from employment, we do try to do that, but MPs clearly are pretty unique in several ways and there is then special legislation, which puts them in a slightly different position from other taxpayers, but in the quality of service and those sorts of issues we aim to be identical.

**Q290 Chair:** Thank you very much. You have already alluded to it in your first answer, but can you also confirm or make some observations about the type of employment status that MPs may or may not have, or the possibilities of which types of employment status they may have from the perspective, again, of HMRC? Some people argue that we are self-employed because we run small businesses. Some people argue that we are employees of Parliament. Some people argue that we are office holders like somebody high up in the church with a stipend. I just wonder if you could make some observations about how you would see that.

**Dave Hartnett:** Of course. Maybe I can start with the easiest part of your question. We in HMRC cannot think of a group who are less like the self-employed. Self-employed people are independent and carrying out work and endeavours and the like for themselves for gain, so we do not think you are self-employed.

The opposite position is that it is very hard for us to think of a group who are more like office holders. Our working definition of an office holder is somebody who works in a role that exists independent of what they themselves bring to it, so we see you as office holders, the Member of Parliament for wherever has endured for a long time, boundary changes and all of that allowing, and we do not see you as employees.

**Q291 Chair:** Thank you very much indeed. I think you have answered my next question, which is, therefore, you would conclude it is viable—in fact, from what you are saying, it is probably more appropriate to consider a Member of Parliament an office holder rather than the alternative forms of employment status, from HMRC's point of view.

**Dave Hartnett:** Yes.

**Q292 Mr Leigh:** Good morning, Mr Hartnett. Nice to see you again, after many appearances we have had together in the past. I want to ask you just about the tax consequences of various things. As you know, MPs can get a London area living payment. In fact, London MPs can only get that—I think it is about £5,000 a year—and MPs outside London or beyond commutable distance can either claim that, in which case they get their £5,000 a year and it is taxed, or they can claim expenses, which presumably are not taxed. If there was a shift to a more widely-based supplement system, there would be no difficulty with that; it would presumably just be taxed. For instance, if an MP outside London was given some sort of supplement instead of expenses, you would just say, "It is up to you. You can make the decision," and it is taxed. Is that how it happens?

**Dave Hartnett:** Broadly, yes. If I can try to break it into various parts, the MP would have their salary and would have a supplement or additional sum, which I assume, by the way you have described it, would be a fixed round-sum amount.

**Mr Leigh:** It would be a fixed flat-rate sum.

**Dave Hartnett:** We always, in the context of income and benefits from employment—and I will keep using that technical term, if I may, but office holders are in there as well—seek to tax round-sum allowances or supplements. But then there is nothing to stop the MP looking to see what element of the expenditure they have made would qualify for tax relief under the various deductions that are applicable to people in employment or office holders.

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**Q293 Mr Leigh:** The advantage, of course, of a supplement system, if it is taxed, is you take the tax and then it is the MP's money, and what they do with their life or with the money is up to them, isn't it?

**Dave Hartnett:** Yes.

**Q294 Mr Leigh:** Does the same apply to travel?

**Dave Hartnett:** Could I just add one thing? The Chair sort of raised it at the start. There would be an issue for us, perhaps, in HMRC—not a big issue—with that sort of approach. It would be a little more resource-intensive for us. I do not make a big point about that, but just for the sake of being complete, the way it works at the minute is we have a relatively small number of people working on MPs' salaries and the like.

**Q295 Mr Leigh:** But presumably, with the case of the London MPs who claim this, you just tax it at 40% or something, don't you? They get their £5,000, the 40% comes off and that is that. Does the same apply to travel? I am not quite sure. Explain how that works.

**Dave Hartnett:** I am going to ask Mary to do that, if I may.

**Mary Aiston:** A payment that is in general terms for travel but without specifically being for particular journeys, where again it was open to the MP to spend it in any way they felt or indeed just keep it, we would still want to tax and then leave it to the MP to come back and claim it from us in respect to specific expenses that he or she considered allowable.

The area where it is different is if an employee receives an amount where there are strict rules that the employer sets, that say, "Actually, we only paid this in relation to particular types of journey and particular types of circumstances." Sticking with normal rules for the moment, in those circumstances we would reach an agreement with the employer, which is called a dispensation, which is where HMRC is saying we are satisfied that the terms under which these payments are made are sufficiently strict. Rather than going round the roundabout of taxing it only to have individuals claim the full amount of relief, we will take it out of tax right from the start, but that can only happen where there are clear rules.

**Q296 Mr Leigh:** It is a very clear thing that you only claim your car journey not from your home but from two points of work, all that sort of thing, and you say, "Right, that is clear, we will not tax it," but if there was a general supplement system on travel so, for the sake of argument, if you were an east Midlands MP or Westminster MP, you could get so much, then you would say, "That is general, we will just tax it; then it is up to you." Is that how it works?

**Dave Hartnett:** Yes.

**Mr Leigh:** That is fine. That is all I wanted to know, thank you.

**Q297 Chair:** Am I right in thinking that this kind of approach applies to many other situations across the UK?

**Dave Hartnett:** There are a lot of people who receive what is called a flat-rate sum and what we might call a round-sum allowance, which we tax, and then we

rely on them to make their individual claims. Sometimes we will, as Mary has said, be able to agree with an employer that some element of the round sum is not taxed.

**Q298 Chair:** This would not be some sort of special treatment for MPs in that approach; this would be a pretty common approach?

**Dave Hartnett:** Yes.

**Chair:** Thank you very much indeed.

**Q299 Guto Bebb:** I will follow on that. I just want to clarify this point because it is quite important, I think. From the Revenue and Customs point of view then, would the payments of a taxable supplement to cover issues such as travel be acceptable and doable?

**Dave Hartnett:** You ask me a very difficult question. I will explain why. We could do that, if we were asked to do it. The days when the Inland Revenue or Customs led on tax policy have gone. We are deliverers and administrators now, so we will do what we are asked, if I can put it that way. If the law changed or the approach changed and we were asked to deliver, we would do that.

**Q300 Guto Bebb:** But would the added complexity be falling on Revenue and Customs or would the added complexity fall upon the Member of Parliament?

**Dave Hartnett:** I think there is a bit of complexity or a bit of additional work for both. Us, because there would be lots of claims; you, because you would have to keep—I am sorry I do not know precisely what the IPSA recordkeeping requirements are—I have read about them—you would have to keep pretty good records as well.

**Q301 Guto Bebb:** It is not a simple way forward for the MPs you are arguing then, in effect?

**Dave Hartnett:** I am saying it has to be thought through.

**Q302 Guto Bebb:** On the other side of the equation then, in terms of the current expenses regime for those MPs living outside of London, would it be feasible for a supplement to be provided in terms of paying for a flat or accommodation in London? Would that create a similar complexity from a tax point of view?

**Mary Aiston:** This touches on an area where MPs are different from a lot of employees, and the reason why we have specific legislation around the travel and subsistence expenses for MPs we do not have for anyone else. That issue is that MPs, as an unavoidable part of their constitutional role, have two permanent places of work, as we would define it: Westminster and their constituency.

For any other employee or office holder, travel between their home and any one permanent workplace—and there are other employees who have more than one—would always be a taxable expense payment and we would never give somebody a deduction for that because that is what we term ordinary commuting, something that everybody has to do to get to work.

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In recognition of the fact that MPs have a unique constitutional role and that having two permanent workplaces is an unavoidable part of that role, we have special legislation that exempts payments that IPSA makes in certain circumstances to enable MPs to be away from home and have accommodation in London if they are not a London-based MP.

That means that if you change the approach for paying the expenses, if we left the legislation unchanged, then it would still cover what IPSA are willing to pay. If you wanted to change to a supplement-type approach around something we were just talking about, but did not change anything else. At the moment, under the ordinary legislation that applies to ordinary employees, there would be no tax relief for the costs associated with travelling and staying overnight near a permanent workplace; for MPs, that is Westminster and the constituency.

**Q303 Guto Bebb:** I just want to clarify something. What would be the situation if IPSA, for example, paid directly for accommodation in London for Members of Parliament? Would that change the situation from a tax point of view, if IPSA provided accommodation with no money going through the MP as such?

**Mary Aiston:** The way the legislation is set out at the moment, it hinges on what IPSA are prepared to pay, so you could look at how far that would go. We would need to check to pin down all the particular arrangements that were put forward, because the legislation is couched in terms of what IPSA pays, which is quite unusual for employees, but it works here because of IPSA's particular status and the unique arrangements for MPs. We could look at that, depending on the particular proposals that were made.

**Dave Hartnett:** It would need to be thought through very carefully, though. It wouldn't be very difficult to drop into a tax charge, the way the law is currently cast, so we would want to work with whoever was going to do something like that to make sure it would achieve what you are seeking.

**Chair:** It seems to us there are kind of two distinct types of payments, possibly three, to MPs as well. There are those that people would associate with the MP personally, which is travel and accommodation on the one hand, and on the other hand you have the office costs, the provision of computers, office space, toner cartridges, stationery, and so on, which people do not generally construe to be personal to an MP, especially if the money is not going to the MP's pocket first. We are just trying to get to this part, which is why I want to quiz you a little bit further, which is to get to the bottom of how tax treatment could potentially differ between the two of those. Thank you very much.

**Q304 Mr Raynsford:** Can I focus on this issue of office costs, as such? If these were met centrally by IPSA, either by means of an overall figure available or provision of certain designated needs—office equipment and supplies—or by a range of additional, acceptable supplements but where the payment was entirely made centrally and was not in any way related to the MP, would that create any tax issues?

**Dave Hartnett:** Let me start and Mary will, I hope, come in. I think, Mr Raynsford, if you had not mentioned so many different supplements, I would be less concerned. If there was an approach where IPSA or whoever effectively provided the office service equipment and all of that, there is already legislation in place to deal with that, which I think could probably endure without any difficulty. If in some way the approach was to break up into various constituent parts what IPSA was applying, that gets a bit more difficult. I am sorry I have to go back to my earlier answer, but there is a lot of analysis to do to make sure that works. The law might need to be changed, but we have to look.

**Q305 Mr Raynsford:** I am envisaging a situation where there could be quite considerable differences depending on the volume of case work or other activities—

**Dave Hartnett:** I do not think that would give rise to a problem.

**Mr Raynsford:**—where additional payments had to be made to some MPs as against others. That is the differential. I am not talking about supplements perhaps in the same way that might have been considered in the wider context of travel and accommodation, but purely to do with an efficient management where costs are met centrally, but there is some flexibility to reflect differing workloads.

**Dave Hartnett:** I don't envisage any particular difficulty around that. There is nothing in the legislation that goes to volumes, as it were.

**Q306 Mr Raynsford:** Can you see any merits in the system of central provision for office costs?

**Dave Hartnett:** Probably. It feels as though there could be efficiency in there. It would be easier for us to ensure that checks be carried out and were done effectively. I am not sure it is a great deal.

**Mary Aiston:** I think anything where there is some sort of central control and a central set of rules that we can look at the rules and say, "What do we think about those?" and are we satisfied that there are controls in place to ensure that those rules are being followed—doing that just once is marginally easier than looking at individual claims for particular items.

**Q307 Mr Raynsford:** Can I just take you on to the question of constituency offices? You have rightly identified the fact that MPs have two different permanent places of work. Are there any issues about office costs within the constituency, within the sort of framework we have been talking about, as against office costs here at Westminster?

**Dave Hartnett:** No. The sort of thing that we would be thinking about in the constituency is broadly the same. It is identical, broadly, particularly if the constituency office is an office or separate from the MP's home. Once you get into the domestic situation, then we are going to at least occasionally want to know about private use and that sort of thing, but nothing more.

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**Q308 Mr Raynsford:** But if this is purely a separate constituency office, which does not duplicate—

**Dave Hartnett:** Identical answer.

**Q309 Mr Raynsford:** There is not a problem?

**Dave Hartnett:** No.

**Mr Raynsford:** Thank you very much.

**Q310 Guto Bebb:** You were stating categorically at the outset that an MP is clearly not self-employed, so clearly an employee. On the issue of IPSA essentially providing office equipment and so forth, that would be in keeping with the position of most employees, I would argue.

**Dave Hartnett:** There is legislation that says that as well.

**Q311 Guto Bebb:** So why is the issue slightly difficult in terms of the response that you have given?

**Dave Hartnett:** To Mr Raynsford just now?

**Guto Bebb:** Yes.

**Dave Hartnett:** I think, Mr Bebb, for this reason. We are a bit short on facts, and what I didn't want to do was give you an absolute answer until we knew what was being provided, but broadly I am offering a great deal of comfort on this issue.

**Mary Aiston:** The general proposition is that, of course, most, and probably all, employees have something provided by their employer, stereotypically a desk, a computer, a chair to sit on, and we never seek to go for a taxable benefit in relation to that, but because there is legislation to specifically take it out, and that is easy where it is in employer's accommodation. It gets slightly more complicated where the employer is providing that sort of thing for somebody to use in their own home.

**Guto Bebb:** I can see that.

**Mr Leigh:** Where I hear a taxman saying, "I am providing a great deal of comfort"—

**Chair:** Do you think that is a good note on which to end? I think that is probably a good place to stop. Thank you very much indeed. Session closed.

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**Thursday 3 November 2011**

Members present:

Adam Afriyie (Chair)

Guto Bebb  
Cathy Jamieson  
Mr Edward Leigh  
Priti Patel

Mr Nick Raynsford  
Joan Walley  
Stephen Williams

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**Examination of Witness**

*Witness:* **Luke March**, formerly Compliance Officer for IPSA, gave evidence.

**Q312 Chair:** Luke March, welcome to our Committee and our inquiry. The context is that we are reviewing the Parliamentary Standards Act 2009 as amended in 2010. We are considering the overall aims of the Act and its operation. Obviously, IPSA is instrumental in, we hope, the delivery of the aims of the Act. Clearly, the compliance function, the regulatory function and the administrative function of IPSA are quite important for any conclusions and recommendations that we make. Thank you for sparing the time to appear before the Committee. First, could you give us a brief overview of your experience and roles in compliance?

**Luke March:** Certainly. Before I do that, I apologise for my voice. I didn't have a voice two days ago, so if I get a bit hoarse, I'll take another sip of water and carry on.

My first role as a compliance director was back in 1988, when I was appointed compliance director of the retail division of TSB Group—before it became Lloyds TSB, of course. I then became company secretary of that group as well. Thereafter, I became the first compliance director of British Telecom, BT Group. I later became its corporate governance director. Then I became chief executive of what was then the non-statutory mortgage regulator, regulating some 13,000 firms. That became part of the Financial Services Authority. Then I became group compliance director for Royal Mail, from which I retired last year.

**Q313 Chair:** Fantastic. We cannot argue that you don't have experience. Can you explain why you decided to resign from your role as compliance officer at IPSA? I know that you were very excited about getting the role initially.

**Luke March:** Yes indeed. There were a number of things. In summary, it did not turn out to be the role that I was expecting to receive. When I arrived, there was an extraordinary climate of suspicion towards the compliance role. It was almost as though they had tried to pretend it had not existed. I was the first substantive appointment as compliance officer, some months after the Act was passed. I did not pick up on the reason for that, but I began to realise that perhaps they were not really interested in the role at all.

The next trigger in terms of what I noticed—much later, of course—was that I discovered that, as explained in the explanatory notes to the Act, I was not supposed to be an employee, yet that is a very key part of ensuring the independence of the role. I did have a contract of employment, so I think that might

be an indication that they had not realised that perhaps I should have been a more independent person than I was—legally, as it were.

The next thing was the lack of support. These are very small things, but when you add them all together, you think, "Goodness me, is it really worth the hassle?" I was appointed on 31 March, as you know, which slightly puzzled me at the time, because I was away for most of April on holiday in India, so I thought, "This is very odd." I had not noticed why it was or why it was not in the contract, but of course I realised later, as two and two comes to four, that it was the last day of the financial year and, obviously, for the accounts there had to be a compliance officer. I am guessing, because I never actually asked anyone that question. You have probably read the five or six-page report that I have in the accounts based on one day's work.

Another thing was that my appointment was never announced, which slightly puzzled me. I did actually ask the question, "Would you like to announce my appointment?" In the end, IPSA would not announce it; I announced it. Of course, looking back at what has happened since, they did not hesitate to announce my resignation when I left.

Then I became frustrated by the processes. It appeared to me, as you can guess, having worked in big companies and big organisations—

**Q314 Mr Leigh:** Could you speak up a bit?

**Luke March:** I am sorry. It is probably my voice. I was frustrated at the processes and, having worked in large companies, I am well used to processes, but it all has to be proportionate and relative, and based primarily on outcomes and outputs and so on. There seemed to be more obsession with the process than there was with the result, and that was another frustration I had. Bearing in mind I was doing the role on a very part-time basis, I just had to get on with it.

**Q315 Chair:** From what you are saying, it sounds as though the compliance officer was appointed almost as an afterthought or as a last-minute measure at the end of the year, rather than as a carefully thought-about decision in advance.

**Luke March:** I don't know. Perhaps they realised that they had to have a compliance officer by 31 March. Whether I dragged out the process earlier on, I do not know; but that is for IPSA to comment on.

**Chair:** Thank you. Priti, can I ask you to pick up on the questions regarding independence and the

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compliance function, which Luke has already touched on?

**Q316 Priti Patel:** Mr March, I have had the privilege of working with compliance officers in the corporate sector, so I can thoroughly relate to the corporate experience that you have had, which you highlighted. I would like to go back to the point you touched on about your resignation and, in particular, independence. Compliance officers in large corporations are independent and impartial, and in many organisations they are there also as an adviser, to give good counsel and advice. In what sense were you independent of the IPSA board? Did you feel independent? Did you get any sense that it respected your independence in what you were there to do?

**Luke March:** Yes. I certainly felt independent of the board; as you know, the function is independent. But there were moments when I felt that questions were being asked—not particularly subtly—about what I was doing and how I was doing it. That was the sort of thing I was beginning to become aware of.

To answer your question about comparisons with the corporate sector, which you clearly know about, I felt more independent in terms of my influence when I was in the corporate sector than when I was in IPSA.

**Q317 Priti Patel:** We took evidence from IPSA's interim compliance officer, who effectively said that he is functionally independent. What is the reality in practice of being functionally independent versus the independence that you would have demonstrated in the corporate world, which you have just highlighted?

**Luke March:** If you relate it to the role of IPSA, because in a sense IPSA is both a regulator and a service provider, I identified that my independence was a bit quirky—let's put it that way.

Thinking of the cases that I dealt with, I want particularly to highlight the cases I started that have recently been announced. I had started 38 investigations, and when I left, as far as I can remember, about 22 MPs had a case to answer, as I would describe it. The results of the cases that have come out since almost show a particular problem—well, they do to me; I do not know whether you have read the results of those cases. The breaches have been confirmed, but repayments have not been requested. I took a view—I think we have discussed this previously; I certainly discussed it with many MPs and others—that if an MP or anyone receives an amount to which they are not entitled through any expenses scheme, the least you can do is repay it. Isn't that most basic? I had a lot of difficulty with that, because in relation to some of the things that we were talking about, the sums were very small, as you will be aware; they were quite de minimis. Still, as far as I was concerned, I have not heard a single person disagree with that principle, apart from IPSA, obviously.

**Q318 Priti Patel:** To explore the actual cases, which we also discussed with the interim compliance officer, to what extent were you free to determine the criteria for resolving and investigating cases?

**Luke March:** You will have seen the guidelines for the investigation process. I suppose they were one of my frustrations, because the cases that I was talking about are very basic, elementary and straightforward. I did not need a process like that to drive me, and certainly you, scatty.

**Q319 Chair:** Who designed the process?

**Luke March:** It was designed by IPSA in consultation with you, I think—with Members and others. In a sense, going forward, IPSA should not be designing a process for the compliance officer. The compliance officer should guide the process and consult IPSA. That is how it should work. I felt as though my hands were tied behind my back because of a process that was completely disproportionate to the issues that I was looking at.

**Q320 Priti Patel:** As a result of the process itself, did you ever see your role—dare I say this—as advising MPs on how they should be within the rules, or on anything of that nature?

**Luke March:** It was not my role to do that, but as you can guess, I did find myself doing it from time to time. I can think of various cases where I told MPs that if they did what they were suggesting they were about to do they would be rapped on the knuckles pretty fast. For example, I noticed from an MP's expenses—I was actually looking at something else in relation to him, or was it her?—that they had claimed to go from their constituency to here, which is normally permitted, on what I assumed to be parliamentary business. I then noticed that they made the journey back to their constituency a fortnight later. My brain said, "I wonder whether they went on holiday," and of course they had. Do you see what I mean? I told them that I had noticed and said, "Don't do it again. You are not helping yourself."

There was another case where somebody was claiming for a number of constituency offices, which, as you know, you are entitled to do. I asked him why he needed so many constituency offices. In one particular case, he went there just to pick up the mail. He never saw anyone there and he never met anyone there. I told him that it was irresponsible and a waste of public money. Things like that happen. I am afraid I do not hesitate when something is so ridiculous.

**Q321 Priti Patel:** During the investigation process with regards to cases, at what point did you publish the names of Members of Parliament?

**Luke March:** I personally never published any names because I had not got to the end of what I call the first stage of the process, as it was then, which was basically to establish the facts. In a sense, that is something that I had done when I left. I had virtually got to the end of the whole process and I was very close to announcing the final situation.

**Q322 Mr Raynsford:** You have told us about your previous experience. The question I want to ask arising from that is are you aware of any other organisation that structures its compliance function in the same way as IPSA?

**Luke March:** As a regulator?

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**Mr Raynsford:** Yes.

**Luke March:** No. I will answer that in the context of a regulator doing any service work for the individuals it regulates, which is what I call the service provision bit. I identified a huge conflict in that: are you a regulator or a provider of services? It does not work, so the answer to your question is that the compliance role in a regulator is normally in the enforcement division. That is certainly so from my experience of many regulators.

**Q323 Mr Raynsford:** We had a previous witness—you may not have seen their evidence because I do not think that it has been published—who said that IPSA's compliance officer is effectively an investigations officer.

**Luke March:** Yes, I did see that, but it is a bit better than that. I would describe it more as an ombudsman or an adjudicator. I am talking about an adjudicator position such as the one in the Inland Revenue.

**Q324 Mr Raynsford:** But one of that witness's points was that the compliance officer should rightly have a role advising the board and advising Members of Parliament about their claims. To do that the compliance officer clearly has to have a combination of independence and the sense of being part of the organisation.

**Luke March:** Yes, and as I was just saying, as an enforcement director, which is the equivalent role in any other regulator, you are, more often than not, a member of the board and you would, therefore, be doing that. You would also get involved in advising. All the policy part of a regulator, actually, would be involved in advising the authorised people about how they should behave.

**Q325 Mr Raynsford:** In your view, is there any reason why the compliance function in IPSA could not operate on that basis?

**Luke March:** With IPSA retaining all its existing responsibilities? That might be a bit tricky. But it certainly needs to be closer to the whole organisation.

**Q326 Mr Raynsford:** Closer to the board?

**Luke March:** Correct.

**Q327 Joan Walley:** I think in response to Priti Patel's question you used the word "quirky" to describe the situation whereby IPSA is both regulator and administrator. You have concentrated on that just now, but what other organisations operate in the same way? Surely there is a conflict of interest, so how can it be resolved properly?

**Luke March:** The simple way, of course, is separating things, so that the service provision work is actually done by another organisation. That could be done anywhere, quite frankly. I think that I made the suggestion in a previous discussion with you that it could happen in the House, as long as there was an independent regulator who regulated the service provision part. That is what the regulator has to do; they have to regulate the provision of the service, which is the payment of expenses. The payment of expenses can be outsourced. Many public companies

outsource their payroll, because that is what this system is—a payroll and expenses system. As you probably know, I chair the board of a hospital. We have a payroll and expenses system. It is fairly straightforward.

**Q328 Joan Walley:** You can envisage that it would not necessarily have to be independent of the House?

**Luke March:** It does not need to be independent of the House, as long as it is properly regulated by somebody who is outside the House. That is the important part.

**Q329 Mr Leigh:** What do you think of the taxpayer's value for money?

**Luke March:** In respect of what?

**Mr Leigh:** In IPSA.

**Luke March:** The whole of IPSA?

**Mr Leigh:** Yes. Just give us your view.

**Luke March:** From my commercial experience and even from my public sector experience in the NHS, IPSA is expensive, but that is probably because the rules are so prescriptive. I think that is the issue. It has been said by others that IPSA's actual system is a very common database system. But as we all know, it is when you start playing around with systems that things can get a bit awkward and can become very expensive to run. So yes, compared to any other payroll and expenses system that I know, IPSA is Rolls-Royce.

**Q330 Mr Leigh:** It is a combination of the prescriptive nature of the rules and—presumably—the fact that they check and verify every single claim. If IPSA moved away from that and had a sort of risk-based validation, do you think that it could fulfil its statutory obligations under the Act?

**Luke March:** I think that it could because, in a sense, the system is so good. I will give you an example. The majority of the cases that I completed and that have now been announced were all to do with websites. What a minor issue that is. But it was a breach. I identified it as a breach simply by pressing keys on a system—I did not press the keys, but IPSA did—and that identified all the MPs who had claimed for their websites. It did not take very long, because there were not all that many of them, for us to look at every single website and to identify the breaches. That sort of thing can be done very quickly.

**Q331 Mr Leigh:** As you know, IPSA publishes bi-monthly and that, of course, could be open to misinterpretation. Do you think that that could undermine public confidence in Parliament?

**Luke March:** I don't know, actually.

**Q332 Mr Leigh:** For instance, if it was real-time publication—

**Luke March:** Real-time, I should think, is horrendous to manage.

**Q333 Mr Leigh:** So we can't do that. How do you overcome that then?

**Luke March:** You don't have to publish every other month. You could publish quarterly or whatever is the



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right way to do it. It is the amount of information that you are publishing that matters. I don't know the amount of information that needs to be published, because comparing MP with MP is quite difficult and one area that is, of course, missing, and that I identified quite quickly, is that your expenses in the House here are not included in that. Some of you do not have constituency offices at all and therefore, in my words, you are "cheap", and you know how that can be interpreted, misinterpreted or whatever. If you are going to do this properly, you should actually have the total expenditure for your role as a Member of Parliament in one place, so it is up to you how you resource it and where you invest—either in the constituency or here.

**Q334 Mr Leigh:** There are some supplements payable by IPSA—for instance, to London MPs—which are flat rate and taxable. Did you come across any compliance problems that you could share with us?

**Luke March:** No, I do not think I did. There is something teasing the back of my mind, but I cannot remember what it was. I am sure there is something, but I cannot remember it.

**Chair:** Cathy, would you like to pick up on the complexity or the lack of complexity of the rules?

**Q335 Cathy Jamieson:** I have a few questions, but I will try to keep them as brief as I can. First of all, I would be interested to know what conclusions you arrived at regarding, overall, the rules of IPSA's scheme on the basis of the cases that you investigated; in particular, whether you thought they were too complex.

**Luke March:** It is a question of the definition of the word "complexity".

**Q336 Cathy Jamieson:** Were they unnecessarily complex?

**Luke March:** My view was that the rules were too prescriptive—more prescriptive than necessary. I always took the view that, provided you could prove that you were doing something in accordance with your duties as a parliamentarian, then that was a valid claim. I have always hoped that expenses could be capped, so that you had a clue as to how much you might be allowed to claim for. But within that, provided you could prove with evidence—the key thing is evidence—that it was in accordance with your parliamentary duties, then I personally could not see any objection to that.

**Q337 Cathy Jamieson:** In picking up the point that you made about rules being too prescriptive, what specifically would you suggest would help to simplify that process? In particular, would an extension of the supplement, such as the London area living payment that is already in operation, be one of the ways in which that might be done?

**Luke March:** It could be done like that, provided you can show that you actually incurred that cost. That is always the difficulty with allowances, isn't it? You should not get it as of right unless you incur something. One that I can think of, which I do not

think has been settled, is that if an MP is lucky enough to own accommodation in London, I just find it daft—that is the only word I can use—that they are not allowed to live in it. In other words, you have to rent something else and then rent that one out. I struggle with the logic. Do you see what I am thinking?

**Cathy Jamieson:** I think we all see.

**Luke March:** Perhaps I should have the answer to that, but I have never been able to work that one out. Another one—which I know is controversial, but I struggle with it because I think I know a bit about how you work and the pressure under which you operate—is whether you are travelling first or second class in rail fare. My view is that so long as there is a cap and everyone knows what that cap is, how you travel is entirely up to you as far as I am concerned. You could travel by car or by plane, so long as you do not incur a greater cost. It would have to be averaged out across where you live and things like that. Another one is about staffing, I suppose. Should we care whether you employ four staff at £30,000 a year, or two staff at £60,000? I could not care tuppence, quite frankly, so long as you do the job within the cap, if you see what I mean. How you do your work is entirely up to you in my book.

**Mr Leigh:** Would you like to become chairman of IPSA? *[Laughter.]*

**Chair:** I think you can ignore that question.

**Q338 Cathy Jamieson:** Thank you for your straightforward language, which I think my constituents would absolutely understand, and that is very important when dealing with these things. I wonder if I could just press you on another couple of points. In your view, did you think that MPs were generally complying with IPSA's rules? Are you concerned that IPSA may want to move to a claim system based on the discretion of an MP without making the system less complex? If that is making sense.

**Luke March:** To answer your key point, MPs were obeying the rules. The incidents that I came across were ignorance more than anything else, because the rules are so prescriptive. But do not forget—again, this is something that I would have had difficulty with IPSA about in terms of its most recent announcements on the results of those claims and cases—it is the MP who is accountable for submitting their expenses. IPSA has absolutely no responsibility for that. This takes us back to the checking. If IPSA does not check anything, you are fully responsible, and, in a sense, you are fully responsible anyway for your claims and for proof of them. Don't you think that's right?

**Q339 Cathy Jamieson:** The key area that we are keen to tease out is whether there is something in the system or in any potential changes to it. How would we minimise the likelihood of MPs making honest mistakes and subsequently being accused of wrongdoing?

**Luke March:** By simplifying the rules. Easily. Everyone thinks that means it will be a free-for-all again. No, there would not be a free-for-all, because the enforcement division, as with any other regulator, would be on you, frankly, like a sack of potatoes. It

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would investigate, do various checks and sample checks, as is the case with every other regulator and compliance officer, and as I have done in other places.

**Q340 Guto Bebb:** I want to play devil's advocate in relation to your comment about having a cap within which an MP can do whatever he or she wants. Is there not a danger that, by giving an MP that flexibility and that cap, they will spend up to the cap?

**Luke March:** There is always that danger. But do not forget that you have to produce the evidence, that your evidence will be in public and that your constituents will have a field day. On the claims that I rejected from the many that I looked at—from the 38 down to the 22, or whatever the figure was—that was because I could tell that political opponents were trying to have a field day on things that were absolutely nonsensical. So yes, I think you will be even more accountable than you are today. But if you can justify it to yourself—that is the key part—I think you can justify it to every newspaper, in addition to your constituents.

**Q341 Mr Raynsford:** What is your overall view of the effectiveness of IPSA as an organisation and of how far it has satisfied its statutory obligations?

**Luke March:** As you know, it had to put in a comprehensive expenses system in a very short time after the public backlash in the past. With all the will in the world, I do not think that anyone could have done it much quicker than it did. You can argue with hindsight in all sorts of ways as to whether it is the right system, but at least it is a system and a robust system. I think it has undertaken its statutory objectives in the most sensible way it can.

**Q342 Mr Raynsford:** One of those statutory objectives is to enable MPs to do their parliamentary functions in a cost-effective and generally effective way. Do you think that really is satisfied?

**Luke March:** I think I have expressed my views about the cost-effectiveness—I think it probably is not. In terms of enabling you to do your work, I met every single MP who asked me to meet them and in a number of cases I could not resist saying, "Take me through the system," because I had seen the system from the IPSA end, but not from the MPs' end as to why they would struggle with it. All I can say is that it was the most horrendous experience. I do not think they were doing it deliberately just to make it difficult for me, but they were struggling. You always have that when you are not used to an IT-based expenses system. I have to admit that I really prefer a paper-based system. Nobody has managed to get this quirk sorted out with IT systems, because you still need the evidence and the evidence is in paper. Those of us who have been in banks and other heavily regulated businesses know that the moment you put the invoice or whatever it is into a database, people will say it is a forgery. Can you see what I mean? Therefore, you go back to the original the whole time to be absolutely certain that you have the right invoice.

**Q343 Mr Raynsford:** If I may pursue this a little, you quite rightly highlighted the importance of a

system that was robust, in the context of what had gone before. You have generously said that IPSA would have found it difficult to do any better, given the timetable, but you also in your earlier evidence highlighted the extent to which you as compliance officer did not feel really able to advise the board on changes that would make the system work better. While accepting the earlier difficulties, do you not feel that IPSA could have gone further in the course of, say, the past nine months to make the system work more cost-effectively and more effectively?

**Luke March:** I think that is stage 2—we are now in stage 2—and that is exactly what it should be doing. Stage 1 was to get this show on the road. Don't forget, the show on the road was only operational May last year I think. We are talking about a very, very short time. The time is right now to look at it all from both sides, not only from your side but in terms of accountability to the public and the public purse, and to make sure that that balance is right. What I am saying is that I don't think the balance is right now.

**Q344 Mr Raynsford:** Do you see any risk, in terms of IPSA's responsibility to maintain public confidence, of a move in the kind of direction that you have been talking about in your evidence this morning?

**Luke March:** It depends how it is explained. So long as you get as many people as possible on side, explain it very fully, explain the checks and the balances and show that, in terms of the public purse, disclosure, disclosure is the key, and that is not changing. Whatever you do with the system, so long as you are disclosing it, you can show that there are other benefits to the taxpayer and that you can therefore serve your constituents in an even better way.

**Q345 Cathy Jamieson:** I want to try and get to the nub of what you believe are the changes needed to the current system to ensure that the compliance function operates more effectively. I have three points and I will just put them to you, because I know that you have perhaps answered some of the issues already. First, should a distinction be drawn between IPSA's compliance and regulatory functions and, in your view, have those separate roles perhaps become confused and overlapping? Can you be specific about the role that you think IPSA's compliance officer ought to play and whether any legislative changes are required in order to enable that to work more effectively?

**Luke March:** I can answer the last bit: yes, there would need to be legislative requirements because the compliance officer is an officeholder under the Act. So yes is the answer to that one and, answering the main point of what you asked, the answer is also yes. The compliance officer, who should effectively be what is described in other regulators as the enforcement officer or director, and the policy side, which is the regulatory side of IPSA, should be together. That is exactly the model that is well established by endless regulators that you have set up. It works well in that context—I have seen it work well—so why can it not work in this environment as well? You then have the payroll and expenses system

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run at arm's length. I suppose you could run it at arm's length in the same organisation but I think that you might actually find a cheaper way of doing it—that's the truth.

**Q346 Chair:** Thank you. One last question, which may be a little bit unfair to you. The aims of the Act are pretty clear, and we are going to try to articulate those in our report but, if the IPSA board fails to achieve the aims of the Act—you are saying you are on stage 2 now but let us say that in a year or a year and a half from now public confidence or value for money has not improved—ultimately, who is

responsible for making sure that IPSA is doing the right job?

**Luke March:** That is almost as difficult a question as asking me who I might have been accountable to. I asked many people in this place, who I thought would know more about the Act than I did, as to who I was accountable to and I did not get a clear answer. This may be the same problem. In a sense, IPSA is accountable to the Speaker's Committee—is that right? It is part of the constitutional accountability.

**Chair:** Luke March, thank you very much indeed. That has been very helpful. I appreciate your time, thank you.

### Examination of Witnesses

*Witnesses:* **Lauren Edwards**, Political Officer, and **Max Freedman**, Chair, Unite Parliamentary Staff Branch, gave evidence.

**Q347 Chair:** Thank you for very much indeed for taking part in our inquiry, and thank you for the work that your organisation does on behalf of the staff of Members of Parliament. If being a Member of Parliament is a harrowing job, working with a Member of Parliament is probably even more harrowing, so thank you for the support you give to members of staff.

Our inquiry is looking at the aims of the 2009 Act, as amended in 2010. We are asking ourselves whether, in the operation of the Act through IPSA and other bodies, the aims of the Act are being achieved. Your input on that front would be very helpful from the perspective of how MPs' offices are functioning, how their staff are feeling and how they are responding to things. As a general question to start off with, in your view, what impact has IPSA and its scheme had on MPs' staff and can you take the opportunity to introduce some of the general points made in your written evidence?

**Max Freedman:** Thank you for seeing us and hearing from us. I am chair of the branch. I would like to start by saying that it changes all the time but there are roughly 2,500 members of staff for MPs. Our branch itself has more than 500 members who are fully cross-party. We do our best to represent MPs' staff in relation to all the various concerns they have.

There are two different categories in terms of the impact that IPSA has had on staff. First, in terms of work load, we have some evidence that a lot of the work on the processing of the expenses has fallen on the shoulders of staff and added greatly to their work load. The second aspect is what IPSA has meant for the terms and conditions of staff in relation to the staffing budget, redundancy—that has been downgraded—issues over bonuses that have fluctuated over the past year and pay disparity. There are a whole gamut of issues that I am sure we can get into at some stage if you would like us to.

**Lauren Edwards:** I want to reiterate the point in our written evidence about why we want ourselves and MAPSA to be included as groups that IPSA must consult when it changes or amends the scheme in any way. That basically comes out of the current situation whereby meetings with us are IPSA's gift to give. We

can put pressure on it through MPs with whom we work and through the press, but we have found that it is quite difficult to get more regular meetings than we get at the moment with the people who are actually the decision makers. We have been asking for about a year for a meeting with just one of the board members. That has so far not come forward.

**Q348 Chair:** You have not had a meeting with a board member in the last year?

**Lauren Edwards:** We have never had a meeting with a board member, no.

**Max Freedman:** We had Jackie Ballard in one meeting. We have had three or four meetings over the past 18 months with staff of IPSA, but one of our concerns is what are they able to say to us and who is making the decisions. Because when they say something, it goes up to the board and they are the ones actually making the decision. So we would like to meet with the board.

**Q349 Chair:** And you would like to be statutory consultees preferably, under the Act. Would there need to be a change to the Act to do that?

**Lauren Edwards:** Yes. We mention ourselves and MAPSA because we are the two cross-party groups that operate here on behalf of staff and we both have a memorandum of understanding with the House authorities, so that when changes are made here, we are consulted. It is only fair that that applies to IPSA as well.

**Q350 Chair:** Another general question and then I will hand over to you, Edward, on bureaucracy. Have you noticed any change in the mood of your staff and their observations of the Members they work for since the arrival of IPSA on the scene?

**Max Freedman:** It has been a major issue of conversation over the past year and a half or so. We did a survey of staff back in January/February. I will not pretend it was comprehensive, but we sent out an e-mail through the chief executive's office asking people to engage in the survey. We had 536 responses—that is as big a survey as any I am aware of on a range of issues to do with IPSA. At the end

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of the survey we asked how staff would rate IPSA out of ten. It was a fairly crude measure, but out of 500-odd responses, IPSA averaged 3.29—not a wholehearted endorsement of the way that it has been operating so far.

**Q351 Chair:** But I take it that IPSA must also have carried out such a survey to find out the impact on members of staff.

**Max Freedman:** IPSA has not surveyed staff at any stage. It has surveyed the public and asked a variety of questions, including about their attitudes towards MPs' staff, but it has not actually surveyed the staff themselves. It is currently going through a process of staff review, which involves going to a variety of offices, speaking to staff and watching how they work, but that is the first time in 18 months that it has tried to engage with how staff operate.

**Chair:** Your survey, which I have just had sight of, is incredibly helpful. It is very in depth and gives a real insight into what is going on. With one in five of MPs' employees filling it in, it will be quite instructive. Thank you.

**Q352 Mr Leigh:** There is a dispute between IPSA and the National Audit Office about how long MPs and their staff spend administering expenses. Whose figures are more accurate?

**Lauren Edwards:** I understand from Sir Ian Kennedy's previous evidence that he said it was about 15 minutes a day.

**Chair:** I shouldn't respond, but yes.

**Lauren Edwards:** Which does not really tally with either our survey or with anecdotal evidence that we have from people. If you look at what proportion of staff dealt with expense claims under the old system—around 70% spent less than an hour doing that.

**Max Freedman:** An hour a week.

**Lauren Edwards:** Yes, an hour a week dealing with it. Now, it is far higher.

**Q353 Mr Leigh:** Can you put any more flesh on the bones? You say it is far higher—

**Max Freedman:** Our survey was obviously self-selecting, but as far as we are aware it provides the only data that anyone really has. It says that before the election, 70% of staff claimed that they spent less than an hour a week dealing with expenses. Under the new system, only 8% of staff say that they spend less than an hour a week; 58% report spending three or more hours a week; and 26% report spending five or more hours a week. Those are the responses we have received, and it is the best information we have. It shows a big change.

**Q354 Mr Leigh:** That is for the average number of staff for an MP—roughly three people.

**Max Freedman:** Yes. We have various issues about numbers of staff—

**Q355 Mr Leigh:** This is a simple question but it needs to be answered for the record. How does the extra bureaucracy arise? Why are some people spending five hours a week on it?

**Max Freedman:** Duplication. I am fortunate in that I am one of the few staff who do not have to deal with expenses, so I don't know all the details.

**Lauren Edwards:** It is when staff are not able to do the job that they are employed to do. A lot of the time, people such as parliamentary assistants have to take on some of these roles, so they are not able to serve constituents. They have to process what are essentially an accountant's duties. To be honest, we have not had a lot of complaints from our members about things like duplication of paper and the online stuff. It is more about niggly little things where IPSA is just not adhering to the rules but is nit-picking about small things such as claims being returned. For example, if someone pays a fee for the maintenance of a website, they have to put in that fee every month, even though it is a yearly claim and they have an invoice that states that. It is things like that form being returned because the domain address is not on the actual claim form, even though IPSA has information about what the domain is for in its records. It is niggly things like that; things being rejected for small reasons rather than because of duplication.

**Max Freedman:** And also, I suspect, the difficulty in trying to contact IPSA about those things, and the fact that it now answers the phone only in the afternoon. That is certainly a bugbear for staff. They are trying to do this on top of their other duties, and it has been shoehorned into particular times of the day.

**Q356 Chair:** It sounds as if the introduction of the new scheme—obviously, it will be busier in the initial period—has meant that MPs' staff spend a significant amount of time dealing with the administration of claims, rather than constituents, which is really the job they have been employed to do.

**Max Freedman:** Absolutely.

**Q357 Chair:** Is that a fair statement?

**Max Freedman:** It is. As well as meaning that less time is available to work for constituents, which is what we are employed to do, it means that everyone gets a false view of the actual cost of IPSA and the IPSA scheme, because the cost of the staff hours that go into it at our end is not included in any of the detail.

**Q358 Mr Leigh:** Can I just ask one question? I hope you do not mind me asking, but you know your members, and a lot of the staff are youngish, aren't they? What do they say to you? Presumably, people come into this job, which is not very well paid, because they are interested in politics. What do they say about doing this stuff?

**Max Freedman:** The turnover has always been quite high in Parliament anyway. More and more, we are getting people coming in who are not used to the old system or familiar with how it used to work, so these things are almost accepted as part of the job. Certainly, very few people come to work for an MP to process expenses claims; that is not the idealism that has driven them into the job.

**Chair:** I am conscious that Stephen will have to leave shortly. Do you have any questions, Stephen?

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**Q359 Stephen Williams:** Yes. Sorry, I will have to leave to go downstairs for an urgent statement shortly, but I want to ask you about the staff budget. As you just said, no one works here to process expenses, and they probably do not work here for the money either. However, IPSA have restricted our flexibility as MPs over the staff budget because of what they did to pension contributions. How much disquiet have you heard from your members about that decision?

**Max Freedman:** A huge amount of disquiet straight from the off. As you say, the pension contributions were included in the budget, when previously they were not. Even though the budget increased slightly, it did not make up for what happened, and we have some detail on that. IPSA said what it did was made up for by the fact that it had removed some of the things that were previously counted in the budget. But we managed to get down some parliamentary questions that demonstrated that in 2009–10, 14 MPs claimed for professional advice, 22 claimed for cleaning, seven claimed for janitorial or reception services, seven claimed for maintenance services for computer hardware, one claimed for interpreting and translation, four claimed for recruitment and 30 claimed for training. Those are the factors that were taken out, but they made a negligible difference to the budget, so there was a straightforward cut in what was available, and we have evidence of staff hours being reduced and redundancies taking place as a result.

**Q360 Chair:** In addition to the extra administration?

**Max Freedman:** In addition to the extra administration. You can well imagine how most staff received all of that.

**Q361 Stephen Williams:** What about the pay scales? IPSA suggested mandatory pay scales for new staff joining an MP's office. Given the turnover, every Member of Parliament will have a mix of staff, with some employed before 2010—if the Member was elected before then, as most of us here were—and some new staff joining under the IPSA regime. Has that caused any ill feeling or bad blood among your members?

**Max Freedman:** It has. Again, according to our survey, 9% to 10% of respondents said they worked in offices where there was pay disparity for people doing the same jobs, because some were on the new IPSA contract and others were on the previous contract. That is unsustainable.

**Q362 Stephen Williams:** I have one final question, and then I will have to go. Your branch and Members of Parliament such as me have raised the issue of interns many times. Do you think IPSA should provide a separate budget for the engagement of interns?

**Max Freedman:** We do. In IPSA's first ever consultation, in January 2010, it recognised that, legally, there is not really any such thing as interns; they are employees when they are given hours of work and tasks to do, so as far as we and the law are concerned, they are entitled to the national minimum wage. Despite stating that initially, IPSA has taken no steps towards really resolving the issue. It brings up

all the issues of access and who is able to get the starting jobs in politics, if you will. We very much think that IPSA should provide a separate budget line to enable people from worse-off backgrounds to have an opportunity.

**Q363 Priti Patel:** I have lots of questions. I thought your paper was really helpful and full of insights. I have also had a look at your survey and many of the comments there. As a new MP, I am interested in a couple of structural things. One is the fact that IPSA is responsible for paying staff salaries and for the contracts—the structural side. I am interested in that for your members with regard to the relationship with Members of Parliament who effectively employ your members, even though IPSA is there. Does the current system give MPs' staff an ambiguous employment status, and what has that meant for the relationship between employee and employer—the employer being the Member of Parliament?

**Max Freedman:** It has led to a lot of confusion along the way and quite a lot of disquiet. Anecdotally, and this is subsequent to the survey so we do not have much information on that in terms of raw numbers, we know of MPs putting in for pay variations for their staff who have had them rejected by IPSA. That leads to the question of who is employing these staff anyway. Whose right is it to make those decisions? One thing that is dear to our hearts, if you will, is that for years we have been pressing for an HR contact point. We do not care who provides it, whether it is the House, IPSA or somebody else. But when we speak to the House they say, "That's IPSA's role" and when we speak to IPSA they say it is the House's role.

One element in the survey back in January was that since the election, half of all respondents said that they felt they needed some HR support or advice at some stage. That is simply not being provided. When IPSA was first created I thought it was a wonderful opportunity to modernise some of the employment structures in this place. I had a conversation with Ian Kennedy right when it was starting up. I expressed that view to him: this was a real opportunity to make Parliament a modern organisation. But there has been no movement whatsoever on creating an HR point. At the moment if anyone has any issues or concerns, they are directed to us, whether they are members or not and we are an unrecognised trade union. So we give support but we are volunteers. There is only a certain amount of support that we can give people. I think that the House or IPSA, or somebody is letting people down in not providing that level of support.

**Q364 Priti Patel:** Your members' comments in the survey are really insightful, as is your submission. Do you think IPSA has a full understanding of the people aspect around terms of employment? We have heard so much evidence over the past few weeks about the impact of IPSA on Members of Parliament from a health and well-being point of view, and obviously that would affect staff as well. I have seen that clearly in the comments that have been made. Do you think IPSA has a genuine understanding or appreciation of the people side of things?

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**Max Freedman:** I don't think that has been their priority. They are now obviously undergoing this staff research survey, but that is 18 months too late in my opinion. I know they had to set up in a hurry but with 2,500 staff you could almost say we are their largest stakeholder, yet we have been very much left until the end in terms of worrying about how we fit into the picture. The 3.29 average speaks for itself in terms of how staff regard that they are considered by IPSA.

**Q365 Priti Patel:** Presumably that could all be improved with better engagement, which is obviously what you are looking for as well, with increased understanding by IPSA in terms of staff and experience through dialogue.

**Lauren Edwards:** One of the major impediments when you try to engage with IPSA on those issues, whether I do that as an employee of the MP I work for or with my union hat on, is that their duty is to be the paymaster, to administer the system. That is the argument they trot out each time for why they are not responsible for an HR department or any of the rest of it. The feeling among a lot of staff is that when it suits IPSA for the MP to be the employer, that is fine but when it does not, they shift. It is very ambiguous in terms of what they will take on. If they do not want to take on something then that is the role of the MP as the employer.

**Max Freedman:** They do actually plead the Parliamentary Standards Act when they do it. They say it is not within their remit under the Act to provide HR support or anything like that. I guess you are the correct body to explain that to.

**Q366 Priti Patel:** In your submission you touch on fairness for less well-off members with families as well, and obviously staff are impacted by things such as the child care supplement. That is a classic area that is effectively an HR issue, which you say that IPSA does not seem to have the capability to address.

**Max Freedman:** There have been a variety of child care issues. It is understandable that errors are made in the setting up of an organisation swiftly but, initially, when they were referring to maternity care as a contingency and so on, that was very offensive to a lot of members of staff. The suggestion is that the payment might not be a statutory obligation, but the cuts in the child care supplement, which—as far as we are aware—have been done purely for budgetary reasons are not welcome either. I do not know if you want to add to that, Lauren.

**Lauren Edwards:** We have a two-tier system yet again, as well as the pay disparity. If members of staff were employed before 2010, they have the salary supplement for child care and if they were employed after May 2010, they have the salary sacrifice scheme. We have a particular member, who had the supplement and whose MP retired in 2010. She then worked for the successor MP. Because TUPE does not apply, as it considers each MP to be the employer, she is now on a different contract. None of her terms and conditions was transferred across. She was not recognised for longevity of service. She is now also on the salary sacrifice scheme and is finding it very difficult to make ends meet because obviously she had

enrolled her children in a form of child care that was sustainable for her under the old system.

**Q367 Priti Patel:** Finally, on the whole issue about the functionality of IPSA, how helpful do your members—the staff across Parliament—feel IPSA are in processing claims, in terms of engagement and dialogue, in light of the fact that they do not open their phone lines until 1 o'clock in the afternoon. Can you just elaborate on some of the comments and sentiment of your members on that front?

**Lauren Edwards:** We had an all-staff meeting in June this year to follow up on how people were feeling after the survey that we had done earlier in the year. There have been some improvements, but they are very minor in the scheme of things. I would characterise that meeting as “anger”. People were furious, especially those who have worked here for 20 or 30 years. They feel that they have been penalised as a result of the actions of some Members of the last Parliament. Their terms, conditions and pay and how they feel about their job have been changed since May 2010 when the scheme came in. There is a lot of anger, and people feel that they have been unfairly penalised.

**Q368 Mr Raynsford:** Can I just pursue this a little bit? You have highlighted the problem of not being able to get a response from IPSA to queries until the afternoon, but can you say a bit more about how easy it is to get responses from IPSA when there is the need to clarify whether or not a claim is appropriate or when advice is needed on other issues?

**Max Freedman:** There was certainly a very big problem for a long period of time when the system was first set up. The phones were continually jammed, it was impossible to get through. People were waiting on the phone all day. I used to give the advice: “If you need to speak to IPSA, don't try to phone the helpline; phone the press team, because they always answer and they can transfer you internally.”

My understanding is that there has been some improvement. IPSA say that they answer calls only in the afternoon so that in the morning they can do all the processing and be ready to sit by the phone. But what people say to me does not reflect a growing love of the system.

**Lauren Edwards:** We have also found that sometimes Members get conflicting information from the information line. There is a problem with that because staff will not give you a named contact. I've had it myself—I have said, “I can't speak at the moment, but give me your name and I will call back and ask for you when the lines are open tomorrow.” They will not give a named contact, so you have trouble accessing the same person and you have to explain the whole situation again to whoever you speak to later on.

In some incidents, the advice that people were given depended on who they spoke to on the phone. That advice might have been about whether something in a claim sounded all right or was a little precarious. There is inconsistency in some of the advice that members have received through the helpline.

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**Q369 Mr Raynsford:** Do you have any specific demonstrations of that? It is obviously very serious indeed if separate Members are getting different advice from IPSA about whether certain claims might be acceptable or not.

**Lauren Edwards:** Most of the incidents have been with pay rises. The MP will say, "I want to put in a pay rise that is within my budget." It depends, from my experience, on the forcefulness of the MP in putting it in. If they say "Is it all right if I give my staff member a 2% pay rise? I'll still be in my budget; they will still be within their pay scale", and if they say it in that hesitant way, often the response will be, "Well, no; with regard to the public sector pay freeze you shouldn't be giving any pay rises at all." If the MP puts the form in and says, "I'm just putting this in. You are going to pay it," it is more likely to be paid. That is the example I have come across. I do not know about Max.

**Max Freedman:** In addition, as an annexe to the survey that we did, we have about 70 pages of comments from staff, many of which give individual examples of that kind, so it might be worth trawling through some of those.

**Q370 Chair:** As a final question, in one or two other surveys we have seen—the National Audit Office and some internal surveys with the political parties—we find that 91% of MPs say they are not claiming what they are legitimately supposed to be able to claim, so there appears to be a deterrent effect. From the staff that you are working with, and the information you have, are staff conscious that certain claims are not being made because of the potential risk or difficulty, or time taken?

**Max Freedman:** Those sorts of claim rarely come to us. What we would see more often from our perspective is MPs not putting in, for example, for a pay rise for their staff, or for whatever kind of bonus there is—I know we cannot call them bonuses now, but whatever the scheme is. Because of the fear of publicity, they do not want to be seen as spending. There are staff who may well deserve to get a pay rise who are not getting one because of that public fear.

If I can touch on one thing I wanted to say, because I can never emphasise it enough: the redundancy package has been downgraded. What used to be allowed was up to a 15% bonus, which could be matched, and that has now gone to statutory. Because of that and the fixed-term Parliament you have a lot of staff who know exactly when their employment is likely to terminate, and retention is going to be a real problem, because they are going to say, "Well, I'm not actually going to get the redundancy that I'm entitled to, and it's six months before the election is going to be called. I am going to jump ship now." That is going to be a real bubble in 2014.

**Lauren Edwards:** Could I just briefly touch on the issue there? With the contingency budget in terms of the staffing, we have found there are a lot of offices that need extra staff. They are incredibly overworked. They are deterred from putting in a contingency claim for more staff, even though they have to provide evidence, and they need them, just because it would seem to be asking for extra money.

What some people are doing—there is evidence in some of the survey comment—is taking on unpaid interns, which puts Members really at risk of national minimum wage claims further down the line, because they are in some cases breaching national minimum wage law if they are taking on people and giving them hours but not actually paying them any money.

Also, I think IPSA could be more proactive in letting MPs know what they are entitled to, so one of the things we have come up with is constituency office safety issues. There is a budget there for them to have the police come and check the safety of the property and to suggest improvements that can be met out of a budget; but a lot of people are not aware of that. A lot of staff are not aware of it. We wrote this year to various MPs, to let them know about it, and to try to push it, and we have asked IPSA to do the same in their bulletins, but so far they have not. But again, that is because they see themselves as a paymaster, rather than a proactive organisation.

**Chair:** Thank you very much for your evidence, and for your survey. I think this will certainly appear quite prominently in the report that we provide.

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### Examination of Witnesses

*Witnesses:* **Sian Norris-Copson**, Chair, and **Lisa Townsend**, Executive Member, Members' and Peers' Staff Association (MAPSA), gave evidence.

**Chair:** Welcome, and thank you for taking the time to come in. We very much look forward to the supplementary evidence that you will give us during questioning today, because we are keen to hear about the experience of people who work with MPs and others on the parliamentary estate. I shall go straight to Guto, who will ask about the bureaucracy surrounding the current system.

**Q371 Guto Bebb:** Obviously, the question does relate to the bureaucracy surrounding the IPSA claims system. In your view, do the problems arise primarily from the claims system put in place by IPSA, or is the

demand for evidence the reason why the system appears to be more complicated?

**Sian Norris-Copson:** Both, I would say. I was using the computer system yesterday—you may have heard the swearing coming from the direction of Portcullis House; compared to other computer systems and databases out there, it is very old-fashioned and clunky, and one of the main problems that we all have is time. I put off using it for as long as I can. I know that doesn't help, but it is just not an attractive system to use in the first place.

The evidence—receipts etc.—that we are asked for is all completely reasonable, but the system is sometimes very inconsistent, especially with the

payment card. You have the reconciliation issue. You have on the card statement what it has been used for. Obviously, it's a flight, a ticket or something like that, but sometimes you are still asked for quite a lot of evidence for that. If someone has lost their train ticket or has not managed to get a proper receipt, the chances are that you will send that in to IPSA, it will come flying back, you get into trouble and the process just gets extended and extended. It has got better, to be sure. We would agree with that.

**Lisa Townsend:** Yes, it has. The site is not remotely intuitive in terms of using it, which is one of the problems, so on its own the training required to get to a state where you can use it is an issue. Passing it on to anyone else in the office is too much hassle.

In terms of the evidence, the one consistent problem seems to be stationery, not from Banner's side, but from IPSA's side. I'm talking about the evidence that it requires. "Have you really bought stationery?" "Well, yes, because we've shown that we've bought stationery." "Yes, but we're not sure you've actually bought stationery." "But we have, because this is what the invoice says and it's quite clear what it is." Three times in the same month, I have had them come back to ask for the same invoice.

**Q372 Guto Bebb:** Is that because it has been lost?

**Lisa Townsend:** At their end, quite possibly, but of course they won't tell you that. They will not actually say they have lost it. Instead, they say, "It wasn't complete when you sent it."

**Q373 Chair:** On what percentage of occasions or how often are things lost or apparently lost?

**Lisa Townsend:** In any given month, I probably end up doing three resubmissions.

**Sian Norris-Copson:** That particular aspect has got worse. In the beginning, we were all struggling through, and they never refused anything or lost anything. But that has got worse and I do not know why.

**Lisa Townsend:** Our members are certainly saying that as well—that it is the biggest difficulty.

**Q374 Guto Bebb:** On the specific issue of the evidence requirement, has there been, in your experience, an increase in claims being rejected because even though an invoice has been supplied, it has not been deemed sufficient by IPSA?

**Sian Norris-Copson:** Yes.

**Lisa Townsend:** Yes.

**Q375 Guto Bebb:** Is there any explanation for that from IPSA?

**Lisa Townsend:** No.

**Sian Norris-Copson:** No.

**Q376 Guto Bebb:** Even though an invoice has been supplied, that has not been deemed sufficient. The incidence of that has increased.

**Sian Norris-Copson:** Yes.

**Lisa Townsend:** Yes. What is particularly frustrating is the lack of communication about it. You get an e-mail—as you know, because the e-mail will go into the Member's inbox—saying, "We need you to clarify

something." You phone them after 1 o'clock or before 5 and say, "What do you need clarifying?" Then it takes them five minutes to locate your file and then there is often confusion about exactly what needs resubmitting. Usually, that is six weeks after you submitted the claim in the first place, so why has it taken them six weeks to realise that something is missing?

**Sian Norris-Copson:** By that time, it has probably gone over the 90-day limit, so then you have to be nice to them, so they say "Well, we might just change the date." "Yes, if you could." But you need written permission to resubmit your form with a new date, so by this time it's all—

**Q377 Chair:** Could you run through that again? You are saying that on many occasions, or a large percentage of occasions, it takes them more than six weeks to process something. Then you run out of time and they ask you to change a date to try to make it work.

**Sian Norris-Copson:** The computer system will not let you put it through. It will say, "This has gone over 90 days," and you cannot actually press the button that says submit. So you have to ask them for permission to change the date. Of course you could do it yourself.

**Chair:** That is really curious. I wonder whether that shows up in their statistics. That is something we will have to look into in some of the other evidence.

**Q378 Guto Bebb:** Since the system came into being, IPSA claim to have brought forward a number of changes that have made the system simpler and more effective. Are there any changes that you would specifically identify as having been helpful?

**Lisa Townsend:** Direct payment has been helpful. It does not change the evidence requirement, but that is fine. It is easier in the sense that we are not now having to put in Hillgate Travel or Banner, because you go to the card statement and it is already there. So that helps. That is definitely useful.

The phone lines have been more of a problem. Any member of staff you speak to will tell you that only being able to call them between 1 and 5 is not particularly helpful for us.

**Sian Norris-Copson:** Especially when the website is fairly useless, I have to say. If you just want to find a specific answer to something—can I pay my intern x amount?—it is impossible, impossible, to find. Over the last few days I have been using it, and it is not even working. You get to the front page, and beyond that nothing happens at all. It is a very, very bad system. It would not be so bad that the phone lines are only open for four hours a day if you could find what you wanted very easily on the website, but you can't.

**Q379 Guto Bebb:** When you do get through, do you get useful advice from them? Or are they reluctant to provide advice?

**Lisa Townsend:** It varies.

**Sian Norris-Copson:** It does, yes.

**Lisa Townsend:** One of the problems is the inconsistency. I spoke to somebody a couple of weeks



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ago in payroll who was brilliant. She was fantastic. She understood what I was saying. She had complete common sense and fixed the problem. I took her name, because unfortunately it is so unusual.

**Sian Norris-Copson:** That is what you have to do, particularly their number.

**Lisa Townsend:** Yes, but that is unusual. Part of the problem is the inconsistency, which is from IPSA's end, so in terms of training, it has to be from IPSA's end. You will speak to one person and get one answer, and then you'll phone back in two weeks and get a different answer.

**Q380 Guto Bebb:** We have read evidence from the National Audit Office on the time spent by MPs and their staff dealing with the system, and we have some contradictory evidence provided by IPSA. What sort of time contribution and commitment is required to run a typical MP's expenses?

**Sian Norris-Copson:** The answer is that there is no typical time. We were just talking about this, and we are not actually aware of what the disagreement is. The answer is that there is no typical time, but most people would say that it takes them a lot longer than it used to.

**Q381 Guto Bebb:** In comparison with the system prior to 2010.

**Lisa Townsend:** Yes.

**Sian Norris-Copson:** Yes.

**Q382 Priti Patel:** I am interested in staffing, the budgets for staffing and things of that nature. I want to hear from you, in relation to your roles here, whether there has been an overall reduction in staffing budgets. What has the impact been on the offices of Members of Parliament? Are they hiring fewer staff because of the complexities and IPSA?

**Sian Norris-Copson:** I know that in these times we cannot expect huge increases in our budget. What was a large part of the problem, as you probably heard from Unite, is making us take our pension contributions out of the staffing budget. Obviously that made a huge difference, and we have a small rise this year, but we have certainly not found that enough to take on interns or extra staff. Some offices do not use their whole budget. We know that, and it is a point that IPSA will always make when you say, "Could we have a little bit more?" They will say, "Not everybody uses their budget, so therefore you don't need it," which is not really good enough.

**Q383 Chair:** Can I just jump in here? There is quite a lot of evidence that 91% of Members are not actually claiming what they are entitled to claim under the system. In your experience, are the Members that you are aware of claiming the full amounts? Are you claiming everything that is allowed, or is there a deterrent effect with the pain in claiming and other things?

**Lisa Townsend:** I certainly have had staff members saying to me, "I haven't had a pay rise in however long—none of the staff have—and we'd like to take somebody else on, but we can't pay them any more because the Member I work for wants to ensure that

he, or she, is not at the top end of MPs who are claiming". Therefore, that MP makes sure that there is always at least £7,000 left over in the budget, so that when their local or regional paper publishes the league table of regional MPs, they are not near the top. It is frustrating. It is very frustrating. It is certainly a deterrent, and not just with the staffing budget. We know it is not just with staffing. There are other budgets where people are doing the same, so they are looking at their office costs budget, their subsistence budget or whatever it is, and saying, "When the league table comes out in my regional paper, I do not want to be near the top of it, so I will always make sure that I don't claim anything close to the maximum for that reason."

**Q384 Chair:** From your observations and experience, does that apply even to their personal travel claims and accommodation? They are just not claiming their bills.

**Lisa Townsend:** Everything.

**Q385 Chair:** Would you say that was widespread?

**Lisa Townsend:** It is certainly widespread among the Members I have spoken to.

**Sian Norris-Copson:** Yes, you asked what evidence we have that MPs are afraid of claiming, and of course we do not have evidence, but we have a lot of anecdotal tales. People really are afraid of any adverse press.

**Lisa Townsend:** And rejected claims, which is the big one of course; people not putting things in because you get two different answers from IPSA, and you are not entirely sure whether it will be allowed and you just do not want the media furore over a rejected claim. We had one Member in particular who had a very difficult day over something that was rejected. IPSA admitted it was their fault that it was rejected—pure paperwork; human error—but of course it was too late for the *Evening Standard* and the *Mirror* by that stage and the story was already out. That has really put that office off claiming things.

**Chair:** That is very helpful, thank you.

**Q386 Mr Raynsford:** We have talked a bit about pay and you have mentioned the problem of pension contributions. Are there other areas where terms and conditions of Members' staff have been adversely affected or affected by the new IPSA regime?

**Lisa Townsend:** Initially, we know maternity was, but I gather that has been fixed—and child care. I gather that certainly the maternity issue has been fixed now.

**Q387 Mr Raynsford:** I do not think child care has been fixed.

**Lisa Townsend:** No, I do not think it has been completely fixed, but I gather that there are talks.

**Sian Norris-Copson:** We were not aware particularly of any other things.

**Q388 Mr Raynsford:** Okay, thank you. Do you see problems in the split of responsibility, with IPSA being essentially responsible for paying salaries and determining staff contracts, but with the MP being formally the employer? Does that actually give rise to

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problems because of the ambiguity about who the real employer is and the status of you, as employees?

**Lisa Townsend:** The biggest problem has been HR. We have had the conversation with IPSA, and I am quite sympathetic to IPSA's argument on this, which is, "HR is not within our remit and we're not here to provide HR", but unfortunately, nor is the House. We are left with a big HR black hole, which is one of the things that MAPSA has tried, where we can and without any resources, to fill.

**Q389 Mr Raynsford:** Can you give some examples?

**Lisa Townsend:** Members' staffers who have been really rather badly treated by Members of this House and the Lords have come to us and said, "Who can I go and talk to?" and the answer is nobody, unfortunately. The Member has somebody to talk to if the staffer comes to them and says, "I'm taking it to tribunal", but unfortunately, the staffer has nowhere to go. I understand and I am sympathetic to the fact that IPSA does not want to fill that role, but from a staffing point of view it leaves us with a problem.

**Sian Norris-Copson:** The other particular problem we have had, which people have come to us about, is over not being able to have pay rises, even if the MP has room left in their staffing budget. IPSA say that nobody can offer a pay rise, but actually, there is not really a reason, apart from the economic situation or, again, adverse publicity. That has been a difficult one to bridge. We get the really stupid situation now where some staff—as you know, the contracts are different—have said, "The only way I can get a pay rise, because I am on an old contract, is to resign, reapply for my job and get a new contract under the new pay scales. I will then get a pay rise."

**Q390 Guto Bebb:** On that specific point, obviously guidance was provided by IPSA that because of the public sector pay freeze, anybody earning more than £21,000 a year should not be given one. Do the staff in the House who work for MPs consider themselves to be public sector staff?

**Lisa Townsend:** No, we do not.

**Q391 Guto Bebb:** Have you as an organisation ever compared the benefits that you receive, in terms of pensions and so forth, with what is provided by the public sector?

**Lisa Townsend:** We have had that conversation with IPSA. We have said that some consistency would be nice. We accept that there is a public sector pay freeze on; we accept the publicity surrounding that. It doesn't look good for you or for us if we look for more money. However, we get penalised on one hand for being public sector in the pay freeze, but we do not get the benefits of being public sector employees. That seems a little unfair to us.

**Q392 Guto Bebb:** What was IPSA's response to that comment?

**Lisa Townsend:** They didn't have one, actually.

**Sian Norris-Copson:** "Tough," probably.

**Lisa Townsend:** Yes, it was basically, "You have to accept there's a pay freeze on. There's nothing we can do about it."

**Sian Norris-Copson:** But of course, at the same time, what a lot of MPs used to do was pay bonuses to their staff if they had room left in the staffing budget. Of course, they are not allowed to do that any more either.

**Q393 Mr Raynsford:** You say they are not allowed to?

**Lisa Townsend:** This is one of the arguments we have had with IPSA.

**Q394 Mr Raynsford:** Have you been given instructions on that?

**Lisa Townsend:** Yes, we have had guidance.

**Sian Norris-Copson:** Yes, absolutely. You are allowed to pay a good-will payment.

**Lisa Townsend:** A £20 M&S voucher was the example from IPSA. They suggested a £20 M&S voucher at Christmas.

**Sian Norris-Copson:** If you were to ask for it, they just wouldn't sanction it.

**Q395 Mr Raynsford:** Do you have evidence of inconsistency here? I can tell you for a fact that some staff have received significantly larger sums.

**Lisa Townsend:** Yes, we know. There are staff who are getting it, because the Member of Parliament is doing it. This is one of the problems, of course: we operate like 650 small businesses, which is sometimes great and sometimes difficult, because of the inconsistencies that that obviously throws up.

**Q396 Mr Raynsford:** Finally, can I raise the question of contracts? Do you believe that the contracts, as currently approved by IPSA, reflect accurately the job that you do?

**Lisa Townsend:** Do you mean the job description?

**Mr Raynsford:** Yes.

**Lisa Townsend:** No, they don't. IPSA is generally quite sympathetic to remodelling, but no, they don't. The reality is that most of us do different things. Unfortunately, that has thrown up a problem with the pay scale system and how vigorously enforced it is. I don't think it was two years ago, if I am honest. I know of jobs advertised for what is essentially a parliamentary assistant, but they cannot pay the minimum £22,000, so they advertise it as something else to get away with paying £19,000 or £20,000. But that is actually not the job that the person who gets it undertakes, which is very unfair for staff.

**Sian Norris-Copson:** It is the same thing with the job description. You could not fill it out accurately. You're fitting in with them, rather than—there probably ought to be more flexibility—the other way around. We are forced to—not fiddle, but—

**Q397 Mr Raynsford:** Were a case like this applied elsewhere, it would be perfectly normal for the staff member to go to the employer and say, "I think this is actually not a correct description of my job. Will you please correct this?"

**Lisa Townsend:** Some will do it. I think Sian and I would both be perfectly prepared to do that, but we all know of junior members of staff who wouldn't,

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because it is their first job in Parliament, they have fought 100 other people to get there and the last thing they want to do is rock the boat.

**Q398 Priti Patel:** I have two questions. One is about the structural aspect of IPSA. Obviously, IPSA has been up and running for a while now. What type of advice do they give around associated expenses, claims and problems? Has the advice improved since they started? Lisa, you had one good example a couple of weeks ago. I would like some general comments and observations about IPSA's attitudes towards MPs and members of staff.

**Sian Norris-Copson:** Do you mean on the phone, when anyone rings up, or when we have meetings with them?

**Q399 Priti Patel:** Both, actually. Obviously, you are doing your job when you are on the phone to them, when you finally break through and get through to them. Secondly, you've touched on the HR point, which we have heard for the second time today. It requires some engagement and dialogue with them. How constructive are they in engaging with you as a body? Are they listening to you and taking on board the points that you are making?

**Lisa Townsend:** They are doing a very good job of ticking their engagement boxes. They will invite us in once every few months. The discussions were quite hostile at the start. I think we find that we are meeting a little bit more in the middle now, so that has helped. There are still some issues that they will not discuss with us at all.

**Sian Norris-Copson:** They get quite defensive. We have never had a meeting with the board, for example. That would probably be quite interesting. There are obviously a lot of problems between them and the board as well. You can pick that up when you are in meetings with them, so obviously there are problems there too. In general, we just do not feel they understand us. There is a staffing review going on at the moment, but that seems to have hit a brick wall. We are not quite sure what is happening to that, except that at some point it will be thrown open to public consultation, which I have had a bit of a whinge about here. I am not sure how that is going to help. We do not feel they engage fully with us, and we actually do the job. I think we would feel it more helpful if they spent more time talking to us.

**Q400 Priti Patel:** Do you think it is deliberate that they are not talking to you?

**Sian Norris-Copson:** It could feel like that. They make a bit of an effort. They announced the staffing review at a meeting we had with them earlier in the year. I think they thought we knew about it. The lack of communication is a real problem, which puts our backs up and does not help. I think they are probably trying to help a lot more than they were, but I guess they have restrictions on what they can and cannot do, too.

**Chair:** Thank you very much indeed for the work you do on behalf of Members' staff, and thank you for taking the time to come in today. I hope that as a result of your and other evidence we will make some progress in the not too distant future.

# Written evidence

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## Written evidence from the Independent Parliamentary Standards Authority (IPSA)

### A. INTRODUCTION

1. An Inquiry into the operation of the Parliamentary Standards Act (PSA) 2009 by the Committee on Members' Expenses was announced on 19 July 2011. In particular, the Inquiry is to consider how to ensure:

- Value for money for tax payers.
- Accountability.
- Public confidence in Parliament.
- The ability of Members to fulfil their duties effectively.
- Fairness for less well-off Members and those with families.
- That Members are not deterred from submitting legitimate claims.

2. The Clerk to the Committee wrote to Sir Ian Kennedy, Chairman of the Independent Parliamentary Standards Authority (IPSA), on 27 July, elaborating on the points above and asking about IPSA's plans for addressing the issues of MPs' pay and pensions.

3. Sir Ian and IPSA's Policy Director, John Sills, gave oral evidence to the Committee on 13 September. This written evidence builds on that evidence and addresses issues which were raised at the 13 September session.

4. We welcome the opportunity to engage with the Committee and to submit this evidence, which, we hope, will be helpful to the Committee in making its assessment. There will be a further oral evidence session on 25 October in which the Committee will be able to follow up any points made in this submission, and IPSA will be able to comment on matters raised with the Committee and any emerging findings that the Committee wishes to share with us.

5. We argue in this submission that IPSA is meeting its statutory duties and is achieving its objectives to create and implement an expenses scheme which is fair, workable and transparent. There is more for us to do, and the submission describes some of our plans. Against this background, we argue that it is now time to move on from costs and expenses to address the wider question of an MP's remuneration package: what does a 21st century MP need in order to fulfil his or her parliamentary functions?

### B. THE LEGISLATION AND IPSA'S PURPOSE

6. The MPs' expenses scandal had a profoundly damaging impact on public confidence in Parliament. In November 2009 the Speaker of the House of Commons gave the annual lecture to the Parliamentary Studies Association and Hansard Society. In his speech he addressed the "expenses debacle" as follows:

"It is a cruel paradox that at a time when MPs have never worked harder, their standing has rarely been lower. Let me be brutally honest about what has occurred. I cannot think of a single year in the recent history of Parliament when more damage has been done to it than this year, with the possible exception of when Nazi bombs fell on the chamber in 1941. The difference is that the physical wreckage then was done by dictators whereas responsibility for the reputational carnage inflicted this year lies with the House... We have to make it crystal clear that we will dynamite the past arrangements, practices and, crucially, cultures that allowed the expenses disaster to take place and will do so with as much vigour as Guy Fawkes intended to apply here in 1605."

7. The situation that the Speaker described was the background against which IPSA was created by the PSA 2009, as amended by the Constitutional Reform and Governance (CRAG) Act 2010. What was clear throughout the debate in both Houses was the recognition that in the face of a collapse in public trust, it was essential to restore public confidence in the payment of MPs' costs and expenses. It was further recognised that to do so, it would be necessary to move away from self-regulation to external, independent regulation.

8. As Baroness Royall, opening the Second Reading debate in the House of Lords, said:

"The fundamental purpose of the Bill is to replace the self-regulation of expenses, allowances and financial interests with a system of independent, transparent and robust regulation... We have a duty in this House to help the Commons implement a new system that can restore public confidence in the propriety of MPs and the process that governs their expenses and financial interests."

9. IPSA has taken that need to restore public confidence as a primary consideration. Its regulatory role defines and determines its work. The legislation gave IPSA four regulatory functions:

- The preparation and maintenance of a scheme of rules to govern the payment of expenses and costs.
- The publication of claims.
- The determination of MPs' pay.
- The setting of a scheme for MPs' pensions.

10. The powers regarding the scheme of expenses and costs and the publication of claims came into force immediately. The powers on MPs' pay were commenced in May 2011 and those on pensions are expected to be commenced in October 2011, following Parliament's support for the motion which was debated on 17 October.

11. IPSA's responsibility, as an independent regulatory body, is to determine a framework of rules for the payment of MPs' expenses and costs which has regard first and foremost to the public interest, and thus a concern for value for money in the use of public funds. The legislation does not itself specify what constitutes the public interest: that is for IPSA to determine, taking into account the views of the public and others, including MPs, as well as the intentions of the legislation and the fundamental principles which underpin the scheme. These principles, which were mainly drawn from the recommendations of the Committee on Standards in Public Life's (CSPL's) report on *MPs' expenses and allowances* (November 2009) can be found at Annex A of this note.

12. The legislation also sets out two general duties for IPSA. The first is that IPSA should have regard to the principle that it should act in a way which is efficient, cost-effective and transparent. The second is that it should have regard to the principle that members of the House of Commons should be supported in efficiently, cost-effectively and transparently carrying out their parliamentary functions. In both cases, IPSA must "have regard to the principle". This is important because it requires IPSA to make a judgement about how and the degree to which it supports MPs and ensures its own cost effectiveness in the light of what it considers to be the public interest. While being called upon to exercise its judgement, IPSA must present its annual budget estimate to the Speaker's Committee for the Independent Parliamentary Standards Authority (SCIPSA). This Committee must review IPSA's estimate and decide whether it is satisfied that the estimate is consistent with the efficient and cost-effective discharge by IPSA of its functions.

13. Thus the legislation creates an unusual relationship between the regulator and the regulated, which calls for careful stewardship. So far, IPSA has been able to pursue its functions in a way that has been judged efficient and cost-effective, as the following section demonstrates.

### C. IPSA'S RECORD

#### C1. *The scheme of expenses and costs and publication of claims*

14. In March 2010 IPSA introduced a scheme of expenses and costs, to be implemented from the beginning of the new Parliament, which it intended to be fair, workable and transparent. If these goals were achieved, then the prospect of restoring public confidence would be enhanced. The scheme of rules came into effect the day after the 6 May 2010 General Election. Publication of claims began in December 2010.

15. Some minor adjustments were made to the scheme in July 2010, following a short consultation. These ironed out some anomalies in the rules that had appeared when they were put into operation. In the autumn of 2010, we began a full review of the scheme and its impact, learning from evidence from our on-line claims system, from the experience of advising on the rules and assessing applications for contingency funding, and from the wide range of discussions that we had with MPs and their staff. Following this initial work, we consulted on a range of issues in January and February 2011. New rules, the Third Edition of the Scheme, came into force on 1 April 2011. We are required by the legislation to review the scheme regularly and currently intend to do so annually.

16. We are now embarking on the next annual review of the scheme. We do not envisage major changes this time, although we do plan to consult on a number of issues concerning MPs' staffing which will flow from the review which we have undertaken over the summer and into the autumn. We will, of course, also take into account the findings of the Committee on Members' Expenses Inquiry.

#### Fairness

17. IPSA intends its scheme to be fair both to MPs and to the interests of the public and the tax payer. A scheme that allows MPs to conduct their parliamentary functions effectively and safeguards public funds will have achieved this goal.

18. The National Audit Office (NAO) conducted a value for money study into the payment of MPs expenses and costs in the summer of 2011, reporting on 7 July. Amongst other things, it concluded that:

- There had been an increase in public confidence regarding MPs' expenses during the last year and that IPSA had significantly contributed to this improvement, which had been achieved in an impressively short period. (55% of the public thought the situation had improved.)
- The new scheme safeguarded and controlled public funds more effectively than the predecessor scheme.
- IPSA had demonstrated convincingly that there was no systematic abuse of the new scheme by MPs to date.
- The new scheme paid out some 15% less in 2010–11 than was paid out in 2009–10. This amounted to around £14.5 million less than before.

19. There were other findings concerning the service provided to MPs and IPSA's internal costs which are addressed below. These headline findings, which were broadly endorsed by the Public Accounts Committee's report of 23 September 2011, demonstrate that the central objectives of the new scheme have been achieved, in a short space of time.

20. The scheme provides a robust framework for the claiming of expenses and business costs by MPs. It is intended to provide MPs with the support they need to conduct their parliamentary functions and budgets have been set at levels which we judge to be sufficient to perform those functions. As fairness is one of the key criteria used in devising the scheme, we were conscious of the need to ensure that MPs should not have to fund legitimate costs from their own resources (we return to this later) and that the rules did not put up obstacles to the diversity of representation in Parliament.

21. While the development of the First Edition of the rules was strongly influenced by the CSPL recommendations, as well as the views expressed by the public and MPs in an extensive consultation, there were areas where IPSA exercised its independent judgement about what best met the public interest. It did so on the basis of evidence-based analysis. An example is the employment of family members as MPs' staff. CSPL recommended, and continues to recommend, that this should be prevented. We saw no evidence that the employment of family members had been widely abused, and we also saw evidence that employment of family members can be beneficial—for example, in a constituency office, helping MPs to keep in touch with the local community when they are in Westminster. Our judgement was that it would be wrong to stop the employment of family members already contracted to work for the MP and that for new MPs, employment of a single “connected party”, with appropriate safeguards, such as transparency about their employment, was justified.

22. It became clear as we reviewed the scheme that certain aspects of the rules were not operating as we would wish in terms of fairness and of supporting MPs in their parliamentary functions, and a number of changes were made to the scheme following consultation in early 2011. Amongst these were:

- Changes to the rules about family accommodation, allowing MPs to claim extra funding for dependent children up to the age of 16, or 18 if in full time education. The previous limit was five years of age. These changes are mirrored in the rules about family travel, where an MP can claim for travel by a spouse or partner if he or she is travelling with their children.
- A narrower definition of the London Area, which allowed a further 31 MPs to claim accommodation expenses.
- A supplement to the London Area Living Payment of £1,330 (raising it from £3,760 a year to £5,090) for MPs with constituencies outside Greater London, to help them with the costs of travelling into Westminster.
- A widening of the definition of “extended travel”, so that MPs could claim for travel outside their constituencies where it concerned a matter before Parliament.
- Allowing MPs to decide for themselves when they need to claim for a hotel or taxi after working late in Parliament.

23. Some other changes are shown below when we consider workability.

24. Although many MPs, in the NAO's survey of MPs in May 2011, did not acknowledge the beneficial effect of these changes to the scheme (which had only been in place since April); we are confident that the majority of the concerns that MPs had made known to us were addressed by the changes to the rules.

#### Transparency

25. Transparency is both a statutory duty and lies at the heart of IPSA's role as a regulator: the publication of MPs' expenses claims, as well as the annual publication of their overall spending, is central to that transparency. The key benefits of transparency are as follows:

- Publication of expenses claims and annual costs allows members of the public to judge for themselves whether public funds are being spent appropriately.
- The fact that claims, including those which are not-paid or part-paid, are going to be published is likely to act as a deterrent to making inappropriate claims.
- The public will be able to see that the expenses and business costs incurred by MPs are legitimate costs arising from the performance of their parliamentary functions. In time this should build public confidence further.

26. We have now published a full financial year's worth of MPs' claims for expenses and costs, covering 124,230 claims with a value of £16.2 million. In July 2011 we also published MPs' overall spending, broken down into the main categories of spending. The public was able to see, from these annual figures, that by far the largest category of spending is on staffing, followed by the costs of renting and running a constituency office. Together we describe these as “business costs”. Other, more direct expenses are essentially the costs of working from two locations: accommodation, travel and subsistence. All of these costs have to do with the support of MPs' parliamentary functions.

27. Anyone who looks at the annual costs across a range of MPs will see that there is considerable variation in the way that MPs carry out their duties. This will depend on the location of the constituency, its social make-up, the different responsibilities that an MP may have or take on, their personal views on the role of an MP, and so on. In this way, publication of these costs may provide a helpful insight into the role of MPs in this day and age.

28. IPSA publishes MPs' expenses claims on a two-monthly cycle. The first batch of expenses, for May–September 2010, was published in early December 2010. Thereafter, two months' worth of expenses are published with each cycle. When IPSA first published claims for expenses, there was considerable media interest and controversy. 14,370 unique visitors visited the expenses website over the following week. By the time the annual spending figures were published in July 2011, the comparable figure had fallen to 1,007. This reduction demonstrates that the routine publication of claims, in an open and understandable form, is one of the best ways to show the public that they are routine business costs incurred properly.

29. The two month cycle was chosen as it was sufficiently frequent to illustrate the routine nature of the claims, it captured recent developments and it was cost effective. Nonetheless, we are keeping the options under review. Our paramount concern is to achieve a degree of transparency which delivers the benefits outlined in paragraph 25.

30. We publish a good deal of detail on each claim, but not the receipts. There are two main reasons for this. First, we do not consider that the receipts would add any significant value to the detail already available. Second, the cost of redacting sensitive personal detail is a major operation (as it was in the House of Commons) and we estimate that it would cost at least £1 million a year to publish claims accompanied by receipts, as opposed to the £250,000 it is currently costing. The extra cost would not constitute value for money for the tax payer. Moreover, our judgement was endorsed by the Information Commissioner, who said, in a statement to the Daily Telegraph:

“We welcome the greater transparency that has been built into the reformed expenses system under IPSA, meaning that much more information will be routinely published than under the old system. Given the cost and time for individual redaction, we can understand IPSA's decision not to publish itemised receipts.”<sup>1</sup>

31. Transparency applies to IPSA, as well. We have our own publication scheme, which includes publishing IPSA Board minutes, and the remuneration and expenses of IPSA Board members and senior executives.

#### Workability of the scheme

32. We want the scheme to be understandable and as supportive of MPs' working practices as possible, bearing in mind that any set of rules will have rubbing points, given the variety of approaches taken by MPs to the job of an MP. Our experience of the first year of the operation of the rules was that many MPs required more flexibility in the way they could manage their budgets. We also found that IPSA was at risk of being drawn into micro-management of some MPs' activities, particularly in relation to office costs, making judgements about what was and was not in support of parliamentary activity that were properly left to the MP. Following consultation, we made two significant changes to the scheme to allow MPs greater discretion:

- The budgets for Constituency Office Rental Expenditure (CORE) and General Administrative Expenditure (GAE) were merged, to give MPs more flexibility in funding their parliamentary activities.
- The majority of the prescriptive rules about what could be claimed under office costs were removed, giving MPs more discretion. A small number of proscribed items of expenditure remain.

33. We have also given MPs greater flexibility in making claims for residential accommodation by removing the internal cap on rent within the accommodation budgets. The overall limit has not changed. The change means, for example, that if the rent includes a charge for utilities, the previous rental limits can be exceeded, while the MP stays within the overall budget limit, which allows for “associated” costs like utilities and council tax.

34. We made these changes because we judged that there was greater public confidence in and understanding about MPs' expenses and costs. The change in approach would help MPs carry out their parliamentary functions while not damaging that confidence. We see this as an evolutionary journey. We will continue to identify ways to allow MPs greater control and discretion as we judge that the public is thereby better served.

35. Concurrently, some MPs call for more rules, and more detailed rules, so as to remove any potential uncertainties. We believe that this is impractical and that a degree of uncertainty, or the need for judgement, is intrinsic in any system of rules. We further believe that MPs should be entitled to exercise such judgement and that concern over adverse comments will diminish as public confidence in the system grows.

<sup>1</sup> Statement made on 1 December 2011. It went on to say that “FOI requests for individual receipts can be made to IPSA. They would be dealt with on a case by case basis and personal information should be redacted where necessary.”

## C2. MPs' Pay and Pensions

36. IPSA's other two regulatory functions will occupy centre stage over the next year. It is our intention to conduct a thorough, evidence-based review of pay and pensions at the same time. On the assumption that we will shortly receive the powers to determine the pension scheme, it is our intention to continue the research that we have already begun, with a view to consulting formally in the spring of 2012. That will allow decisions to be taken by the end of 2012, with any new arrangements coming into force from April 2013 at the earliest.

37. The issue of resettlement grants for MPs who lose their seats will be considered as part of the review of MPs' pay. We will consult in the annual review of the scheme about a possible interim solution to cater for the possibility of an earlier-than-expected general election.

38. To begin our work on MPs' pay, we recently commissioned YouGov to conduct a public opinion survey as part of one of its Omnibus surveys, to test public understanding. The survey's results can be seen at Annex B. They show that a majority of the public have a good understanding of the current level of MPs' pay. They also broadly take the same view on comparable professions that has informed previous reviews, by the SSRB, of MPs' pay. There is currently little appetite for any system of differential levels of pay, to take account of factors like the number of years served or the costs of living in London. The findings of this survey give us a helpful baseline for further work in engaging the public. As with expenses and costs and the publication of claims, it is our judgement of the public interest which will inform our decisions on pay and pensions.

## C3. Accountability, value for money and IPSA's cost-effectiveness

39. It costs £6.4 million annually to run IPSA. In the 17 months that IPSA has been operating it has produced two budget estimates for approval by SCIPSA, its annual accounts have been approved by the NAO without qualification, it has been subject to a NAO value for money study and the consequent report by the Public Accounts Committee. The operation of the legislation that created IPSA is now being considered by the Committee on Members' Expenses.

40. There is a cost in time and resources of this scrutiny, but as a transparent and accountable organisation we welcome the opportunity to demonstrate that we are acting in the public interest and doing so in a cost-effective manner, continually looking for ways to improve value for money.

41. IPSA's formal accountability is to SCIPSA through its budget estimate, which SCIPSA must agree and lay before the House. SCIPSA must decide whether the estimate is consistent with the efficient and cost-effective discharge by IPSA of its functions. It may modify the estimate if it is not satisfied, consulting HM Treasury. To date, after detailed and lengthy scrutiny, IPSA's estimates have not been modified, although a portion of the estimate for the MPs' expenses scheme has been reserved by the Committee and would require a supplementary estimate by IPSA to be released.

42. IPSA is in no way complacent: we believe that it has delivered good value for money for the tax payer since its inception, but there is more to do. Value for money is concerned with achieving that which the taxpayer most values, through the best use of the public money available. Progress has been made on the key outcome for IPSA—restoration of public trust through the prevention of abuse and the proper control of public funds—as paragraph 18 above outlined. The question then becomes, has this public trust or confidence been achieved cost effectively? We believe that it has been, and SCIPSA, after deliberation, has endorsed that by approving the estimate.

43. In order to secure its independence, IPSA needed to be a stand-alone organisation, not located on the Parliamentary estate. This required investment in premises and other infrastructure to create a functioning organisation. The establishment of IPSA also had to be carried out at high speed so that a new expenses scheme was up and running at the start of a new Parliament. This was achieved. IPSA's implementation programme was praised by the Office of Government Commerce:<sup>2</sup>

“At the time of the first Gateway Review, in October 2009, the task looked well nigh impossible: to deliver accommodation, IT, systems and processes to a new organisation, and to staff it up ready for full operation... as the new Parliament gathered after the General Election—but with no certainty about the date of the Election... Eight months later, the impossible has been delivered... The opposition of some has not gone away, and the inevitable teething troubles of a new organisation have given the naysayers grounds on which to base their complaints. But this has been a success story, and deserves to be recognised as such.”

44. Start up costs were £4.4 million in the first year. These comprised the infrastructural investment and the cost of the implementation team and other staff needed to ensure effective operations in the early days of the organisation. The staffing complement has now fallen to 60, from 89 at its peak.

45. The NAO study calculated that IPSA had an administrative cost per claim for expenses and costs of £15.96. It noted that this had fallen from an average cost in 2010–11 of £30 (and a peak of £40), but this was nonetheless higher than the amount claimed in 38% of cases. On the surface this may still look high (although it is comparable with the administrative bodies of the devolved governments in the UK). But it is a cost which includes a share of the regulatory functions and the necessary overheads that come with independence. Thus

<sup>2</sup> OGC Gateway Process Review 0: Strategic Assessment, 1 July 2010. Available on IPSA website under “Corporate Reports”.



the figure is not comparable with typical costs of an in-house payroll and expenses function, be it in the private or public sector. The cost per claim, if we take from the study what the NAO called the direct costs, is £6.59. This is higher than around 21% of claims.

46. We continue to look for ways to drive down costs and are committed to making savings of 5% each year on existing operations to 2015. Indeed, in our budget for 2011–12, compared with 2010–11, on a like-for-like basis,<sup>3</sup> we have reduced staffing costs by 16% and operational costs by 10%. We will be reviewing all our areas of significant spending, benchmarking against other organisations where possible. We are also continuing to look at ways of streamlining our business processes, both to reduce cost and to reduce the administrative burden on MPs and their staff. This will include looking at ways to reduce the number of claims for small amounts, where the process of aggregation can combine assurance with simplicity.

#### C4. Support to MPs

47. IPSA's Corporate Plan, published in August 2011, in emphasising our duty to act in the public interest, concentrates on one of our primary aims: to determine and manage the provision of financial support to enable MPs to carry out their parliamentary functions, without undue burden, but in parallel with achieving increased public confidence. This reflects the legislative requirement to have regard to the principle of supporting MPs in efficiently, cost-effectively and transparently carrying out their parliamentary functions. It means that we will provide the most appropriate service to MPs, in the context of the available resources and our judgement of the public interest. That is our duty as an independent regulatory body.

48. IPSA has a set of key performance indicators which include a strong focus on the service that we provide to MPs and their staff. These include the following:

- We now have a target of processing at least 95% of reimbursed claims within 10 working days. We reduced this from 12 working days. In fact, at present claims are being processed, on average, within six to eight working days, as our processes become more streamlined and efficient.
- We have a target of payroll accuracy levels of over 99.75% in any one month. Currently the performance is 99.91%.
- We aim to resolve over 90% of correspondence items within five working days. The most recent performance reported is 95.4%.

49. We acknowledge that there were difficulties in the operation of the scheme in the early months as both IPSA and MPs and their staff adapted to new rules and processes, including the on-line claims system. Some payments were delayed, often because insufficient documentation was available. The process of registering documents for the first time proved difficult in some cases. While we sought to minimise difficulties, some transitional problems were bound to occur. We believe that much of this is now behind us. We continue to work with MPs to identify further improvements to the claims system.

50. Cash flow was a problem for some MPs, particularly in the weeks immediately after the election. We responded to this by allowing MPs to claim for “big ticket items” like computers and office equipment in advance on production of an invoice. Within a month, we had brought in an interest-free loan facility of up to £4,000. 263 such loans have been made to MPs. We introduced direct payments for office and residential rental payments in November 2010 and extended the scope of the payment card from travel to council tax and utilities. We have just this month announced a further package of measures which will help with cash flow, including the Trainline facility, which will have the added benefit to MPs of providing IPSA with all the information needed for reconciliation of payments and for publication. We estimate that MPs can now cover up to 71% of their costs through either direct payments or the payment card. We will look at ways of increasing this coverage further.

51. The spending figures for 2010–11 show that the majority of MPs were able to operate within the budget limits set for staffing, office rentals and general administrative costs. We established contingency arrangements for MPs who were not able to stay within budget limits for good reasons. On staffing this may have been due to very high levels of casework stemming from the social make-up of their constituency, or existing contractual arrangements with staff. On rentals, pressure may have been put on budgets where there was a shortage of suitable office space in town or city centres. On general administrative costs, some new MPs with high start-up costs faced difficulties. The latter has been addressed for the future by adding a start-up budget of £6,000, but for MPs over the past year, contingency arrangements funded the excess costs where necessary.

52. The contingency arrangements have therefore acted as a safety valve, allowing necessary flexibility in budgets while maintaining appropriately tight overall control of spending. In 2010–11, approximately £700,000 of contingency funding involving 140 MPs<sup>4</sup> was agreed by the Contingency Panel, although in the event, not all MPs spent up to the limit of what had been agreed. So far, in 2011–12, around £500,000 has been agreed. The reason why the amount agreed this financial year is almost as high as last year is because MPs with the

<sup>3</sup> Like-for-like means before adding the impact of scheme changes and additional responsibilities taken on.

<sup>4</sup> Overall, in 2010–11, 243 claims totalling £1,124,634 was authorised through the contingency fund, but not all of this comes through the Panel. Routine claims, based on existing policy, like maternity or long term sickness cover, were assessed through the normal validation arrangements.

same staffing or rental arrangements as before have been able to make a fast track application for funding, in order to minimise the bureaucratic process.

53. The issue of the time taken by MPs and their staff in making expenses claims is dealt with at paragraphs 66–70 below.

54. We will continue to develop the services that we provide to MPs in an evolutionary manner, balancing simplicity and ease of operation against assurance and transparency. Our approach will reflect the NAO's requirements, as our auditors, for a clear account of the deployment of public funds. We have no wish to be placed in the position that the old Fees Office faced in its last year, when it did not prove possible to identify where very significant sums of public money had been spent.

#### D. SPECIFIC QUESTIONS FROM THE COMMITTEE

55. Questions D1-D7 below are taken from the letter from the Clerk to the Committee to Sir Ian Kennedy, dated 27 July. These are broad questions, mostly based on the terms of reference of the Inquiry (see paragraph 1 of this submission). Some elements of the questions have been covered in this submission already, in section C. We do not repeat the answers in those cases.

56. The day before the 13 September oral evidence session, IPSA received a brief from the Clerk to the Committee outlining 40 questions that the Committee proposed to ask the following day. Those questions are set out at Annex C to this submission. In Annex C, where the issue has already been covered in sections C or D of this submission we simply make a reference to the relevant paragraphs of the submission. Where the question is not covered, an answer is provided. The answers reflect what was said at the evidence session on 13 September, but where it is helpful to elaborate, we do so.

*D1. How does IPSA define value for money in relation to Members' expenses, and how does it seek to achieve it?*

57. A definition of value for money and a discussion of IPSA's own costs are covered in paragraphs 39–46 above.

58. In relation to the spending on the expenses scheme, including staffing costs, IPSA, in framing its first estimate in May/June 2010, sought to ensure that budgets were sufficient for MPs to pursue their parliamentary functions, but not excessive. They were based to some extent on historical precedent and on advice from the SSRB about the number of staff needed to support the average MP. Costs overall were budgeted to be £11.7 million lower than under the House of Commons scheme.

59. The NAO, in its value for money study, noted that:

“We found that through its detailed rules, budget limits and evidence requirements the Scheme provides a strong basis for controlling public money and promotes regularity... we found that the interaction of the Scheme rules with IPSA's actual validation activities in the first year had enabled it to re-establish control over spending on MPs' expenses.”

60. While we have introduced more discretion into the rules and are streamlining our validation processes, we consider that the mechanisms that are still in place will be sufficient to retain proper control of costs.

61. As noted in paragraph 18, expenditure on MPs expenses and costs in 2010–11 turned out to be £14.5 million lower than in the previous year on a like-for-like basis. This would not necessarily constitute value for money if the objectives of the scheme (including having regard to the need to support MPs in their parliamentary functions) were not being achieved; but as we have argued above, we consider that the overall objectives of the legislation and the scheme are being met. The Public Accounts Committee has noted that the reduction in spending would not be an efficiency if it were the result of MPs not claiming for legitimate costs. We agree that it is important that MPs should claim for the costs incurred in undertaking their parliamentary duties. We do not have any quantitative evidence on the failure of MPs to claim for legitimate expenses and costs, although it appears that many told the NAO that this was the case.

62. IPSA is also addressing longer term value for money issues in a number of thematic reviews. At the moment we are conducting an in-depth review of MPs' staffing requirements. In 2012–13 we plan to conduct a review of MPs' accommodation. This may cover both office and residential accommodation. The accommodation issue was raised by the CSPL and IPSA consulted on it in preparing the First Edition of the scheme. Immediate solutions are not required, but a review next year could yield lessons in time for the next Parliament.

*D2. How does IPSA assess public confidence in its expenses scheme?*

63. We intend to survey the public annually so that we can discern any trends in the public mood. We also gauge public opinion through regular consultation, which includes on-line surveys. We will be consulting the public during the annual review of the expenses scheme later this year.

64. In November 2010, a YouGov public opinion survey showed that 59% of the public agreed that “The new independent regulator for MPs' expenses will make sure MPs are only paid legitimate expenses”. 13%

disagreed. 63% agreed that “The money it costs to monitor MPs’ expenses claims is worth spending”, with 11% disagreeing.

65. The NAO also commissioned a survey of public opinion in May 2011 and found that 55% of the public thought that the situation with MPs’ expenses had improved.

*D3. What measures are IPSA planning or considering to reduce the administrative workload imposed on Members and staff, and to cut its transaction costs?*

66. We consider that it is part of an MP’s parliamentary functions to render an account of how he or she has spent public funds. IPSA’s on-line claims system and its arrangements for publication of claims allows that to happen.

67. The NAO, in its value for money study, calculated the cost of MPs’ and their staff’s time taken up in claiming for their expenses. It estimated the annual cost to be £2.4 million. The NAO also calculates that MPs submit, on average, 226 claim lines a year and 16 hours per month of MPs’ and their staff’s time (combined) is spent on making claims. This would imply that each claim line takes 51 minutes to make. The NAO’s calculation includes not only making the claims on the on-line system, but all the preparatory work in assembling claims, time taken in making purchases and following up the claims with queries.

68. IPSA is able to measure the amount of time spent by MPs and their staff on the on-line system, actually making the claims. This amounts, on average, to 4 hours a month per MP. On average each MP is responsible for just under 19 claim lines per month. So this implies that each claim line submitted takes on average under 13 minutes online. That contrasts with the 51 minutes that MPs estimate each claim takes. Therefore, there is a disparity of 38 minutes per claim between overall time taken and time spent actually submitting the claim.

69. It is reasonable to assume that a fair amount of the activity preceding the submission of a claim would also have taken place under the paper-based House of Commons system. Therefore the cost of any additional activity involved in using the new system would not be the full amount of the NAO’s calculation. We have seen no detailed analysis of the cost to MPs and their staff of the previous system, but venture to suggest that the process of purchase, the collection of relevant papers and receipts and the frequent conversation between MPs and members of the old Fees Office was not inconsiderable. Only if this process is understood and taken account of can any reasonable estimate of any additional burden be made.

70. Furthermore, the figure of £2.4 million represents an opportunity cost, not an additional cost to the tax payer. It is the cost of rendering an account for the use of public funds—an important aspect of an MP’s parliamentary functions—and amounts to less than 2.5% of an MP’s time according to the NAO’s calculations.

71. Nonetheless, we are committed to reducing the administrative burden on MPs and their staff where it is consistent with maintaining public confidence in the system. We have just announced a new package of time-saving measures, including the Trainline facility and simpler processes for mileage claims. We have also invested a good deal of resource in helping MPs and their staff to become more familiar with the system, which will help to reduce the time they take making claims.

72. We will continue to work with MPs and their staff to identify further improvements to the system and are actively exploring other opportunities for introducing direct payments. We are also developing a “user survey” so that we can gather evidence from a wide range of MPs on what further changes they would find helpful.

*D4. Does IPSA consider that its schemes have placed less well-off Members and those with families, at a financial or reputational disadvantage by its expenses scheme?*

73. The implication of this question would seem to be that MPs without independent or alternative incomes do not have the option to fund their expenses from their own resources and thus have to subject their claims to publication, with a negative impact on their reputation if the media takes issue with any of their claims. Likewise, with regard to families, MPs who claim additional accommodation or travel costs run the risk of being criticised for doing so, with a possible impact on their family’s privacy.

74. It is important that MPs should feel able to claim for all their legitimate parliamentary costs. The available funding allows for this. Publication of claims, by demonstrating routinely that the claims being made are legitimate costs, should in time boost public confidence in the expenses system. This cannot be an overnight transition, but IPSA will play its part in communicating to the public the legitimacy and necessity of MPs’ expenses and costs.

75. References to “less well-off” MPs takes us to larger questions of remuneration and in particular, MPs’ pay. As noted in paragraphs 36–38, a review of MPs’ pay is under way.

76. We noted in paragraph 22 that the rules on family accommodation and travel were altered for the Third Edition of the scheme, to help ensure that MPs are able to accommodate dependants who need routinely to stay with them in both the locations in which they work—London and the constituency (if outside the London Area).

77. Probably the main financial difficulty faced by some MPs under a reimbursement scheme is cash flow. We have described the measures we have taken to ameliorate these problems, such as advances, interest free loans and more use of direct payments and the payment card, in earlier paragraphs. We will continue to look at how we can reduce further the amount of payments that initially have to be made by MPs themselves, where it is cost-effective to do so and where the public would understand that this is appropriate assistance.

*D5. Does IPSA consider that it has taken proper account of the variation in the way Members perform their duties?*

78. Yes. The experience of the last 17 months, meeting a wide range of MPs and their staff, visiting constituencies, consulting extensively, providing advice on the rules and the operation of the system, has given us a good insight into the role of MPs and the variety of approaches taken. By way of illustration of the contact that some members of IPSA have with MPs and their staff, the policy team, of four people, have made more than 20 constituency visits and have had more than 100 one-to-one meetings with MPs in Westminster. The IPSA training manager has had more than 550 meetings with MPs since May 2010. And there have been training days attended by 1,150 MPs' staff. This face-to-face contact is just one way of gaining knowledge about how MPs and their staff conduct their parliamentary activities and manage their expenses and costs, but a valuable one.

79. Our approach to the evolution of the expenses scheme, where we are increasing discretion for MPs, within a framework of rules that retain public confidence, is precisely to allow for the variety of ways in which MPs conduct their parliamentary functions. Where capped budgets prove to be insufficient because of an MP's particular circumstances, the contingency arrangements allow for an adjustment to budget.

80. The review of MPs' staffing requirements will provide further evidence of the different ways in which MPs perform their duties. In this respect we will welcome advice from MPs themselves on whether there is a core set of functions which should be taken account of. There is, of course, material on this already, but an up to date view will be helpful.

*D6. When will IPSA address the issue of Members' pay? What criteria is it considering?*

*D7. When will IPSA address the issue of Members' pensions?*

81. These questions are addressed in paragraphs 36–38 above.

#### E. FUTURE LEGISLATION

82. At the Committee's evidence session on 13 September, the Chairman of the Committee asked whether there were any changes to the legislation that IPSA would like to see.

83. Our view is that further legislation with regard to MPs expenses or wider remuneration is unnecessary. The current legislation provides a framework within which it is possible to operate cost-effectively and work towards the full restoration of public confidence in MPs' expenses.

*18 October 2011*

#### **Annex A**

##### FUNDAMENTAL PRINCIPLES OF THE MPs' EXPENSES SCHEME

1. Members of Parliament should always behave with probity and integrity when making claims on public resources. MPs should be held, and regard themselves, as personally responsible and accountable for expenses incurred, and claims made, and for adherence to these principles as well as to the rules.

2. Members of Parliament have the right to be reimbursed for unavoidable costs where they are incurred wholly, exclusively, and necessarily in the performance of their parliamentary functions, but not otherwise.

3. Members of Parliament must not exploit the system for personal financial advantage, nor to confer an undue advantage on a political organisation.

4. (a) The system should be open and transparent. (b) The system should be subject to independent audit and assurance.

5. The details of the expenses scheme for Members of Parliament should be determined independently of Parliament.

6. There should be clear, effective and proportionate sanctions for breaches of the rules, robustly enforced.

7. The presumption should be that in matters relating to expenses, MPs should be treated in the same manner as other citizens. If the arrangements depart from those which would normally be expected elsewhere, those departures need to be explicitly justified.

8. The scheme should provide value for the taxpayer. Value for money should not necessarily be judged by reference to financial costs alone.

9. Arrangements should be flexible enough to take account of the diverse working patterns and demands placed upon individual MPs, and should not unduly deter representation from all sections of society.

10. The system should be clear and understandable. If it is difficult to explain an element of the system in terms which the general public will regard as reasonable, that is a powerful argument against it.

11. The system should prohibit MPs from entering into arrangements which might appear to create a conflict of interests in the use of public resources.

12. The system must give the public confidence that high standards of honesty will be upheld.

## Annex B

### SUMMARY OF YOUNG SURVEY ON MP'S PAY

Sample Size: 2655 GB Adults

Fieldwork: 11–12 September 2011

| <i>QUESTION</i>   | <i>% OF RESPONDENTS</i> |
|---|-------------------------|
| <i>How much do you think Members of Parliament are currently paid as a basic salary (that is, not including any expenses or other allowances they receive on top of their salaries)?</i>  |                         |
| — Less than £40,000 a year  | 3                       |
| — Between £40,000 and £59,000 a year  | 18                      |
| — Between £60,000 and £79,000 a year  | 47                      |
| — Between £80,000 and £100,000 a year   | 19                      |
| — More than £100,000 a year   | 6                       |
| — Don't know  | 6                       |
| <i>Some people have suggested that MPs' pay should be set by linking it to the salary paid to people in another comparable profession. What kind of profession do you think would be the most appropriate to link MPs' salaries to?</i> |                         |
| — Basic-level public sector jobs, such as nurses or teachers.   | 10                      |
| — Mid -level public sector jobs, such as senior nurses, senior social workers, deputy head teachers.  | 19                      |
| — Senior public sector jobs, such as GPs, senior army officers, or secondary school head teachers.  | 31                      |
| — Top level public sector, such as heads of government departments and Chief Executives of local councils.  | 13                      |
| — Basic-level private sector, such as office workers or administrators.   | 3                       |
| — Mid-level private sector, such as bank managers and CEOs of medium size companies.  | 9                       |
| — Top level private sector jobs, such as a partner in a city law or accountancy firm, or senior management consultants.   | 4                       |
| — Other.  | 1                       |
| — Don't know.   | 10                      |
| <i>Apart from Government Ministers and the Leader of the Opposition, all other members of Parliament get paid the same basic salary. Do you agree or disagree with the following statements?</i>  |                         |
| <i>Long serving MPs should be paid a higher salary.</i>   |                         |
| — Agree   | 21                      |
| — Disagree  | 68                      |
| — Don't know  | 11                      |
| <i>MPs for constituencies in London should get higher salaries to reflect the cost of living.</i>   |                         |
| — Agree   | 29                      |
| — Disagree  | 61                      |
| — Don't know  | 10                      |

| <i>QUESTION</i>   | <i>% OF RESPONDENTS</i> |
|---|-------------------------|
| <i>All Members of Parliament should be paid the same salary, regardless of their length of service or the location of their constituency.</i> |                         |
| — Agree   | 56                      |
| — Disagree  | 32                      |
| — Don't know  | 12                      |

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## Annex C

### ANSWERS TO THE 40 QUESTIONS PROVIDED TO IPSA ON 12 SEPTEMBER IN ADVANCE OF 13 SEPTEMBER EVIDENCE SESSION

1. *A year and a half on from the start of the new payments system, how well do you think IPSA has done in implementing the aims of the Parliamentary Standards Act 2009?*

The answer to this question has been set out in section C of the submission.

2. *In what areas has IPSA found it challenging to implement the aims of the Act?*

The Chairman of IPSA highlighted at the evidence session the misunderstanding about IPSA's role in relation to MPs, which is not one of "client care" or "customer care", but of a regulator whose primary concern is the public interest. Paragraphs 6–13 of the submission tackle this and related issues.

3. *What lessons did you draw from the NAO's report, published in May? Did it contain anything that surprised you?*

The Chairman of IPSA highlighted at the evidence session the fact that the NAO survey of MPs showed that around a third of those who responded appear to favour the old system of allowances and limited publication. Figure 5 in the NAO's report shows, for example that 32% of respondents disagreed with the statement that "the regulator should continue to publish all claims" despite the statutory duty (under the CRAG Act 2010) of transparency; and 23% disagreed that "major changes were required to the old system".

At the evidence session, Nick Raynsford MP asked whether that third of MPs might equate to the new intake of MPs. There is no evidence that we are aware of that could substantiate this.

4. *In view of the aims of the Act, would it not have been better if you had been able to consider pay, expenses and pensions together, as a package?*

It might have been. However, IPSA did not receive the statutory powers to determine MPs' pay until May 2011, and awaits the equivalent powers for MPs' pensions. On the other hand, it was essential to have a new scheme for expenses and costs in place for 7 May 2010.

5. *One of the reasons for establishing IPSA was to restore public confidence in Parliament. What have you defined as "public confidence", and how have you sought to assess it?*

This question is covered by paragraphs 63–65 of the submission.

6. *Over the past 18 months, how has IPSA sought to improve public confidence in Parliament?*

The Chairman of IPSA explained at the evidence session that we aimed to improve public confidence by putting in an expenses and costs system that was rigorous and transparent and which enabled IPSA to demonstrate that MPs were making legitimate claims within this system. Section C of the submission examines IPSA's record in respect of the scheme and publication of claims. The NAO has found that there has been an increase in public confidence regarding MPs' expenses over the last year and that IPSA significantly contributed to this. See paragraph 18 of this submission for further detail.

7. *The aims set out in the Act are not only improving public confidence in Parliament but also supporting Members effectively in the performance of their duties. In what areas have you had to strike a balance between public confidence and enabling Members to do their duties effectively?*

As the Chairman explained at the evidence session, IPSA's statutory duty is to have regard to the principle that Members of the House of Commons should be supported in carrying out their parliamentary functions. He cited the need to deal with the toxic issue of mortgage interest subsidy, as a matter of public interest, although this has caused difficulties for some MPs.

Paragraphs 21–22, 32–34 and 47–54 provide examples of how IPSA is seeking to support MPs, within the regulatory framework it has established, and how it is embarked on a path of evolutionary change, which

will give MPs increasing discretion in how they deploy public funds provided that it is judged to be in the public interest.

8. *Given that 227 new MPs were elected at the 2010 general election who had no hand in the old system, is the current public standing of Parliament in your view as high as it should be?*

It is not for IPSA to make judgements about the standing of Parliament. What it can do is to work towards improving public confidence in MPs' expenses and costs, and, in the future, other aspects of their remuneration. If this continues to be successful then it may contribute to a wider confidence in Parliament.

9. *Is there a tension between the method of claims publication implemented by IPSA on the one hand, and improving public confidence in Parliament on the other?*

This is covered in paragraphs 25–31 and 73–74 of the submission.

10. *What definition of transparency has been used by IPSA over the past 18 months?*

This is covered in paragraphs 25–31 of the submission. At the evidence session, the Chairman of IPSA stated that one of IPSA's working principles was that it should render an account for how it uses public money and so should everyone else. This is what drives transparency.

11. *It is important that the public are able to make meaningful comparisons between MPs. IPSA publishes data on a bi-monthly basis—therefore, an MP might make a large claim in a particular month and be at the top of the table for a bi-monthly cycle; but over the course of a year might have been paid less than colleagues. What importance has IPSA placed on ensuring that data can be meaningfully compared between MPs?*

At the evidence session the Policy Director of IPSA noted that the publication of annual information for MPs' expenses and costs would allow the public to make meaningful comparisons. That annual information also makes a clear distinction between different types of costs.

12. *IPSA publishes aggregated data; that is, the combined total, or aggregate, repaid to each MP. What importance has IPSA placed on ensuring that data is disaggregated into meaningful categories?*

We regard it as important that data is disaggregated into meaningful categories. The annual information for 2010–11, published by IPSA, makes a distinction between Constituency and Staffing Costs (constituency office, general administration and staffing) and Direct Parliamentary Expenses (accommodation and travel and subsistence). For 2011–12 the constituency office rental and general administrative costs will be brought together as office costs.

The report on the *Annual Review of MPs' Expenses 2011* made clear throughout that the costs incurred by MPs are for legitimate parliamentary purposes and we will continue to play our part in getting this message across. The publication of claims is an important part of this communication, as the public can see for themselves what public funds are being spent on.

13. *In formulating its schemes, what consideration did the IPSA Board give to publishing the receipts to support MPs' claims?*

This is covered in paragraph 30 of the submission.

14. *What criteria or targets did IPSA set itself as regards value for money, and what comparators did it use?*

This is covered in paragraphs 39–46 and 57–62 of the submission.

15. *What evidence do you have that IPSA has met its value for money targets?*

The achievements identified by the NAO (outlined in paragraph 18 of this submission) combined with the cost savings achieved thus far (paragraphs 45–46) and the performance against KPIs (paragraph 48) are together evidence of significant progress on value for money. There is no single definitive value for money indicator.

16. *What estimate has IPSA made of the transfer of costs from IPSA to MPs' offices associated with the administration of the scheme?*

This issue is considered in paragraphs 66–72 of the submission.

17. *To whom is IPSA accountable?*

This is covered in paragraphs 39–41 of the submission. Ultimately, IPSA is accountable to the public.

18. *In what ways is IPSA accountable to the public?*

The Chairman of IPSA addressed this issue at the evidence session. IPSA needs to render an account of how it has spent public money. Partly it does this through scrutiny from SCIPSA and from the NAO, when its accounts are audited. But IPSA also has its own publication scheme so that the public can see, for example, the remuneration and expenses of IPSA Board members and senior executives, and the minutes of IPSA Board meetings. As at 13 October 2011, IPSA has also answered 231 Parliamentary Questions and 210 Freedom of Information requests.

19. *How well has the balance between IPSA's accountability and independence worked in practice?*

This is covered in paragraphs 8–13 of the submission.

20. *In what way is IPSA independent?*

This is also covered in paragraphs 8–13 of the submission. IPSA has a number of statutory duties. Thereafter it exercises its independent judgement about how to execute those duties. For example, the legislation requires IPSA to prepare a scheme of rules for MPs' expenses and costs. IPSA must consult in preparing the scheme or reviewing it; but the content of the scheme is for IPSA's decision alone. Likewise, IPSA will independently determine MPs' pay, and subject to receiving the powers from Parliament, MPs' pensions.

21. *During the past 18 months, has the media portrayal of IPSA been important to you?*

As the Chairman of IPSA explained at the evidence session, we take account of the media as an important channel of communication to the public. It is the public whom we seek to serve, and whose interests we seek to reflect.

22. *What regard has been paid by IPSA to its coverage in the media?*

The answer to question 21 also applies here.

23. *Are there any aspects of IPSA's scheme that have been influenced by the media?*

As the Chairman of IPSA noted at the evidence session, the public, whom we have consulted in a variety of ways in devising and reviewing the scheme of expenses and costs, receive information from a variety of sources, including the media. We trust the public to form their own views using all the information they have at their disposal.

24. *Is IPSA independent of the media?*

Yes, completely.

25. *To whom are Members accountable for their payments?*

MPs must render an account of their use of public funds, through IPSA, to the tax payer. That account will be audited, on the public's behalf, by the NAO.

26. *Given that the Act uses the word "allowance", what allowances has IPSA introduced in the past 18 months?*

The legislation uses the word "allowances" as a generic term—they are to be "payable in respect of specified kinds of expenditure or in specified circumstances". IPSA has specified a range of expenses and costs that are payable.

The only allowance, in the sense of a sum of money whose use is prescribed only at a high level and does not require detailed publication, is the London Area Living Payment, which can be claimed by London Area MPs, or other MPs who choose not to claim accommodation expenses. For the majority of London Area MPs (and any non-London Area MPs opting for it), the yearly payment is £3,760, before tax. For London Area MPs whose constituencies are outside Greater London, a supplement, taking the payment to £5,090 a year, may be claimed.



27. *What has IPSA understood by the accountability of Members for expenses claimed? Should the same compliance mechanisms apply for every claim, however small?*

The answer to question 25 is relevant here. Regular publication of claims is a key mechanism for rendering that accountability. At present we judge that it is in the public interest for all claims, irrespective of size, to be published. This plays an important part in demonstrating the legitimacy of all the expenses and costs incurred by MPs in pursuit of their parliamentary functions.

28. *What definition has IPSA used for the duties of Members? How did it seek to ensure that the payments system takes account of the different ways in which Members perform those duties?*

IPSA does not itself define the duties of MPs. We have taken note of definitions made by others, such as the House of Commons Modernisation Select Committee in 2007. The budgets and rules for costs and expenses have been devised so that the majority of MPs' approaches to the job of an MP can be supported. The changes in the rules in the Third Edition of the scheme, which give MPs greater flexibility and discretion in the deployment of their budgets, also helps to accommodate the variety of approaches. (See paragraph 32 of the submission). The contingency arrangements, described in paragraph 52 of the submission, are designed so that if the particular circumstances of an MP mean that he or she requires extra funding to fulfil their parliamentary duties, there is a mechanism to make a case for that funding.

29. *In seeking to understand the duties of an MP, how many visits have IPSA staff paid to MPs' constituencies?*

This is covered in paragraph 78 of the submission.

30. *In seeking to understand the duties of an MP, how many hours have IPSA staff or board members spent talking to Members one-on-one?*

This is covered in paragraph 78 of the submission.

31. *When establishing its scheme, how did IPSA seek to determine that it would be fair to less well-off Members and those with families?*

Paragraphs 73–77 of the submission are relevant to this question. When establishing the scheme, the IPSA Board discussed at length the appropriate budgets for accommodation and travel, which can have an impact on families. It was also a point of principle that MPs should not have to subsidise their parliamentary functions from their own resources. Where concerns emerged that the rules were not operating as we would wish, the rules have been changed—see paragraph 22 of the submission.

32. *What has IPSA done to ensure that it would not deter such people from becoming Members?*

The reasons for people wanting to become MPs are numerous. IPSA seeks to have a scheme of rules for MPs' and expenses and costs that is fair, workable and transparent. IPSA cannot presume to promote diversity of representation in the House, but it seeks to ensure that obstacles are not put in the way of such diversity. With each review of the scheme it conducts an Equality Impact Assessment (EIA). The EIA for the first annual review of the scheme is available on the IPSA website.

33. *Given that the majority of MPs do not have trust funds or independent wealth, what steps has IPSA taken to improve the "family-friendly" nature of its schemes?*

This is addressed in paragraphs 21–22 and 73–77 of the submission.

34. *Are you able to expand on IPSA's rationale for introducing these measures?*

Changes to the scheme are based on the analysis of the available evidence. IPSA seeks to have a scheme for MPs expenses costs which is fair, workable and transparent and serves the public interest. The answer to question 32 is also relevant here.

35. *What is IPSA's understanding of the reasons why Members might not submit legitimate claims?*

This is covered by paragraphs 73–77 of the submission.

36. *Does IPSA believe Members are being deterred from submitting legitimate claims? Has it made any changes as a result?*

The NAO's value for money study reported that many MPs had told them that they had not submitted claims to which they were entitled. IPSA can help to address this issue by continuing to look for ways to simplify processes, increase direct payments to suppliers and by demonstrating through the routine publication of claims, that MPs expenses and costs are entirely legitimate. Moreover, IPSA has routinely stated publicly that MPs should make claims to meet their expenses and costs. IPSA resisted, for example, the call by SCIPSA at its

last meeting to reduce the amount of money available to MPs, since it was based on a calculation of MPs' needs and, therefore, should be available to be claimed.

37. *If by submitting a particular claim an MP risks damaging their reputation, would you encourage the MP to submit that claim?*

We cannot advise MPs on what they should consider to be their reputational risk, but we would encourage MPs to claim for expenses and costs to which they are entitled.

38. *Have there been any specific measures proposed by the IPSA policy team that were rejected by the Board?*

The IPSA policy team work closely with the Board to develop policy options and to provide the Board with the evidence and analysis they need to take strategic decisions. Where it helps, the policy team will make recommendations, but it is an iterative process and not a question of acceptance or rejection. This is standard policy-making practice.

39. *Are there any specific issues that this Committee should consider in order to allow IPSA to do its work better?*

The submission sets out what we see as the key issues surrounding the operation of the legislation.

40. *Are there any specific extra powers that IPSA needs to fulfil its role better?*

This is covered in paragraph 83 of the submission.

### **Supplementary written evidence from the Independent Parliamentary Standards Authority (IPSA)**

#### **NOTE FROM IPSA ON POINTS RAISED DURING ORAL EVIDENCE ON 13 SEPTEMBER**

There were a number of points emerging from our oral evidence on 13 September where either Sir Ian or John undertook to write with more information. Much of this will be rolled into our written evidence, but there are three items where I think it would be more helpful if I send you the material separately.

There was a question raised as to whether we could distinguish between new MPs and returning MPs with respect to the statistic that a third of the MPs surveyed by the NAO did not agree that the system in place before the last GE required major change. Having had a look at the data provided by the NAO, there is not sufficient detail in their report in order to distinguish between new and returning MPs in respect of these data.

On the number of visits to our publication website, the below table provides the figures on a slightly different basis but illustrates, I think, the same point. You will note that the number of visitors within a week of the fifth cycle of publication was 6.3% of the number within a week of the first cycle of publication.

|                       | <i>2–9<br/>December<br/>2010</i> | <i>3–10<br/>February<br/>2011</i> | <i>7–14<br/>April<br/>2011</i> | <i>2–9<br/>June<br/>2011</i> | <i>7–14<br/>July<br/>2011</i> |
|-----------------------|----------------------------------|-----------------------------------|--------------------------------|------------------------------|-------------------------------|
| Total visitors        | 20,180                           | 9,865                             | 3,559                          | 2,248                        | 1,265                         |
| Total unique visitors | 14,370                           | 6,863                             | 2,844                          | 1,715                        | 1,007                         |

We also talked about the underlying costs of different approaches to publication. More specific data on the comparative costs of different approaches to publication are available in IPSA's submission to the Speaker's Committee for the IPSA (11 SCIPSA 24, available via the Committee's webpage at [www.parliament.uk/scipsa](http://www.parliament.uk/scipsa)). But if you think more data than this would be helpful then please say.

On the cost of administration of the old House of Commons system, the figure cited during the evidence session is, according to the Department of Resources:

“...not comparable with the operational costs of IPSA as an independent organisation. It does not include the costs of governance and the amount of management time that was incurred as it is unquantifiable. The ‘Fees Office’ gained significant economies of scale from operating within the House Service.”

See the full memo, dated 24 June 2010, at <http://www.publications.parliament.uk/pa/cm201011/cmselect/scomipsa/memo/ucm0702.pdf>.

On the time spent using the online expenses system, we're currently updating this data for our response to the Public Accounts Committee—so, rather than give you old data, I'll send you the latest data when I have it.

There was a query about our paying for staff training up front—as with any invoice for an item costing £200 or more, an MP can submit such a claim through the expenses system and receive an advance in respect of it.

Finally, there was an exchange with Guto Bebb about extended travel and MPs' ability to travel beyond their constituency on parliamentary business. We have now written to Mr Bebb on this matter. For your reference, the rules on this are set out at paragraph 9.3 of our Scheme at <http://www.parliamentarystandards.org.uk/IPSAMPs/Schemeold/Schemepartd/Pages/default.aspx>.

I hope this is helpful.

### **Written evidence from Dr Ira Madan, the House's Occupational Physician**

#### **BACKGROUND**

I have been contracted from Guy's and St Thomas' NHS Trust to the Houses of Parliament for one day per week since 1999. My role at the House of Commons is as a consultant occupational physician and senior medical advisor to the House authorities. My clinical work with Members of Parliament is based on-site on the Parliamentary Estate, within the Safety, Health and Wellbeing Service (SHWS). We offer a three-yearly medical screening for MPs and approximately 40% of MPs take up the offer. I personally undertake 50–70 screenings per year. The health screening focuses on the detection of cardiovascular risk factors, audiovisual deficits, diabetes and mental well-being. An important component of the screening programme is detection of risk factors for psychological distress and psychiatric illness. Therefore, the screening includes direct questioning on hours of work, enjoyment of work, perceived stressors at work, travel to and from the constituency, travel to and from London residence, hours of work, effort / reward balance, family, children and social support.

In addition, I undertake medical assessments of MPs with disabilities and report the degree of disability and adaptations that may be needed to fulfil the role of a MP. With the MPs' consent, a copy of my report is sent to the Independent Parliamentary Standards Authority (IPSA), in order for IPSA to consider if the MP is eligible for extra allowances to allow them to undertake the full duties expected of a MP.

#### **OBSERVATIONS DURING SCREENING MEDICALS**

(1) Since May 2010, a number of MPs have expressed concern to me about the amount of their working time which they perceive they are spending on completing and checking their expenses claims prior to them being submitted to IPSA.

(2) Many MPs have stated to me that supervising the completion and checking of expense forms for IPSA typically takes up to over 20 % of their time at Westminster and requires 10 hours per week or more of an assistant's time.

(3) Many Members specifically state that they find themselves becoming increasingly frustrated by the "facelessness" of IPSA and the bureaucracy of the system.

(4) Many Members have expressed deep concern that the way IPSA publishes itemised details of their expenses are open to misrepresentation when their local constituency newspapers publish the story.

(5) Since May 2010, the number of Members with dependent children has increased. A frequent complaint is that the travel of children and spouses to and from London is not adequately covered by Members' allowances. This leads to either a financial burden to members and / or tension in the family. The Members frequently state that their London flats are often not large enough to accommodate family during the week.

#### **MEDICAL PERSPECTIVE**

(1) As an independent medical advisor to Parliament, my main concern lies in the contribution that the current allowance system has on impairing the relationship that Members have with their families. Those MPs who develop psychological problems during their time in Parliament frequently find that the additional pressure placed on their personal relationships (through long hours and geographical separation, for example) is a significant factor. Common concerns are a lack of time spent with a partner and /or children. Spouses increasingly expect a larger contribution from partners in the upbringing of their children. MPs recognise that the nature of their job will inevitably disrupt their family life; but the current allowance system appears to obstruct rather than encourage members to spend as much time as their job allows with their families.

(2) My second concern lies with extra demand that the current allowance system is making on MPs and their office staff compared with the previous system. A mismatch in effort as compared with rewards in a job is known to be a major risk factor for psychological problems, especially depression. The role of a MP is hugely demanding. Not only do most MPs report working in excess of 70 hours per week, they also spend many of those hours away from their families and their social support network and they are increasingly scrutinised by the media. Although many of the rewards of the job of a MP have remained unchanged, in general, MPs are less trusted by the public than they were prior to the "expenses scandal" of 2009. From what MPs have told me during the medical screenings, it is apparent that the current allowance system is leading to a substantial increase in the effort that it takes for MPs to fulfil their role. It is my view that Parliament should

ensure that the effort required to fulfil the role of a MP is reduced as far as possible in order to minimise the risk of Members developing psychological symptoms during their elected period.

*Dr Ira Madan* MB; BS (Hons), MD, FRCP, FFOM  
Consultant occupational physician, Guy's and St Thomas' NHS Trust  
Honorary senior lecturer in occupational medicine, King's College London

3 October 2011

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### Written evidence from Rt Hon Peter Riddell

1. The public's satisfaction with MPs and Parliament has unquestionably been damaged by the revelations over members' expenses and the subsequent controversy. But voters were pretty sceptical about politicians beforehand and there is no easy way to rebuild confidence. The key questions are about a lack of understanding of what MPs do and about doubts over the effectiveness of members individually and of Parliament collectively.

2. My submission is based on my recent book "In Defence of Politicians—in spite of themselves". It also draws on the work of the Hansard Society which I have chaired since 2007, and which produces an annual Audit of Political Engagement on attitudes towards Parliament and Government. (Dr Ruth Fox, director of the Hansard Parliament and Government Programme is putting in a separate submission which highlights research on the experience of newly elected MPs and makes recommendations about IPSA.) For nearly 30 years until mid-2010, I was a political journalist based at Westminster, including commissioning and writing up opinion polls for nearly 18 years. I am currently a Senior Fellow at the Institute for Government, a non-partisan research charity.

3. There was never a golden age in which MPs were respected and trusted—just look at the cartoons of Gillray and Rowlandson two centuries ago or the Marconi scandal of a century ago. The polling evidence does, however, suggest that there was a period in the 1940s and 1950s when trust in government was higher than now. That may have been associated with victory in the Second World War, the creation of the welfare state and full employment in the post-war era. In retrospect, that may have been an aberration from a longer-term trend of scepticism, and occasionally worse, towards politicians.

4. Nonetheless, the expenses row has affected public views of MPs and Parliament. This is less about trust as such than about perceptions of the effectiveness of MPs and Parliament. According to the Hansard Society Audit, trust in politicians did not collapse in response to the expenses' disclosures. But that was mainly because it was already at a low level, at just 26% trusting politicians a "great deal" or a "fair amount", down just one point on the first Audit report in 2004. The public have always seen politicians as self-interested.

5. The worrying feature for MPs, and for the health of representative democracy, is that the scandal has had a wider impact on voters' views of Parliament. What happens at Westminster is seen as less relevant to peoples' lives. Public satisfaction with how Parliament works has dropped sharply, from 36% in 2004 to a low of just 27% in the most recent Audit. For the first time, more people disagree (39%) than agree (30%) that Parliament is working for "you and me". Voters do, however, draw a big distinction between their dissatisfaction with how MPs as a whole do their jobs—44%—and dissatisfaction with how their own MP is doing his or her job, 16%.

6. Similarly, the recently published two yearly survey of public attitudes conducted for the Committee on Standards in Public Life shows that MPs fall well short of public expectations of how they should behave on "telling the truth", "making sure public money is used wisely", "being in touch with what the public thinks is important", "owning up to mistakes"—and in virtually every case there has been a deterioration since 2008. The proportion believing that most MPs are dedicated to doing a good job for the public fell by 20 points to 26%, and there have also been sharp falls in the proportion thinking that MPs are competent at their jobs and are in touch with what the public thinks is important.

7. However, voters often do not distinguish between Parliament and Government, between backbench MPs and ministers. So the standing of politicians in general, and MPs in particular, suffered in the aftermath of the Iraq war—even though the vast majority of MPs had no direct responsibility for the decisions.

8. There is a deep ambiguity over the role of MPs. According to repeated surveys, many, if not most, voters think that most MPs spend their time furthering their personal and career interests. According to the 2010 Audit, nearly a half thought MPs should be spending their time representing the views of local people, while just 10% believed they were doing so.

9. In my "In Defence of Politicians" 9 page 20), I wrote:—"MPs complain, often accurately, that they cannot win. Their voters complain if they are not in their constituency, while they are attacked in the media for taking long holidays whenever Parliament goes into recess—though the Commons and Lords sit for longer than most other legislatures. MPs are much more assiduous in their constituency work than their predecessors half a century ago. Indeed, one worry is that they have become too constituency oriented, at the expense of their work at Westminster".

10. There is no evidence that voters are sympathetic to MPs complaints about the new system of member's expenses and the role of IPSA under the Parliamentary Standards Act 2009. Protests by MPs against IPSA are likely to be counter-productive in their impact on public attitudes, and portrayed by a generally hostile media as self-interested and whingeing. Any move to end the requirement for receipts for expenses would foster voters' perceptions that MPs are in it for themselves etc. This is nothing to do with the legitimacy or otherwise of complaints that many members are being penalised by the post-2010 regime and have been deterred from submitting legitimate claims. The point I am making is about perception, not the reality.

11. There is no magic solution. Satisfaction with MPs and politics generally has declined over a period of far-reaching constitutional reform and devolution. Increased transparency has, by revealing abuses, increased dissatisfaction rather than reduced it. Much of what the Committee on Standards in Public Life has proposed—in pursuit of rebuilding trust—has been desirable in its own terms, but has done nothing to increase public trust in politicians. None of this is an argument against greater openness. But it is an illusion to believe that voters can be persuaded to trust politicians again. The key is to increase knowledge about what MPs do—both at Westminster and in their constituencies—and for MPs to highlight what they are doing on behalf of their voters. MPs need to demonstrate their effectiveness. Public arguments about MPs' expenses are only likely to make voters more hostile.

*October 2011*

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#### **Written evidence from Dr Fiona Alexander**

We have offered an emergency GP service to both the House of Commons and the House of Lords since the beginning of 2004. This enables an overview of aspects of the general health and wellbeing of those Members seen.

In the first two years of our service we had a 30% higher attendance rate than for subsequent years, but clinics then settled into a pattern. 2010 and 2011 have been unusual. 2010 saw the lowest annual attendance, and 2011 is on course to be the highest attendance, with more Members seen from January to August 2011 than are usually seen in a normal year.

Since the beginning of Parliament in autumn 2010 there has been a notable increase in appointments. It would be difficult to extrapolate our findings to the whole of Parliament since we have seen approximately 10% of Members in this time. However the striking difference over the past 18 months is that consultations have been longer and Members less well. Over the winter, flu-like illness and chest infections were common and lasted for longer than in previous years. There were a number of cases requiring two and even three consultations for the same problem. This was not our experience with our usual GP population where there was little difference. Another significant change has been a large increase in gastrointestinal complaints compared to all previous years.

It would be reasonable to assume that stress and fatigue have played a part in this. Many of the cases I saw had been ill for two to three weeks with chest infections, or longer for other complaints, before seeing a GP. Gastrointestinal complaints in particular can be associated with stress.

Simple figures do not clearly show the degree of variation, giving only an indication of diagnosis. My overall feeling, having been the GP attending most of last winter's clinics, is that the Members I saw were physically more run down than has been the case in previous years and there were indications that stress was a contributing factor. Clearly this is a subjective opinion and there are many reasons why this may be the case. However with 25 years experience as a doctor, 16 of those as a GP, it is part of my clinical skill base to be able to assess psychological as well as physical factors within a short consultation.

In my opinion, from the specific point of view of Members Expenses, any factor affecting workload or travelling time will directly impact on stress levels and general health, whatever other factors are in operation at the time.

*14 October 2011*

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#### **Written evidence from Martyn Taylor, Compliance Officer for IPSA**

##### **BACKGROUND AND GOVERNANCE**

1. The Constitutional Reform and Governance Act 2010 amended the Parliamentary Standards Act 2009 (the Act) to establish the statutory post of the Compliance Officer for the Independent Parliamentary Standards Authority (IPSA).

2. The amendment was made following a recommendation by the Committee of Standards in Public Life (CSPL) that responsibility for investigating allegations about breaches of the rules of expenses should be vested in the independent regulator (IPSA), which should be able to appoint its own compliance officer for this purpose.

3. The amendment also sought to address concerns raised during and following the passage of the 2009 Act about the extent to which the originally enacted Commissioner for Parliamentary Investigations would stray into the territory of Parliamentary Privilege.

4. The Compliance Officer is, as determined by statute, appointed by IPSA's Board and reports to the Board. The Compliance Officer is functionally independent because of the officer's quasi-judicial role. The office holder is not part of IPSA's executive branch. IPSA's Board cannot direct the office holder in respect of any investigations or reviews he/she carries out, although the office holder must act within the statutory framework and procedures in respect of investigations and reviews, which, *inter alia*, establish a process for information sharing with IPSA.

5. The Compliance Officer's period of office is limited to one five-year term. When a vacancy arises, this may be filled by an interim Compliance Officer for a period of six months.

6. The Act stipulates that IPSA is responsible for providing the Compliance Officer with procedures for investigations. IPSA must consult the Speaker of the House of Commons, the Leader of the House of Commons, the Standards and Privileges Committee and any other person IPSA considers appropriate before determining these procedures. In practice, IPSA consults more widely and has worked closely with both previous Compliance Officers and the current office holder in developing these procedures.

#### REMIT

7. The Compliance Officer's remit is clearly defined in statute and is relatively limited. It is:

- to review, at the request of an MP, a determination by IPSA to refuse a claim in whole or in part, but only after the MP has first asked IPSA to reconsider the determination and giving it a reasonable opportunity to do so; and
- to conduct an investigation if the Compliance Officer has reason to believe that an MP may have been paid an amount under the MPs' allowances scheme (ie IPSA's MPs' Expenses Scheme) that should not have been allowed.

#### Reviews

8. The Compliance Officer for IPSA will, at the request of an MP, conduct a review into a decision by IPSA to refuse an expense claim in whole or in part.

9. A request for a Review may be submitted to the Compliance Officer only once an MP has asked IPSA to reconsider its initial decision to refuse a claim.

10. The Act stipulates clearly a number of actions the Compliance Officer must take when conducting a Review.

11. MPs may appeal the Compliance Officer's decision to the First-tier Tribunal.

#### Investigations

12. The statute states that the Compliance Officer may conduct an investigation if he has reason to believe that a Member of the House of Commons may have been paid an amount under the MPs' allowances scheme that should not have been allowed.

13. The Compliance Officer may conduct an investigation on his own initiative, at the request of IPSA, at the request of the Member or in response to a complaint by an individual. The Compliance Officer, by implication, therefore should not actively look for payments that should not have been allowed.

14. The statute further sets out various actions the Compliance Officer must take at various stages, in particular with regard to giving both MPs and IPSA an opportunity to make representations prior to making provisional findings, and again prior to making a statement of findings.

15. The statute includes an extensive Schedule about the recovery of overpayments and the issuing of repayment directions and penalty notices. MPs may appeal such directions or notices to the First-tier Tribunal.

16. The statutory framework also includes a duty on IPSA to determine procedures to be followed by the Compliance Officer in relation to investigations. These procedures (attached at Annex C)<sup>5</sup> are subject to consultation and carry near-statutory force. They set out in some detail the actions the Compliance Officer must follow when conducting an investigation, in addition to those on the face of the Act.

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<sup>5</sup> Not printed.

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**BRIEF CHRONOLOGY**

17. Following passage of the Constitutional Reform and Governance Act 2010, an interim Compliance Officer, Alan Lockwood, was appointed by IPSA's Board on 10 May 2010. His principal duties were to set up the compliance function and put in place policies and procedures relating to compliance and investigatory matters, and to recruit staff to ensure the office was capable of handling investigations.

18. In December 2010, shortly after IPSA began publishing details of MPs' expense claims made since the May 2010 General Election, the compliance function received a number of complaints. Compliance staff carried out the assessment and preparatory work required before complaints are progressed to the investigatory stage, and tested the various processes.

19. On 13 April 2011, following the arrival on 31 March 2011 of the permanent Compliance Officer, Luke March, the first Preliminary Investigations were opened.

20. During his tenure Mr March closed 15 Preliminary Investigations and progressed 21 to Substantive Investigations, with five Preliminary Investigations remaining open. Mr March also carried out one Review of a determination made by IPSA at the request of an MP.

21. On 27 July 2011 Mr March left and IPSA's Chairman, Sir Ian Kennedy, invited me to take on the Compliance Officer's duties on an interim basis from 28 July.

22. I have since completed 20 of the 21 Substantive Investigations opened by my predecessor, and have opened and completed one further Substantive Investigation. Details of these were published on 11 October 2011 on the Compliance Officer's website ([www.parliamentarycompliance.org.uk](http://www.parliamentarycompliance.org.uk)).

23. I have also closed three further investigations at the Preliminary stage and am currently considering conducting the two remaining Preliminary Investigations as well as considering a number of complaints. A full breakdown of cases is attached at Annex A.

**IS THE LEGISLATIVE FRAMEWORK ENABLING THE COMPLIANCE OFFICER TO CARRY OUT HIS FUNCTIONS?**

24. The question has been asked whether the current legislation and consequential procedures enable the Compliance Officer to carry out his functions with sufficient discretion to consider matters in a proportionate and judicious manner.

*Reviews*

25. Firstly, and briefly, it is my view that the statutory requirements in respect of Reviews (i.e. requests from MPs that the Compliance Officer review a determination by IPSA to refuse a claim) are concise and straightforward. They provide an effective framework within which the Compliance Officer can operate and should not cause any problems to the office holder in carrying out Reviews.

*Investigations*

26. Turning to investigations, it is my view that the Act gives the Compliance Officer the necessary discretion on whether or not to open an investigation.

27. In deciding whether or not to do so, the Compliance Officer must weigh up a number of factors when deciding whether or not to conduct an investigation, not least whether it is a matter that is appropriately and proportionately dealt with through the investigatory process or whether an alternative resolution should be considered.

28. Once the Compliance Officer has decided that a referral to him warrants an investigation, he must look both at the requirements of the Act and those set out in the Procedures for Investigations, as handed to him by IPSA.

29. The requirements under the Act are, to my mind, clear and un-contentious. A number of the provisions are mandatory whereas others provide the Compliance Officer with a degree of discretion.

30. IPSA's Procedures for Investigations set out further provisions about the way in which investigations are to be carried out.

31. IPSA has confirmed that the Procedures for Investigations were intended to provide the Compliance Officer with a degree of flexibility over how he carries out an investigation, whilst setting out a number of necessary actions he must take, such as keeping complainants informed and publishing information about the investigations to provide transparency and enhance confidence in the system. In practice, however, the current procedures have made conducting investigations more inflexible than intended.

32. Specifically, the requirements around conducting Preliminary Investigations before carrying out a Substantive Investigation are burdensome, both for the Compliance Officer and for MPs who may be subject to investigations for minor, technical breaches.

33. The compliance function and IPSA have worked together to develop alternative procedures to address the problems identified. On 11 October 2011, IPSA began consulting on a revised set of Procedures for Investigation. The proposed changes should, in my view, address these problems and will provide my successor with the room for manoeuvre required to carry out his or her duties successfully and proportionately. A copy of the consultation paper is attached at Annex D.<sup>6</sup>

#### IS THE COMPLIANCE FRAMEWORK ACHIEVING ITS POLICY AIMS?

34. To answer these questions, it is helpful, briefly, to consider the context within which the Compliance Officer was legislated into being and what Parliament hoped to achieve by doing so.

35. The Committee on Standards in Public Life recommended, following the passage of the Parliamentary Standards Act 2009 that the provisions for a Commissioner for Parliamentary Investigations, as created by the Act, should be repealed and that IPSA should be able to appoint its own compliance officer to conduct investigations.

36. There were good reasons why the envisaged Commissioner post would have been problematic, not least because of the lack of clarity about the proposed Commissioner's functions as compared with those of the Parliamentary Commissioner for Standards, and the difficulty in the proposed Commissioner's remit straying into the territory of Parliamentary Privilege.

37. Parliament was, however, legislating in a vacuum—both when it enacted the 2009 Act and when it was amended in 2010. It did not know what kind of scheme IPSA would put in place and the extent to which additional oversight would be required to prevent contraventions of the system. Parliament, therefore, adopted a belt-and-braces approach and put in place an additional regulatory backstop.

38. The Compliance Officer and associated compliance framework that Parliament consequently put in place provides reassurance on a number of levels:

- It allows MPs to appeal decisions by IPSA where they feel IPSA is at fault;
- It ensures real and visible separation from the administrator-regulator that is IPSA's executive function, enabling the independent post-holder to comment freely on IPSA's actions and processes—something an employee may feel inhibited from doing;
- It provides a transparent process for the conduct of investigations; and
- It provides MPs with a route to challenge the Compliance Officer's decisions by way of appeal to the First-tier Tribunal.

39. The presence of this degree of reassurance may play a contributory part in the overall effort to improve public trust in the wider question of MPs' costs and expenses—a key aspect of Parliament's consideration when enacting these provisions.

40. From my perspective, the priority is to ensure that the compliance function manages to provide this level of reassurance in a workable manner within the statutory remit, whilst also being cost-effective.

41. The experience of the current Procedures for Investigations given to the Compliance Officer by IPSA—which have near-statutory force—has, as set out above, shown them to be over-prescriptive, resulting in investigations taking longer than might be necessary, proving unnecessarily unsettling to Members under investigation, and—on a strict reading of the procedures—not providing the degree of flexibility the Compliance Officer may need when deciding how to progress an investigation.

42. Nevertheless, the procedures do not significantly impede the Compliance Officer from achieving the policy aims.

43. The proposed revisions to the Procedures for Investigation, currently under consultation, will, however, make the process simpler and clearer, and should significantly ease the way in which investigations are carried out in future.

44. The cost of the Compliance Function is also being significantly reduced (see details on resourcing at Annex B) with the operation now consisting of a part-time Compliance Officer and a full-time member of staff, down from a part-time Compliance Officer and three members of staff in June 2011.

45. IPSA and the Compliance Officer function are both relatively young and it feels premature to form a settled viewpoint on the post in its current legislative guise.

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<sup>6</sup> Not printed.



46. Moreover, the more reviews and investigations the Compliance Officer handles, the more internal “case-law” is created. This case-law will, in time, provide a valuable source of information—for MPs and for members of the public—for making a more useful assessment of the value of the function, as well as setting precedents which may allow cases to be dealt with more swiftly and consistently in future.

47. For these reasons, I do not believe that legislative changes at this time are either necessary or desirable. That is not to say that time will not demonstrate that a different approach and framework would be more satisfactory, simply that it is too early to make that call.

*11 October 2011*

Annex A: Breakdown of Compliance Officer’s cases

Annex B: Resources

Annex C: Procedures for Investigations<sup>7</sup>

Annex D: Consultation paper on the Procedures for Investigations<sup>8</sup>

## Annex A

### BREAKDOWN OF COMPLIANCE OFFICER’S CASES

#### REVIEWS

To date, there have been just two requests by MPs for reviews of IPSA’s determinations.

Of these, only one formal Review was conducted.

The other case was resolved by IPSA on reconsidering its own internal review of the matter.

#### INVESTIGATIONS

To date, some 41 investigations have been opened.

- 39 investigations have been closed:
  - 18 of these after a Preliminary Investigation, and
  - 21 after a Substantive Investigation.
- 2 investigations are currently open:
  - 1 Preliminary Investigation, and
  - 1 Substantive Investigation.

#### *Categories of Investigations*

The investigations were into the following expense categories:

|  |    |
|--|----|
| Accommodation                          | 2  |
| Constituency Office Rental Expenditure | 1  |
| General Administrative Expenditure     | 32 |
| Staffing                               | 2  |
| Travel & Subsistence                   | 4  |

#### COMPLAINTS

Since 7 May 2010, the Compliance Officer has received some 36 qualifying<sup>9</sup> complaints. Of these complaints:

- 35 were received from members of the public, and
- 1 from a Member of Parliament.

The number of complaints received in each quarter is as follows:

|                       |    |
|-----------------------|----|
| May–June 2010         | 1  |
| July–September 2010   | 1  |
| October–December 2010 | 9  |
| January–March 2011    | 7  |
| April–June 2011       | 5  |
| July–September 2011   | 13 |

<sup>7</sup> Not printed.

<sup>8</sup> Not printed.

<sup>9</sup> Qualifying complaints are complaints that provide specific information about an MP and which merit further enquiries before deciding on a course of action.

Of these complaints:

- 10 required no action;
- 7 were referred to the Parliamentary Commissioner for Standards as they related to matters for which he is responsible; and
- 12 have resulted in investigations:
  - 9 of which were closed following a Preliminary Investigation,
  - 2 of which were closed following a Substantive Investigation, and
  - 1 of which is currently the subject of a Preliminary Investigation; and
- 7 are currently being assessed by the Compliance Officer.

#### Categories

The complaints can be broken down into the following categories:<sup>10</sup>

|  |    |
|--|----|
| Parliamentary Commissioner for Standards | 7  |
| Accommodation                            | 5  |
| Constituency Office Rental Expenditure   | 1  |
| General Administrative Expenditure       | 11 |
| Staffing                                 | 8  |
| Travel & Subsistence                     | 8  |

#### Annex B

### RESOURCING THE COMPLIANCE FUNCTION

#### PAST

1. During the set-up period, the office was staffed by an interim Compliance Officer, Alan Lockwood, working three to four days per week, alongside two full-time members of staff.

2. Following the recruitment of the permanent Compliance Officer, Luke March, some 38 preliminary investigations were opened simultaneously. These had been in preparation in the period running up to Mr March taking up his position.

3. To deal with the large number of simultaneous investigations, the compliance function took on an additional temporary member of staff for a period of three months. This member of staff left the office at the end of June 2011.

#### CURRENT

4. Following my appointment on 28 July 2011, I reviewed the office's staffing composition. Based on the number of active investigations and the number of complaints, I took the view that the existing staffing arrangements were not sustainable and decided not to extend the contract of one staff member beyond the end of August 2011.

5. Following a further assessment, I took the view that the role of the Compliance Officer itself should not be a full-time post and at the start of October I reduced my hours to three days per week.

6. The current staffing component of a part-time Compliance Officer and a full-time Investigations Officer in my view places the compliance function on a realistic and manageable footing, although there should be provision in the Compliance Officer's budget to bring in, on short-term contracts, expert investigators should cases merit it. IPSA's Board has agreed this approach.

#### FUTURE

7. A significant increase in complaints is a distinct possibility in the period running up to a General Election campaign. Although many of these are likely to be vexatious or without merit and, principally, politically motivated, it is quite possible that a number of issues of substance may be brought to the Compliance Officer's attention.

8. I have therefore recommended to IPSA's Board that both IPSA and the permanent Compliance Officer take this into account when planning the Estimate in both the year before and the year of the next scheduled General Election (2014–15 and 2015–16). IPSA's Board has accepted this recommendation.

#### BUDGETS

9. The cost of the Compliance Operation in 2010–11 was £307,000. This figure includes the cost of staffing, professional services and set-up costs, and a fair apportionment of overheads from IPSA for the cost of office rental, IT equipment and services, utilities and janitorial services.

<sup>10</sup> Individual complaints may cover multiple categories, which explains the higher totals in this table.

10. The estimate for 2011–12, approved by the Speaker's Committee for IPSA, was £340,000. Current projections point to the necessary funding falling to around £265,000, a reduction of approximately £75,000, or 22%. On staffing alone, the reduction is likely to be in the region of 25%.

11. Although no estimates have yet been prepared for 2012–13, the expectation is that the sum required will be significantly below the 2011–12 estimate, and is likely to be in the region of £190,000, a reduction of around 45% in total, and around 50% on staffing.

### Written evidence from the Committee on Standards in Public Life

1. The Committee on Standards in Public Life welcomes this opportunity to give evidence to the Committee on Members' Expenses inquiry into the Parliamentary Standards Act 2009.

2. By passing the 2009 Act Parliament decided that responsibility for operating and determining any future changes to the expenses regime should be given to an independent body. We regard it as crucial that the operation of, and any future decisions about, the structure and level of expenses payments will not be taken by those with an interest in the outcome.

3. MPs need to be properly supported to carry out their important job. It is clear that there have been a number of difficulties with the introduction of the new scheme and that Independent Parliamentary Standards Authority (IPSA) has yet to gain the full confidence of all MPs. It appears that most of the difficulties that have arisen have resulted from the way in which the scheme was being implemented and administered rather than with its underlying principles. It is important that the two do not get confused.

4. When our report<sup>11</sup> on MPs Expenses was published in 2009 we indicated that despite the welcome creation of IPSA, we were concerned that aspects of the Act had been rushed. We made a number of recommendations which were subsequently enacted in the Constitutional Reform and Governance Act 2010. In addition we have commented publicly on consultations undertaken by IPSA and we also commented on the new arrangements in our Annual Report in September 2010.

5. We have the following points to make on the issues the Members Expenses Committee is examining.

#### PUBLIC CONFIDENCE IN PARLIAMENT

6. As mentioned above, Parliament's decision to remove MPs' role in setting their own expenses regime and creating IPSA was in our view important in fostering public confidence in Parliament.

7. It is also important that:

- Everyone in Parliament should be committed to the importance of embedding the Seven Principles of Public Life. In particular it is essential that there is accountability, integrity and leadership both collectively and individually.
- IPSA should be seen to implement the new regime to the highest professional standards and with demonstrable independence of Parliament.
- The House should be ready to impose robust sanctions on any MPs whose behaviour is found to be below the standards expected.

#### EMPLOYMENT OF FAMILY MEMBERS

8. We recommended in our report that new MPs should not be able to use their expenses to employ family members at public expense as such arrangements are at odds with good employment practice in the public and private sectors. Existing MPs who already did so should be allowed to continue for one more Parliament. We were disappointed that IPSA chose not to implement this recommendation, though they have limited MPs to the employment of one family member. This practice would be regarded as highly unusual in other sectors. We continue to be concerned about the potential for abuse—perceived or otherwise—which this creates, with the possibility of further damage to Parliament's reputation.

#### VALUE FOR MONEY FOR TAXPAYERS

9. In our view the new arrangements ought to provide better value for money to the taxpayer than the previous scheme because they control public funds more effectively. This was confirmed by the NAO in its recent value for money scrutiny.

10. We have been concerned by reports that some MPs have been inhibited from claiming expenses to which they are properly entitled. If this continues to be a problem, it should be addressed. MPs should not be prevented from obtaining the support they need.

11. In our report we made a recommendation that a commercial agency should be employed with the task of finding and maintaining rented accommodation for new MPs, similar to a scheme in place in the Ministry

<sup>11</sup> Committee on Standards in Public Life, Twelfth Report MPs' Expenses and Allowances, Supporting Parliament, Safeguarding the Taxpayer Cm 7724.

of Defence. As far as we know, IPSA has not explored this option in any detail. It remains in our view a worthy and serious analysis to see if it could help simplify the arrangements for MPs, remove some of the difficulties with the detailed rules on accommodation and potentially provide better value for money.

#### ACCOUNTABILITY

12. The new system is much more transparent and accountable than its predecessor.

13. In our report we recommended that rejected claims should be published in the same way as accepted ones. We continue to believe that it was right, initially, to do so. But we also believe that there could be advantage in reviewing that requirement in the light of experience. Our understanding is that the Scottish Parliament also published rejected expenses claims initially but has since stopped doing so without any loss of public confidence.

14. IPSA is accountable for the decisions it takes—both to the general public and to Parliament through the Speaker's Committee on IPSA. It is important that this form of accountability continues to be robust.

#### ABILITY OF MEMBERS TO FULFIL THEIR DUTIES

15. The administration of an expenses system is not an end in itself. The purpose and primary function of the expenses scheme is to support Members of Parliament effectively in carrying out their duties.

16. In its recent value for money scrutiny of IPSA the NAO commented that:

“IPSA had done well to create a functioning expenses scheme which safeguards public money and has made a significant contribution to increasing public confidence. However, as an expenses system needs to manage an inherent tension between preventing misuse of money and enabling an organisation's core business to be done well, IPSA has failed to give sufficient regard to the impact the Scheme was having on the ability of MPs to do their job, or to the costs falling upon them.”

17. Following its most recent consultation on the Scheme, IPSA made a number of changes including more help for MPs with families and widening the number of MPs who are able to claim rented accommodation. It is possible that there may still be some further way to go in achieving the balance referred to by the NAO.

18. As part of this, it is our view that it is a proper function of a regulator to be prepared to give advice on the implications of the regulations for which they are responsible, and that they ought to be able to do so without prejudicing the fact that ultimately it is an MP's own responsibility to ensure the legitimacy of their claims.

#### MPS' PAY AND PENSIONS

19. IPSA was given responsibility for determining and setting the level of any increase in MPs' pay in May and will shortly be given responsibility for pensions as well. Despite the potential for controversy in both these areas we very much hope that IPSA will be allowed to make independent determinations without further outside interference, and that both Parliament and the public will accept these when they are made.

*September 2011*

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### Written evidence from Mr Hugh V Thomas

#### INTRODUCTION

1. I am very grateful to the Committee for the opportunity to submit my comments and observations on its current review of the operation of the Parliamentary Standards Act 2009.

2. Following qualification as a barrister and call to the Bar at Lincolns' Inn in 1986, I pursued a career in the City principally as Legal Counsel or Compliance Director/Officer in a number of large UK and international financial Institutions. In these senior roles I also advised upon the international aspects of regulation and have experience in the laws and regulations of a number of European countries in addition to the US and Asia.

3. Some three years ago, I had the opportunity to accept the role of Head of Compliance of the Conservative Party which I undertook until just before the last general election. In that role I advised the Party nationally on its activities relating to the Political Parties, Elections and Referendums Act 2000 and its relationship with the Electoral Commission and also the leadership of the party in the House of Commons and the House of Lords in relation to transparency, allowances and related issues. During that time I was also asked by the Leader of the party to advise the Conservative MEPs in respect of their expense and allowance arrangements following some revelations in the press. After ceasing my role as Head of Compliance of the Conservative Party, I was asked by the Leadership of the Conservative MEPs to continue to undertake an advisory role in respect of their expenses, allowances and transparency.

4. Currently, in addition to my advisory role with the MEPs, I also undertake consultancy roles with international investment firms in the City and elsewhere in relation to their Compliance and Regulatory

activities. I am also an ordained priest in the Church of England and combine all the above with a part-time role as priest at a church in the City of London.

5. I have been very fortunate in having been able to leverage substantive and practical experience of complex regulatory environments into my previous and current roles relating to the UK and European Parliaments.

#### BACKGROUND AND CONTEXT

6. The Committee has asked for comments in relation to the operation of the Parliamentary Standards Act 2009. However, also of direct relevance is the Constitutional Reform and Governance Act 2010 which, amongst other things, brought in changes to the scope of the Parliamentary Standards Act 2009 and introduced the role and terms of reference of the "Compliance Officer" of IPSA. For the purposes of my submission I will refer to both pieces of legislation.

7. When the Financial Services Act 1986 was passed, it was done in the context of the proposals by Professor L C B Gower who had produced a report (perhaps in a somewhat similar context to the report by Sir Christopher Kelly concerning MPs' expenses) following a number of highly publicised scandals during the late 1970's and early 1980's. Professor Gower recommended a new regulatory framework which would, it was hoped, restore the confidence of the public in the City and investment companies.

8. As Members of the Committee might be aware, since the passing of the Financial Services Act 1986 there have been many changes to the structure of regulation in the City. Whereas the Act originally established the "Securities and Investments Board", in line with the original purposes of the Act many changes, various changes in structure have been made whereas the Act has only recently been superseded by the Financial Services and Markets Act 2000. In a similar way, it is suggested that, in line with the original purposes of the legislation, further changes and improvements may need to be made to the Parliamentary Standards Act 2009 over a period of time to ensure that it fully meets the purposes for which Parliament intended. In the area of regulatory law this is an understandable and reasonable transition. The appropriate timescale for such a transition is another matter. Neither an effective regulatory system nor Rome was built in a day!

9. In the same way as in relation to the regulation of investment business before 1986 a return to the prior discredited "old" arrangements is not an option. As I found in the City, experienced people will be able to survive and prosper in a new regulatory environment in which at least some of them initially thought was unreasonable, unworkable and inappropriate. My experience with MPs and MEPs gives me some confidence that most will soon (if not already) appreciate the merits of a transparent system so that they can get on with the job for which they were elected (and for which they are paid).

#### DEVELOPING AN EFFECTIVE AND EFFICIENT SYSTEM?

10. Much has been reported regarding the apparent inefficiencies and lack of cost-effectiveness of IPSA in the recent past. However, it should be recognised that, unlike a financial services regulator (like the FSA), IPSA is both "regulator" and "paymaster". It is "regulator" of the activities of MPs in respect of the use of their allowances and "paymaster" of their allowances and also their salaries. This dual role can, I believe, cause confusion.

11. One of IPSA's goals, as stated in Sch 1 para 10 of the Parliamentary Standards Act 2009, is to "...do things efficiently and cost-effectively". In order to meet this fundamental aim, IPSA must so conduct itself that it can be seen to meet its "paymaster" role whilst not compromising its "regulator" role.

12. The importance of these matters was further emphasised when Parliament underlined the importance of "efficiency and cost-effectiveness" by adding section 3A into the Parliamentary Standards Act 2009 by the terms of section 28 of the Constitutional Reform and Governance Act 2010 right at the start of the Act and not relegated to a distant schedule!

##### *Transparency etc*

*(1) The Parliamentary Standards Act 2009 is amended as follows.*

*(2) After section 3 insert—*

##### *"3A General duties of the IPSA*

*(1) In carrying out its functions the IPSA must have regard to the principle that it should act in a way which is efficient, cost-effective and transparent.*

*(2) In carrying out its functions the IPSA must have regard to the principle that members of the House of Commons should be supported in efficiently, cost-effectively and transparently carrying out their Parliamentary functions."*

The additional provision (Section 3a(2)) states that IPSA must not only look at its own activity but ALSO the activity of Members of the House of Commons in how they are supported in determining efficiency and cost effectiveness.

13. Recent reports from the National Audit Office (July) and the Public Account Committee (September) indicate that efficiency and cost-effectiveness for the "users" of the system have not been met. Therefore, one must ask whether IPSA is currently fulfilling all its statutory duties.

14. There are no specific provisions in the Parliamentary Standards Act 2009 which determine exactly how IPSA should, or should not, administer the expenses and allowances scheme for MPs. In fact section 6(1) of the Parliamentary Standards Act 2010 merely states briefly that “No allowance is to be paid to a member of the House of Commons under the MPs’ allowances scheme unless a claim for the allowance has been made to the IPSA”. All the administrative details which were determined to effect this action were created and developed by IPSA itself under its own authority.

15. In the National Audit Office report published in July they specifically made mention of the need for “... a more ‘risk based approach’—for example, identifying low risk claims and carrying out spot checks, rather than physically checking every single claim that comes in—as they were published anyway...” (extract from BBC News 7 July 2011)

16. On the basis of my own experience in the City and elsewhere, no company (large or small) would dream of checking or verifying every single transaction or trade. In fact, it would be fair to say that no major regulatory body would consider the need for 100% verification and checking on an ongoing basis (unless possibly in an investigatory context). No City Compliance Director would ever have the resources or ability to screen and have checked every single trade. However, this does not mean that the principle of “good compliance” is diminished. It is purely practical good sense—as I believe the National Audit Office was trying to indicate.

17. Of course, since the provisions affect the direct payment of public money, a direct comparison with all the examples from the City and elsewhere may not be perfect. However, in this context it is worthwhile noting that the Constitutional Reform and Governance Act 2010 did seek to allay some concerns by inserting in Section 6 (subsection 8) of the Parliamentary Standards Act new provisions requiring the publication of information concerning each claim and payment from a MP. In this way, overt transparency in the process should lead away from the need from over-detailed regulation and checking—which is in any event not often effective.

18. On the basis of the evidence produced by the Public Accounts Committee and the National Audit Office it would appear to me that there is clearly no effective “risk-based” approach at IPSA—to the extent that the National Audit Office also reported that “... it is striking that 38% of claims are for less money than the average cost of administering them.” Further the National Audit Office also reported that of the 134,696 claims that were processed in 2010–11 all had been checked at least once, and some more, but only 0.5% had been rejected. If this was a “risk-based” approach, then the usual commercial approach would be to reduce the sampling size on the basis that the system seemed to be working!

19. The recent report of the Public Accounts Committee also revealed that 85% of MPs complained they had to spend too much time dealing with expenses. The comment mirrored earlier comments made in earlier hearings of the Speakers’ Committee on IPSA (“SCIPSA”). Whereas, I am aware that there have been debates about exactly how much time a MP and their staff actually spend (or need to spend) on completing claims for IPSA it seems clear that there is a significant “perception gap” between what MPs think (and experience) and what IPSA perceives.

20. On the basis of the comments in the above paragraphs it does occur to me that there is at least some evidence that the provisions of Section 3A of the Parliamentary Standards Act 2009 governing the “General Duties” of IPSA are not being completely fulfilled.

21. The observations and comments from the Committees that have examined the arrangements of IPSA have not indicated that a change in the principal provisions of the Parliamentary Standards Act 2009 are needed. I would agree with this position. What is needed is more effective implementation.

22. The general provisions of the Parliamentary Standards Act 2009 (as amended) are, indeed, general but do provide a reasonable basis for the implementation of a practical system to succeed the “Fees Office” arrangements in the House of Commons.

#### THE ROLE OF THE IPSA “COMPLIANCE OFFICER”

23. The role of “Compliance Officer” was not initially covered under the terms of the Parliamentary Standards Act 2009, but added by the provisions of the Constitutional Reform and Governance Act 2010. The Terms of the Compliance Officer’s role are set out in Sections 9 & 9A of the Parliamentary Standards Act 2009 (as amended).

24. From my perspective and experience as a Compliance Officer and Director in the City and in Westminster I was somewhat surprised at the terms of reference. They appear very restricted, and the comments made by representatives of IPSA in evidence to SCIPSA and the Committee on Members’ Expenses indicate to me that the role of the IPSA Compliance Officer is quite separate from the day-to-day work of IPSA. In fact, I might even describe the role of IPSA Compliance Officer as more of “investigations officer” than “compliance officer”.

25. The role of a “Compliance Officer” in a financial firm (and as I also know from my personal experience as a Head of Compliance with a political party) is NOT just an investigator when things might go wrong. A good compliance officer should be integrated in an organisation as the “eyes and ears” of the Chief Executive/

Leader. It is a role where daily work to prevent problems goes on unnoticed. In fact, the main aim in my experience is for a good Compliance Officer not to be noticed in public at all! A Compliance Officer should be the moral and ethical “conscience” of an organisation who is not afraid to criticise the actions by senior colleagues, who has a direct and uninhibited reporting line to the Chief Executive and unfettered access to all parts of the organisation at any time.

26. Where a Compliance Officer’s role is restricted to the type of investigatory work as indicated for IPSA then I believe that it would be difficult to effectively understand and guide the organisation.

27. If the Compliance Officer was satisfied with the risk controls in place then he/she might be prepared to approve changes in procedures to streamline processes. In that regard, a good Compliance Officer is really an “internal regulator”.

28. Further, a very important role for any Compliance Officer (in the City or Westminster) is the ongoing training and the familiarisation of staff of required procedures and risk controls and what is expected by the company of them—from an ethical perspective. In the City there are “whistle-blowing” arrangements in most companies to protect staff who are concerned.

29. In the context of IPSA, the relationship between the IPSA Compliance Officer and MPs seems not to be clear. The MPs are the “clients” or “users” of the system and hence the Compliance Officer could also usefully be a guide to them also. In my role as head of compliance of the Conservative Party in Westminster I developed good working relationships with not only the central administration of the political party but also senior MPs and the political leadership of the party.

30. On the basis of the terms of reference of the IPSA Compliance Officer and how I have heard his role described, I am concerned that the Compliance Officer role at IPSA is not the effective “check and balance” and “trusted advisor” to IPSA and the Board which would be the usual expectation in such a role elsewhere. I also note that the most recent Compliance Officer of IPSA resigned after a short while in the post stating that “...it was not the right role for me”. Previously, IPSA had an interim Compliance Officer and currently has an Interim Compliance Officer. It is concerning to me that this important role has had no stability in IPSA.

31. Further, I believe that to be an effective IPSA “Compliance Officer” the role needs to have a broader brief than that described in the legislation—including possibly a seat on the Board, or at least with independent access to a senior Board member and unfettered access to all parts of IPSA. An alternative might be for the IPSA “Compliance Officer” to have an obligation towards SCIPSA directly—in a similar way in which a City Compliance Officer is directly licensed by the FSA.

#### WHERE NEXT?

32. I believe that the fundamental broad provisions of the Parliamentary Standards Act 2009 are good and do enable a fair and reasonable system of expenses and allowances (and other matters) to be administered for MPs and their staff. As I have indicated, I do not believe that changes are needed to the principal provisions of the Parliamentary Standards Act 2009 are necessarily needed.

33. However, I would agree with the comments from the National Audit Office and others that the manner in which the arrangements are administered is less than helpful for Members of Parliament. The arrangements need to be more effective and not more complex.

34. It is clearly fundamental to the continued restoration of public confidence in the financial expenditure activities of MPs that an independent authority for the paying of their monies is used. Returning to “old” arrangements is neither feasible nor desirable.

35. However, if the central concern of the public is the fair and cost-effective spending of taxpayers’ money to support the work of their Members of Parliament, then the manner in which IPSA operates in the context of the Parliamentary Standards Act 2009 would seem to need to be reviewed and revised to some extent.

36. The manner in which IPSA have chosen to operate and implement the provisions of the Parliamentary Standards Act 2009 would seem to me at least to raise some doubt as to whether the provisions of section 3A of the Act concerning efficiency and cost-effectiveness have been fully met.

37. I remain concerned that the role of “Compliance Officer” of IPSA is not an effective “check and balance” on the activity of IPSA. The role of Compliance Officer should be integrated more into the organisation, to gain unfettered access to any aspect of its activity at any time (which is the case in the financial services sector). To remain merely an “investigations officer” seems to be an ineffective role. In other industries and sectors a Compliance officer would have a much wider brief.

38. The importance of ensuring the continued, and enhanced, reputation of Members of Parliament in their activities is fundamental to our Parliamentary system and democracy. In the light of the scandals uncovered during the last Parliament the role of IPSA in this is central to this restorative process. However, this change in historical arrangements for MPs should not be underestimated nor, it would seem, should it be for those officials now charged with implementing the revised arrangements. It is not an easy process!

39. Getting the operation of IPSA “right” both for MPs AND those who elected them and pay for their expenses is essential. No taxpayer likes to think that their hard-earned cash is wasted unnecessarily by anyone—either MP or official!

1 October 2011

### Written evidence from the Hansard Society

The evidence presented in this submission is largely drawn from two sources:

- (a) new research conducted over the course of the last year for the Hansard Society’s “*A Year in the Life: From Member of Public to Member of Parliament*” project.<sup>12</sup> This explores the early experiences, attitudes and perceptions of those Members elected for the first time at the May 2010 general election (primarily through three surveys<sup>13</sup> over the course of their first year in office, supplemented by oral interviews). This research is not yet complete and some statistical analysis is still ongoing. However, we have outlined below some interim findings that we believe may be pertinent to the Committee’s areas of interest.
- (b) the *Audit of Political Engagement*: now in its eighth year the *Audit* is an annual health check on our democratic system. It provides a unique benchmark to gauge public opinion across Great Britain with regard to politics and the political process. Based on findings from an annual public opinion poll, the report explores public attitudes to a range of political engagement indicators that track knowledge of and interest in the political system; the degree of public action and participation in politics; and the public’s sense of efficacy and satisfaction with the democratic process. The 2010 report had a special focus on MPs and Parliament.<sup>14</sup>

In the interests of transparency, it should be noted that the Director of the Society’s Parliament and Government research programme, Dr Ruth Fox, was invited in 2009 by the then acting Chief Executive of IPSA, to become a member of its new Implementation Advisory Panel. This body met on only a handful of occasions and had only an informal advisory function; it had no direct powers nor any responsibility for actions taken by IPSA in relation to implementation of the expenses scheme. Views among the Panel members were often divided and the body acted in effect as no more than a sounding-board for the acting Chief Executive and his staff in the early months of IPSA’s existence. Notes of the meetings are publicly available on the IPSA website.

#### A YEAR IN THE LIFE FINDINGS

##### IPSA

Eighty-five per cent of the new MPs were dissatisfied with the induction provided by IPSA in the early days of the Parliament, in comparison to high levels of satisfaction with all the aspects of induction provided by Parliament and their parties.

Six months later, asked about their satisfaction with IPSA in the second survey, 79% still said they were dissatisfied with it, with many citing it as having a negative affect on their personal lives. The response rates were:

|                      |     |
|----------------------|-----|
| Very satisfied       | 2%  |
| Fairly satisfied     | 9%  |
| Not very satisfied   | 42% |
| Not at all satisfied | 37% |

Many comments focused on the IPSA system being “too bureaucratic”, “inflexible, counter-intuitive”, “cumbersome and time-consuming”.

In the third and final survey distributed in March 2011 a few MPs acknowledged that IPSA was improving, but even these MPs maintain that the system remains overly bureaucratic and takes up too much time for both MPs and their staff.

A number of specific aspects of the IPSA scheme were highlighted as a matter of concern:

- (a) The changes to the start-up arrangements meant that many MPs found their early months in office a real financial struggle; many had incurred significant personal financial costs as candidates and this was then compounded, to an unreasonable degree, by being required to fund the set up of their constituency office and then subsequently reclaim the costs from IPSA, payment of which was often delayed leaving many MPs in debt for a period. (This should also be considered in the context

<sup>12</sup> See, for example, M.Korris (June 2011), *A Year in the Life: From Member of Public to Member of Parliament, interim briefing paper* (Hansard Society: London).

<sup>13</sup> Survey 1 was distributed in August 2010 and received 59 responses (25.4%); Survey 2 was distributed in March 2011 and received 57 responses (24.6%); Survey 3 was distributed in July 2011 and received 43 responses (note that at the time of writing some responses are still being received).

<sup>14</sup> Hansard Society (2010), *Audit of Political Engagement 7*, (Hansard Society: London).



of salary levels: many MPs took a significant salary cut on becoming a candidate and/or an MP (see below)).

- (b) Many MPs are understandably uncomfortable with a system that requires them to personally pay invoices for items, including office basics (eg constituency telephone bills, office stationery), and then claim it back from IPSA with the money being repaid into their personal bank accounts. As well as being open to public misunderstanding, this process assumes that MPs can afford to pay out what are often substantial sums from their own pocket and then claim it back, sometimes receiving the money only many weeks later. Every MP's financial circumstances are different but clearly such a process is more manageable for some than others and will impact most detrimentally on MPs of modest means.

#### *Salaries/affordability of the system*

Members of Parliament earn £65,738 per year and for more than half (56%) of the new MPs who responded to our survey this represents a salary decrease. Almost one third (31%) report having taken a pay cut of £30,000 per annum or more.

Just 13% saw a salary increase of £30,000 per annum or more, which means that 87% previously earned more than the London average wage of £33,380.

It should be noted that some of the new MPs report that they are still paying off student loans. The new Conservative MPs on average earned more than Labour Members prior to election, with 65% of Conservatives seeing a reduction in salary (45% of them faced a drop of more than £30,000 per annum) compared to 39% of new Labour MPs. (Too few new Liberal Democrat MPs were elected in 2010 to make a statistical comparison in this study.) The new male MPs also tended to be better paid prior to their election, with 63% reporting a fall in income compared to 44% of women Members.

It is clear from our research—and reinforced by the recent National Audit Office study of all MPs conducted for the Public Accounts Committee—that a number of Members are not claiming for some expenses for which they are eligible for fear of media attention and public opinion and because the IPSA system takes so long to navigate that many decide it is not worth the time spent in order to process small expense items.

Perceptions of “savings” under the IPSA scheme should therefore be considered in the context of a) a reduction in the number of entirely legitimate claims by Members which may not be sustainable in the medium to long-term; and b) the “cost” in terms of the time of MPs and staff associated with navigating the expenses system.

The following free text responses received to the survey, are illustrative of the concerns expressed about the operation of IPSA and the expenses system:

“The failure of IPSA to pay bills direct means I have over £5,000 of invoices that I simply cannot afford to pay from salary/I am regularly subsidising expenses by circa £1,000 per month which IPSA fail to repay in a timely way.”

“I am finding financial survival to be a hard juggling act with my family in XXXX and me in London. Even if we wanted to we couldn't relocate to London. I would not advise any aspiring politician to be an MP if they had a young family and had not private financial means or were supported financially by a union. No young worker could possibly support or survive as an MP under the current financial constraints.”

Most damning of all was the remark that “If I'd known about IPSA beforehand I would not have stood”.

#### *Working hours*

The 2010 intake arrived in Parliament expecting to work long hours in their new role—on average they anticipated working 60 hours per week, with eight hours travel on top. However, three months in, almost half (47%) admitted that their expectation had been too low. Of those who felt their estimate had been about right, the average working week was 67 hours plus 10 hours of travel.

By the time of the second survey in March 2011 the new MPs were working even longer—on average 69 hours per week with many working considerably more.

There is no difference in the hours worked by male and female MPs, but those MPs without children reported a longer working week, averaging 72 hours per week compared with 65 hours for those with children.

#### *Division of time*

The new intake split their working time 63% in Westminster and 37% in their constituencies. Labour MPs report spending slightly more time at Westminster (68% compared to 61% among Conservatives), as do female MPs (64%) compared to male MPs (61%).

Despite spending more of their working week in Westminster, it is constituency casework that takes up the largest portion of time for new MPs (28%), followed by constituency meetings/events (21%) and the Commons Chamber (21%).

Indeed, while there is roughly a 60%/40% split in the working week in favour of Westminster, in terms of the tasks that new MPs are undertaking it is 60%/40% split in favour of local constituency activity.

#### *Impact on personal life*

The long working hours and the division of time between Westminster and their constituencies have a significant effect on the personal and family lives of the new MPs. Almost all the MPs responding to the survey reported real difficulties.

There is a strong sense that many of the new MPs find the lifestyle attached to the job to be overwhelming, although some acknowledge that they expected the challenges and went into the job with their eyes open. Nonetheless they identify loss of family time, communication with friends, financial hardship, and ill-health as real and detrimental consequences of becoming an MP.

Telling remarks about these challenges included:

“Thank goodness my wife is supportive and I have no children. I have virtually no life of my own now.”

“Personal life? It’s devastating.”

“What personal/family life?”

“The job is without boundaries and extremely difficult to switch off.”

Changes to the expenses system on its own cannot address some of these challenges. Effective MPs are needed in order for Parliament and our system of representative democracy to function successfully. These findings—that the new MPs are working long hours to the detriment of their personal and family lives—raise questions as to whether the current systems and modes of working are the most appropriate and effective. It underscores the need for a review of the role of MPs not just to build an improved political system but for the very well-being of MPs themselves and to ensure that becoming an MP remains an attractive proposition in order to attract the best candidates in the future. However, it is clear that some adjustments to the expenses system can ameliorate some of the unnecessary difficulties that currently bedevil the working life of MPs.

#### RECOMMENDATIONS FOR REFORM OF THE IPSA SYSTEM

1. Consideration should be given to changing the system of payments still further so that MPs do not have to incur significant direct costs themselves as a result of paying invoices for basic office items (eg constituency phone bills) and then have to reclaim the money from IPSA. Under the previous expenses system, invoices were generally submitted to the Fees Office who arranged payment of them directly with the supplier. This would help to reduce the financial pressure on MPs and remove the perception that MPs are receiving significant payments into their own personal bank accounts; a situation that is open to great misunderstanding and could lead to problems in the future.

2. The concept of “expenses” and what items are included in this definition by IPSA when communicating information to the media and wider public should be reviewed. The inclusion of staff salaries in the statement of each MP’s expenses, for example, is clearly misleading.

3. We are opposed to IPSA’s decision to publish information about all cases they are investigating for breaching the expense rules before the investigations have run their course and any allegations have been proven. It is unacceptable that MPs should be tainted in the public domain as “expenses cheats” for what may be, for example, genuine administrative errors or indeed mistakes made by IPSA’s own staff. It would be better if information about “breaches” were made public only in those cases where breaches are confirmed and disciplinary steps are therefore being taken.

#### PUBLIC ATTITUDES TO MPs, THE EXPENSES SCANDAL AND ITS AFTERMATH

The expenses scandal did not result in a fundamental realignment of views about MPs and the political process. For the most part, it merely confirmed and hardened the public’s widely held scepticism about politicians rather than changed their views.

#### *Trust*

Trust in politicians generally has not deteriorated much over the course of the last few years. Nor has there been a “collapse of trust” in politicians or politics as a result of the expenses scandal, in large part because levels of confidence or trust were already low.

In the 2010 Audit one quarter of the public (26%) said they trusted politicians either “a great deal” or “a fair amount”, down just 1% on the number who did so in the first Audit report (2004). Three quarters of the public trusted politicians “not very much” (48%) or “not at all” (25%).

However, these figures are almost exactly the same as was measured in Audit 1 (2004) and Audit 4 (2007), though there has been a hardening among those who distrust politicians, with those saying they do not trust politicians at all increasing from 19% in Audit 1 to 25% in Audit 7.

### *Public discussion of the expenses scandal*

In the 2010 Audit, seven in 10 people said they had discussed MPs' expenses with their family and friends. Interestingly, however, there was a gap of 30% between the proportion who said they had discussed the expenses scandal and those who said they had discussed "politics or political news". It was as if, for many people, the MPs' expenses scandal was somehow entirely separate from "politics".

The scandal does not seem to have increased people's interest in or understanding of politics. People were, for example, no more likely to be able to name their own MP in 2010 than they were in previous years, despite the press coverage devoted to individual MP's expense cases in both the national and local media.

### *Satisfaction with MPs*

Public dissatisfaction with how MPs do their jobs rose steeply—by 8%—in 2010 to a 44% rate of dissatisfaction overall. However, despite the expenses problem, and the focus on individually named MPs, only 16% of the public were dissatisfied in the 2010 *Audit* report with how their own MP was doing his/her job compared to 13% who said the same in the first *Audit* report (2004). And 38% of the public remained satisfied with how their own MP was doing his/her job; just 3% lower than the 41% who reported the same in the first *Audit*.

To a degree not seen for many years, the expenses controversy has opened up a dialogue about the nature of the role and function of MPs: how do they spend their time; how should they spend their time; what do the public want them to prioritise? The 2010 Audit survey consequently set out to explore some of these issues in more detail. Specifically, two separate questions were asked, enquiring about what activities the public think MPs spend their time doing; and then what they think are the most important activities that MPs should spend their time on. As a result, a "perceptions gap" can be measured of the difference between what the public wants MPs to do compared to what they think they actually do. The results demonstrate that the public perception of how MPs spend most of their time is almost a mirror image of what people think MPs should actually do.

### *Public perceptions of MPs and their motivations*

Previous research has shown that the public are sceptical about politicians' motives. For example, an Ipsos MORI/BBC poll in May 2009 showed that 62% of the public believe that MPs put "their own interests" first, ahead of "their party's" (21%), "their constituents" (7%) or "the country's" (5%). Although this belief in MPs' self-interest was undoubtedly encouraged by the expenses scandal, the public has in fact long held this view of politicians. In 1994 for example, more than half the public (52%) believed MPs put "their own interests" first and only a quarter (25%) that they prioritised "their party's interests".

However, public opinion is actually more complex in this area than the above analysis would suggest. The 2010 Audit shows that although "for personal gain" was perceived by the public as a major motivating factor for people to become MPs (31%), an equal number of people believed that most people try to become MPs in order "to help people in their local area". Although approximately a third of people considered personal gain as a primary motivator for any involvement in politics, many more believed that it is far from the driving factor.

Based on qualitative discussion groups conducted for the 2010 Audit, a further effect of the expenses scandal seems to have been a reinforcing of the impression that politicians are different from ordinary people. The attendees perceived that the politicians had acted above their peers and had been able to act "above the law". While most participants felt that MPs should not be able to do things that "ordinary people" could not do, some went further and argued that in fact MPs should aspire to and be judged against a higher set of standards than ordinary people given the exalted role they seek as representatives and legislators acting on behalf of the wider public. The fact that the MPs' expenses scandal has revealed that many MPs do not behave in this way may have further entrenched the "us and them" view held by many members of the public. This will be very difficult for parliamentarians to challenge given the real and anecdotal evidence that people have now amassed to support this view.

### *What should MPs spend their time doing?*

The most commonly held belief (of 50% of the public) is that MPs spend their time "furthering personal and career interests" yet just a tiny proportion—3%—believe that MPs should spend most of their time doing this.

The next most common activities that people assume MPs do is "represent the views of their political party" (37%) and "present their views through the media" (32%). Again, both of these are low priorities in terms of what the public would like MPs to spend their time on, with around one in 10 people considering these to be important activities for MPs.

Few people also believe that MPs get involved in the types of activities the public considers most important for MPs to do. Just under half of the public (46%) believe most MPs should "represent the views of local people in the House of Commons", but only one in 10 people (10%) believe most MPs do this. Similarly, two in five people (41%) say MPs should be spending their time "representing the UK's national interests" but only one in 11 (9%) believe MPs do this.

*Public perceptions of the resources available to MPs*

Linked to the prioritisation of work activities by an MP is the issue of resources. Here, the public may have a significant and important knowledge gap. The issue was not covered in the 2010 Audit survey but emerged during the discussion groups for the report. The participants were asked what they thought the impact would be if an MP became a government minister. Views on this were split. Some participants believed that it would not be beneficial for local constituents as the MP would be less available; others felt that it would be beneficial as the MP would be in a position to do more for their local area.

Interestingly however, during the course of the discussion most assumed that MPs generally would have a fairly large staff to help them with their jobs which would be augmented if they became a minister as additional staff in their department would then be available to do constituency related work. Given that most MPs generally have at best three full-time staff working either in Parliament or in the constituency, and that departmental civil servants are expressly forbidden from undertaking any political or constituency related work for their minister, public perceptions of the resources available to MPs may be seriously out of kilter with reality. As such there may be an important disconnect—caused primarily by the public's knowledge gap—between the expansive role that the public wants MPs to perform in the local community and the resources that are available to enable them to do so.

3 October 2011

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**Written evidence from Dave Hartnett CB, Permanent Secretary for Tax,  
HM Revenue & Customs**

**THE TAXATION OF MPS' PAY AND EXPENSES**

**TAXATION OF EMPLOYMENT INCOME**

1. Employees and “office holders” are taxed on income from their employment or office under the rules now set out in the Income Tax (Earnings and Pensions) Act 2003 (ITEPA). ITEPA is one of the products of the Tax Law Rewrite programme to put tax legislation into more accessible language without changing the substance of the rules contained in the legislation it replaced.

2. Prior to the introduction of ITEPA, earnings from an employment or office were taxed under Schedule E of the old Scheduler system for charging income to tax. The Schedule E charge was replaced with a charge to tax on employment income and the terms “employment” and “employee” in the new ITEPA provisions were defined to include “offices” and “office holders”. For the purposes of these provisions, the term “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders. The most common form of office holder is a company director.

3. Without the extension of the employment income rules to cover offices and offices holders, fees received from an office would escape any charge to income tax. This is because they derive from neither a contract of employment, nor a trade profession or vocation which is subject to a separate set of tax rules.

4. MPs are office holders and, as such, they fall within the scope of the ITEPA rules. Individuals are taxable on all payments and benefits they receive by reason of their office, unless there is a specific statutory exemption covering a particular payment or benefit. Expense payments received by an individual from their employer are taxable, but there may be a matching deduction from taxable income under the rules covered below.

5. The general rule on deductions from employment income for tax purposes is set out in section 336 of ITEPA. This says that a deduction is allowed for expenses:

- that the employee has to pay because they hold the employment; and
- that are incurred wholly, exclusively and necessarily in the performance of the duties of the employment.

6. These rules have been the subject of extensive case law. This has established that the rules are to be applied very strictly.

7. The requirement that expenditure has to be incurred “wholly and exclusively” for the purposes of performing the duties of the employment rules out expenditure with a personal element—for example, there is always a personal element in the cost of ordinary clothing. The requirement for expenditure to be “necessarily” incurred means that each and every office holder of an employment would need to incur the expense—it is not enough for a particular employee to find it necessary. Finally, a deduction is only allowed for expenditure incurred while actually performing the duties of the employment—expenditure which merely puts an employee in a position to perform those duties is not allowed.

8. The general rule on expenses does not apply to travel expenses. The rules on travel are in sections 337 to 339 of ITEPA. The costs of travel incurred by an employee can be deducted if:

- The employee is obliged to incur the expenses; and
- The expense was necessarily incurred on travel while performing the duties.

9. A deduction can also be allowed for the costs of travel to a place the employee has to attend in the course of carrying their duties but there is no deduction for the costs of ordinary commuting. Broadly this means that travel from home to a permanent workplace is not allowed but there may be a deduction for travel to a temporary workplace. There are rules on the definition of a "temporary workplace" but this note does not attempt to cover them.

#### TAXATION OF MPs' PAY

10. Parliamentary and Ministerial salaries paid to MPs (including any London Area Living Payment or any payment as a Chairperson of a Select Committee) are taxed in the same way as salaries paid to other office holders and employees. Salary payments are taxable at the earlier of the time of entitlement to payment or actual payment. In practice, for MPs, this means their salary payments are subject to tax deduction at source through PAYE at the time they are paid.

#### MPs' EXPENSES

11. Because of the particular requirements of performing the duties of an MP there are some specific provisions in ITEPA on the tax treatment of MPs' expenses. These provisions were introduced or amended following the introduction of the Parliamentary Standards Act 2009 and the creation of the Independent Parliamentary Standards Authority (IPSA) and their new MPs' Expenses Scheme. They broadly continued the tax treatment of similar expenses payments under the previous House of Commons Members' Allowances Scheme.

12. Section 292 of ITEPA provides a complete exemption from tax for Accommodation Expenses paid by IPSA. For the purposes of this exemption "accommodation expenses" are defined in accordance with the IPSA scheme definition of these expenses—expenses necessarily incurred on overnight accommodation which is required for the performance of the MPs' parliamentary duties in or about Westminster or the constituency. The exemption does not, however, apply expenses relating to hotel costs incurred only because an MP was required to attend a late-night sitting at the House of Commons, unless the House sat beyond 1am. Such expenses are expressly excluded from the terms of the exemption.

13. Section 293A of ITEPA provides an exemption from tax for travel and subsistence expenses paid by IPSA for journeys within the UK which are necessary for the performance of their parliamentary duties including:

- For MPs in receipt of Accommodation Expenses, journeys between any point in the constituency (or a home or office within 20 miles of their constituency) and Westminster or a London Area home.
- For MPs not in receipt of Accommodation Expenses, journeys between their constituency office and Westminster.
- Journeys made by the spouse or partner of the MPs with whom they share caring responsibilities for a dependent (as defined by the IPSA scheme), but not for journeys made by children themselves.

14. The exemption is predicated on the fact that MPs, because of their constitutional role, have two places of work—Westminster and their constituency. It has long been accepted by HMRC and the former Inland Revenue that travel between Westminster and the constituency (including to and from a home within or just outside the constituency boundary or within the London area) is tax-free because the travel is in the performance of the duties of an MP. No tax relief is available to MPs for travel between their constituency home and constituency office, or a London Area home and Westminster, as these journeys are ordinary commuting.

15. Subsistence Expenses for expenses necessarily incurred by an MP on an evening meal eaten on the Parliamentary estate where the House has sat beyond 7.30pm are also covered by the exemption at section 293 of ITEPA.

16. There is also a specific provision in section 294 of ITEPA exempting from income tax the costs of European travel by MPs and other elected representatives. This covers travel to the national Parliaments of Council of Europe member states, or institutions and agencies of the European Union.

17. Apart from these specific provisions, other types of expenses reimbursements to MPs by IPSA (including other travel and subsistence expenses, office costs expenditure and staffing expenditure) are taxable and deductions can be claimed in the normal way under the tax rules that apply to all other employees and office holders.

18. Where particular expenses payments are taxable but HMRC are satisfied that a matching tax deduction from taxable income would be available, an agreement may be reached that the expense can be paid tax-free. Such an agreement (which can be reached with any employer) is known as a "dispensation". The granting of a dispensation also removes the requirement for IPSA to report details of expenses payments to HMRC at the end of the tax year, and for MPs to include details of the payments on their Self Assessment tax Returns.

### Written evidence from Unite Parliamentary Staff Branch

1. We are the Unite Parliamentary staff trade union branch representing staff of MPs, both in Parliament and in constituency offices. We have over 500 members from all political parties, and work on a cross-party basis to represent the view and concerns of our members and the wider staff who work for MPs. We would like to thank the Members' Expenses Committee for the opportunity to make a submission to this inquiry into the operation of the Parliamentary Standards Act 2009.

#### VALUE FOR MONEY FOR TAXPAYERS

2. The bureaucratic nature of the expenses system under IPSA has meant staff spend longer each week processing expenses. According to our staff survey conducted in January and February this year, around 70% of staff who processed claims under the old system spent less than an hour a week doing this, with much smaller proportions spending longer. Under the new system, only 8% reported spending so little time; whilst 58% reported spending 3 hours or more a week, and 26% reported spending more than 5 hours each week processing claims.

3. This is reflected in the recent National Audit Office (NAO) report on IPSA. The NAO estimates that the cost of MPs' and their staff's time in dealing with expenses is about £2.4 million per year. This equates to an additional 80 people employed solely to administrate MPs' expenses, on top of IPSA's 88 members of staff in 2010–11. In addition they found that 38% of submitted claims cost more to process than the amount claimed.

#### ACCOUNTABILITY

4. As the burden of processing claims has shifted so dramatically to MPs' staff, this has meant a lack of transparency in the cost of the process. While IPSA's budgets are published, there is no indication of the huge amount of input required from the staff of MPs. This gives a wholly misleading impression of the bureaucratic costs, particularly in any comparisons with the previous system.

#### THE ABILITY OF MEMBERS TO FULFIL THEIR DUTIES EFFECTIVELY

5. Time spent processing claims is time that MPs' staff are not doing the other duties for which they are paid and which constituents expect of them. These additional burdens on MPs' offices have not been matched by increased resources; indeed staffing budgets have been cut in real terms.

#### FAIRNESS FOR LESS WELL-OFF MEMBERS AND THOSE WITH FAMILIES

6. The family-friendliness of Parliament is not only a problem for MPs, but also for their staff. IPSA has removed the salary supplement of £8 a day towards the cost of childcare for staff of MPs employed after May 2010. This means there is a two-tier system between pre-May 2010 staff who continue to receive the supplement, and post-May 2010 staff who are only able to salary sacrifice.

7. Some of our members who were made redundant after the last election when their Member stood down, and have since secured accommodation with another MP, are finding it increasingly difficult to make ends meet because of this change. It is a backwards step and sends a message that Parliament is not a family-friendly place to work. If experienced staff are forced to leave working for MPs just because they have children, then a great wealth of knowledge and experience will go with them too and constituents will receive a poorer service.

8. We believe IPSA should reinstate the childcare supplement for all MPs' staff who need it, and cost savings instead be sought in the operations of IPSA itself, such as the £47,000 "Conferences and Events" budget line in the IPSA Annual Report and Account for 2009–10.

#### OTHER ISSUES WE WOULD LIKE TO RAISE WITH THE COMMITTEE

9. The employment terms and conditions of MPs' staff have been badly affected by the switch to IPSA. There is a feeling amongst many MPs' staff that they have been unfairly penalised as a result of the MPs' expenses scandal. For instance, redundancy terms have been downgraded to the statutory minimum and staffing budget limits have been cut as a result of the decision to take employer contributions towards staff pensions from the staffing budget instead of a central House of Commons fund.

10. Yet despite the significant impact IPSA has on the working lives of MPs' staff, the body is under no legal requirement to consult with the groups that represent MPs' staff. Although we are granted occasional meetings with IPSA, it took many months after the creation of IPSA for us to obtain a meeting of all the staff groups to discuss our concerns.

11. Clause 5 (4) of the Parliamentary Standards Act lists the groups IPSA must consult in preparing or revising the expenses scheme. This list includes the Speaker of the House of Commons, the Leader of the House of Commons, MPs, and relevant government departments and committees of the House of Commons. As MPs' staff are affected by any revisions to the scheme, we would like the two cross-party staff groups, the Unite Parliamentary Staff Branch and the Members and Peers Staff Association (who have a joint memorandum of understanding with the House authorities) to be added to this clause in any future revision of the Act.

12. A full copy of our staff survey conducted in January and February this year is attached for the Committee to review. Although some improvements to the IPSA system have since been made, the survey touches on many issues that are still relevant to MPs and their staff today.

October 2011

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### Written evidence from Members' and Peers' Staff Association (MAPSA)

Thank you for giving MAPSA the opportunity to present evidence to the Committee. As Members' staff are the people who are in most regular contact with IPSA we feel our views are vital to the continued workings of, and hopefully progress of, the current expenses system.

After consultation with MAPSA members, asking them about the main impact of the expenses system upon staff is it clear that, whilst there are those who would like to see the whole system replaced, we do not feel that is a practical or indeed necessary move.

However, there are clear areas of concern to us, not least with the "efficiency" of the IPSA process, and these are as follows:

- *IPSA training* should focus as much on the business process as on the technical use of their claims system. An efficient method for MPs and staff of collecting receipts and submitting claims is as important as actual inputting.
- Whilst acknowledging that the claims system has improved, the *IPSA website* is still slow and difficult.
- MPs are often in four different locations (Constituency office, London office, London home and Constituency home), or travelling, and it can be *difficult to collate paperwork* in between leading to delays.
- Because of the slowness of the system, some staff would like the *90 day limit* to be extended, and have suggested allowing all claims to be paid within the tax year arguing that, because of delays, some expenses end up being too late to claim.
- Some of the main headaches arise around *submitting evidence* to set up employment, flat rental etc, rather than individual claims, and these can take a long time to resolve.
- Some elements of the scheme could be *more efficiently handled* such as second home rental and associated utility and other costs—especially in the constituency.
- The *IPSA helpline* needs to provide help for the convenience of staff not for the convenience of IPSA so should open longer, and if not longer, in the morning rather than the afternoon. There should be more specific options at entry point, instead of just one gateway number.
- The *payment card* should continue to be revised, allowing it to be used more widely but with easier reconciliation, and less need for individual receipts—especially when it is clear from the statement what the payment is for. There is too much inconsistency in what is allowed as proof and what is not.
- Anecdotal evidence suggests that *fear of claims being rejected* and published as such by IPSA stops MPs from submitting perfectly legitimate expense claims in case of public backlash. There needs to be more clarity as to why a claim is rejected in order to prevent this.

### CONCLUSIONS

It is a matter of regret that IPSA often seems more concerned with public perception and accountability rather than actually designing a system that works. Whilst we all understand the issues (even staff have been accused of having their "snouts in the trough") and IPSA's statutory responsibilities, we feel this should not be the priority. Throwing open the staffing review to public consultation is unlikely to achieve anything positive for example.

In order to facilitate further progress with the claims system, and the understanding IPSA has of the work of an MP and their staff, we do believe that there should be more regular contact between staff organisations and IPSA. At the moment this is sporadic, and often at our instigation—the current staff review is a case in point.

25 October 2011

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### Supplementary written evidence from IPSA

#### IPSA: ORAL EVIDENCE TO COMMITTEE ON MEMBERS' EXPENSES, 25 OCTOBER 2011

I am writing, following the oral evidence that we gave last week to your Committee, to respond in writing with respect of one matter of substance that we could not address at the meeting and also to make a number of other, more general points, which you might find helpful as the Committee finalises its report.

#### MPs' EXPENSES SCHEME: COMPLAINTS

Mr Leigh asked at the evidence session how many members of the public had complained following the changes we made to the MPs' Expenses Scheme in the third edition published in March this year.

I am afraid that we do not have this information readily available. Our system largely monitors complaints about the service that we provide to MPs and their staff. We could extract the information from the views we receive through our regular review of the Scheme and public consultation. This would involve an analysis of all of the .e-mails, letters and 'phone calls from members of the public about the changes to the MPs' Expenses Scheme which we have received and the nature of that contact, but this would involve a disproportionate cost.

We can, of course, supply evidence of circumstances in which the public expressed a view on possible changes to the rules. For example, in our online survey as part of the Annual Review of the Scheme 69% of respondents felt that our rules on mortgage interest should remain unchanged, while a majority were against our proposals to extend support for MPs with children, the margin varying according to the age range specified.

#### HANDLING OF DOCUMENTS AND 90-DAY RULE

At its evidence session on 3 November, the Committee heard claims that IPSA sometimes delays claims by losing supporting documents and subsequently rejects the claims in question as out of time. This assertion is not supported by evidence.

If it were to happen that we lost supporting paperwork, we would typically waive the 90-day limit on claiming for the affected claims. We have an automated system to allow us to track paper submissions and the electronic nature of the expenses system means that the risk of evidence being lost is very low. This is in contrast to a system based entirely on paper.

On the question of returning claims to MPs, this should be distinguished from circumstances where evidence has been misplaced: we return claims for a whole range of reasons but this is not a rejection of a claim, nor is it indicative of a failure by IPSA. Instead, this is part of the iterative process for claiming—typically, we would return a claim to an MP if they had not provided all the information we needed or if we needed additional evidence to support the claim before paying it. MPs then have the opportunity to either resubmit or withdraw the claim. We believe that this is preferable to the alternative—processing and marking the claim as “not paid”.

#### PROVISION OF ADVICE

At the evidence session on 3 November, the Committee heard claims about inconsistency in IPSA's handling of evidence requirements and of providing advice. Our evidence requirements are published on our website (<http://www.parliamentarystandards.org.uk/IPSAMPs/Pages/Payment-application.aspx>) so MPs, their staff and the public can all see for themselves what we ask for in respect of different types of claim. If there are particular instances where we have provided inconsistent advice we would want to investigate them. If MAPSA have any specific examples we would be happy to look into them. To date I have seen no evidence, other than unsupported anecdotes, that such incidents are anything other than infrequent and isolated. We have received just two formal complaints since 1 April about inconsistent advice.

On the issue of IPSA's preparedness to offer advice, which has also been raised, we provide advice in many ways:

- An information line is open from 1–5 pm from Monday to Friday. This period was chosen on the basis of cost-effectiveness as our data showed that the majority of calls took place in this period.
- We answer approximately 400 emails a week. These cover queries about the online system, progress of claims and the scheme rules, amongst other things.
- An IPSA training manager visits MPs and their staff to provide advice on the on-line system. He has made over 560 visits to date.
- IPSA officials provide one-to-one advice to MPs (and staff) at their Westminster offices, and in some cases in their constituencies.

We present guidance directly alongside the rules to which they relate, both on the website and in hard copy—copies of which are supplied to all MPs. We have made the scheme simpler, so that there is less need for guidance in many cases. Our response to telephone calls is better than it was—providing consistent advice and answering calls quickly. All of our guidance is now online and can be searched.



More discretion in making claims was provided to MPs in the third Edition of the MPs' Expenses Scheme, especially in relation to office expenditure. This means that if an MP asks whether he or she can claim for, for example, an iPad for the office, the answer will not be Yes or No, but advice that if the MP considers it necessary to support his or her parliamentary functions then he or she has the discretion to claim for it. Some MPs may prefer a straight yes or no; but that would take IPSA into a degree of micro management which is neither fair to MPs, nor workable, nor economical. It also increases the risk of inconsistent advice.

#### IMPACT OF THE MPs' EXPENSES SCHEME ON MPs' HEALTH AND WELLBEING

We noted with concern the evidence from Drs Madan and Alexander which described increasing stress amongst MPs. As they both noted, the causes are complex and varied and that some have suggested the new climate under which expenses and costs are verified and published may be one contributory factor. If indeed it is, and there is no hard evidence to suggest that it is, the work that we have been under taking to reduce the administrative burden on MPs and their staff, which we described in our written and oral evidence, will, we hope, reduce one potential difficulty for some MPs.

We also note that Dr Alexander refers in her evidence to stress felt by members of the House of Lords as well as of the House of Commons. As you will know, IPSA has no jurisdiction as regards the House of Lords which may suggest that the explanation lies elsewhere.

#### BURDEN

We have already indicated that it is right that MPs should account for their use of public money but that this process should strike the right balance between the need to assure the public and the need of MPs to carry out their responsibilities. We attach as an Annex a summary of our performance set against key performance indicators. The level of performance compares favourably with similar operations in the private sector.

#### COMPLIANCE OFFICER: COMPARISONS WITH THE PRIVATE SECTOR

Comparisons were made between the role of the Compliance Officer and similar posts in the private sector, in sectors such as banking. There are very obvious differences in the roles.

There was also a suggestion that the Compliance Officer could broaden his role, to work more closely on a day-to-day basis with the chief executive or Board, and to provide more internal assurance, as would be the case in some private sector roles. The role of the Compliance Officer is closely defined by legislation, with a view to marking out his independence from IPSA in the matter of reviews and investigations. It is correct to say that the Compliance Officer's main role is therefore investigatory: the internal assurance role is undertaken separately by IPSA officials.

#### ALTERNATIVE APPROACHES—FLAT RATE ALLOWANCES

Some of those giving evidence, along with some members of the Committee, have argued that a system of flat rate allowances, particularly for accommodation, travel and subsistence, would lessen the administrative burden, cut costs and reduce intrusion into MPs' affairs. It is said that the necessary transparency could be achieved by MPs reporting their business costs to HM Revenue and Customs (HMRC). However, there is no evidence that such an approach would provide any transparency or any assurance about the use to which MPs put public funds. MPs' tax affairs are his or her personal information and would not be published. HMRC would ensure that the rules about what is and what is not taxable were followed. There would be no controls to ensure the proper use of public funds. This would be a retrograde step, with potentially serious consequences for public confidence in the way MPs' expenses and business costs are remunerated. We do not, therefore, believe that it is a step that can be taken at this time.

I am copying this letter to the Clerk of the Committee.

*November 2011*

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#### **Supplementary written evidence from Dave Hartnett CB, Permanent Secretary for Tax, HM Revenue & Customs**

Thank you for your email dated 22 November requesting further clarification on one of the answers given when Mary Aiston and I gave oral evidence to the Committee for Member's Expenses on 27 October.

You have asked for further clarification on the answer to question 302 (as numbered in the transcript). That answer addressed the question of what tax consequences would flow as result of a change in the way an MP receives a payment from IPSA towards accommodation; ie from the current system of claiming expenses to the payment of a flat-rate supplement.

As explained in the answer to question 303 given by Mary Aiston, the legislation relating to accommodation expenses of MPs is couched in terms of what IPSA is prepared to pay by way of such expenses. The exemption for accommodation expenses (section 292 of ITEPA) defines such expenses as "expenses necessarily incurred

on overnight accommodation that is required for the performance of the member's parliamentary duties in or about the Palace of Westminster or the member's constituency". This is broadly consistent with IPSA's own description of what Accommodation Expenditure is designed to meet.

It follows that the exemption at section 292 of ITEPA would potentially apply to a flat-rate supplement paid by IPSA provided that the payment was expressed to be made.

In respect of accommodation expenses and it only covered expenses which meet the above definition. However, as I explained this has the potential to be complicated and we would want to look at any proposals for change in detail so we could give a definitive response. For example, if a flat-rate payment was intended to cover more than just accommodation expenses, the exemption, as currently worded, would not necessarily apply.

I hope this answers your question

24 November 2011

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### Written evidence from the Clerk of the House

1. This note is in response to a request for my views on the operation of the Parliamentary Standards Act 2009 from the Committee on Members' Expenses.

2. As I am sure the Committee will understand, and as I made clear in my evidence to the Justice Select Committee on the Parliamentary Standards Bill at the time, my concern was with the constitutional implications for parliamentary privilege of provisions of the Bill; I was not commenting on the merits of the Bill's policy proposals, in particular with the merits of setting up an independent authority to handle the provision of the salaries and allowances of Members of the House of Commons.

3. The provisions of the Bill, introduced on 23 June 2009, which most disturbed me were in Clause 6 (MPs' Code of Conduct), Clause 8 (Enforcement) and Clause 10 (Proceedings in Parliament). I also commented on other aspects of the Bill, though these were less egregious examples of potential difficulty in respect of parliamentary privilege. The crux of my concern was that these provisions seriously infringed parliamentary privilege by bringing all the matters covered in them into the ambit of the courts, thus sending a torpedo through Article IX of the Bill of Rights which protects parliamentary proceedings from being questioned in the courts.

4. In the event, the Government withdrew Clause 6 (which would have made the Members' Code of Conduct justiciable) and that took out of the Bill a particularly threatening provision in respect of privilege, since it would have made the whole code a matter for potential litigation in the courts.

5. Clause 8 (Enforcement)—which would have provided, in its original form, a wide power of direction to Members of the House by IPSA—was watered down and was incorporated into Section 9 of the Parliamentary Standards Act 2009 whereby the Commissioner for Parliamentary Investigations established by the Act would be able to conduct investigations into overpayment but would need to report breaches of the financial code to the Committee on Standards and Privileges. The Act itself has since been amended by the Constitutional Reform and Governance Act of 2010, replacing the Commissioner with a Compliance Officer. Under the new provisions, while IPSA determines the procedures to be followed by the Compliance Officer, they must be "fair" and IPSA must consult, among others, the Committee on Standards and Privileges. In addition, the Act requires IPSA and the Compliance Officer to prepare a joint statement setting out how they will work with the Parliamentary Commissioner for Standards, among others. I understand that the Parliamentary Commissioner for Standards and the Committee on Standards and Privileges have recently agreed a statement governing mutual relations with IPSA, which should ensure that issues of cognizance and privilege will no longer arise. You may still wish to explore the efficacy of that arrangement by taking evidence from those individuals and bodies.

6. I am not sure that the question of double jeopardy affecting Members (*ie* from action by the House and by the Courts) which I also raised has been entirely addressed although the recent practice of the House in respect of criminal prosecution, is to refrain from disciplinary action while criminal process is "live" but questions about subsequent treatment of Members may still arise.

7. So far as Clause 10 was concerned (which gave IPSA wide powers to carry out its functions despite the provisions of Article IX of the Bill of Rights) the Question on the Clause stand part was defeated by 250 to 247. A serious erosion of privilege was thus averted.

8. In summary therefore, I should say that I believe the principal provisions which most worried me in the original Bill were *not* enacted, in the case of Clause 10 only as the result of a Government defeat. While the passage of the Bill illustrated the importance of detailed scrutiny in Committee of the whole House, it also serves as a warning against the hasty introduction of statutory provisions affecting parliamentary privilege. The fact that the present Government plans to introduce a draft privileges bill, which will provide the opportunity for full and careful consideration, seems to indicate that the lesson has been learnt.

9. On the second matter mentioned in your letter—of the inter-action of IPSA and Members—I do not think it is for me as Clerk of the House to comment except to say that it is essential that any system of expenses meets the needs of Members of Parliament in performing their duties efficiently and effectively and without being put under any disproportionate burden of bureaucratic regulation.

23 September 2011

### Written evidence from Barry K Winetrobe, Parliamentary & Constitutional Consultant

1. I am grateful for this opportunity to make a submission to the Committee on this vital issue, one that is core not just to the House and its Members, but also to the public whom they represent. The proper resourcing of the people's elected representatives is a necessary precondition for a modern representative parliamentary democracy. My submission will focus, as invited, on the independence and accountability of IPSA and its impact on the ability of Members to fulfil their duties.

#### THE CURRENT SYSTEM AND ITS CONSEQUENCES

2. It should be beyond argument that it is the House, its Members and its most senior staff who are responsible for the current situation, because of the corrosive culture over many years which created the insularity and self-interest that enabled the old pay and allowances system to be developed and abused, practically immune from effective internal or external accountability.

3. The present system under review is the result of a knee-jerk “something must be done” legislative reaction by the previous Government, supported by opposition parties. As is common with such “legislate first; think later” spasms, the resulting legislation is incoherent, some of which had to be amended almost immediately by further legislation. The issue of resourcing parliamentarians has become skewed into one of “independent standards regulation”, with a plethora of interlocking bodies (some of them parliamentary), and an apparent confusion of the core purpose of the main body involved.

4. To develop this last point further, there currently seems to be a bizarre dispute, which would be comical if it were not so important, about what is the primary duty and function of IPSA. It arises because of amendments made to the 2009 Act in 2010, which introduced explicit statutory duties on IPSA, including: “*In carrying out its functions the IPSA must have regard to the principle that members of the House of Commons should be supported in efficiently, cost-effectively and transparently carrying out their Parliamentary functions.*”<sup>15</sup> This was apparently inserted following a recommendation from the Committee on Standards in Public Life (CSPL), in its 2009 Review, that “*The independent regulator should have a statutory duty to support MPs efficiently, cost effectively and transparently in carrying out their parliamentary functions.*”<sup>16</sup>

5. Though, from the public record, it appeared that CSPL was happy that the statutory provision gave effect to its recommendation,<sup>17</sup> the view of IPSA's Chair is that the statutory duty is different, in that it only has to “*have regard*” to the need for MPs to be properly supported: “*We also note the CSPL's view that IPSA's fundamental purpose is to support MPs. Actually, IPSA's fundamental purpose, as an independent regulator, is to serve the public interest.*”<sup>18</sup> IPSA appears to believe that MPs and the Speaker's Committee on IPSA (SCIPSA) also adhere to CSPL's mistaken belief of IPSA's true role.

6. Ignoring the argument whether the “fundamental purpose” of an “independent regulator” is indeed simply the “public interest”—one which IPSA seems to be deploying as a shield against criticism from its “clients” and fellow regulators, and as an appeal for public support—this apparent dispute demonstrates the flaws inherent in the present 2009 Act system, arising from the transforming of a need for a proper scheme of resourcing for parliamentarians into a Byzantine network of standards regulation, based on the premise that Parliament and its Members cannot be trusted.

7. This dispute also hints at the maze of interlocking bodies involved, to some degree or other, in Members' pay and expenses—IPSA, CSPL, MEC, SCIPSA, NAO, PAC etc etc—a situation which has arisen because of the almost total absence of pre-legislative policy analysis of the complexities of the creation and operation of

<sup>15</sup> S3A(2), inserted by s28(2), Constitutional Reform and Governance Act 2010.

<sup>16</sup> 12th Report, Cm 7724, Nov 2009, recommendation 41.

<sup>17</sup> Given the very limited level of legislative scrutiny given to this provision (as with much of what became the 2010 Act), it is not clear whether Ministers or others believed that the amendment to the 2009 Act was designed to give full effect to the CSPL recommendation, or to do so in a diluted form. When announcing its legislative proposals in December 2009, Ministers simply (and perhaps, ambiguously) said that “*The Government will also bring forward legislation to ensure that there is specific reference to supporting MPs to carry out their parliamentary duties in an efficient, cost-effective and transparent way.*” (HC Deb 10.12.09, cc 34–5WS).

<sup>18</sup> IPSA response to CSPL Report, 15 Sept 2011:

<http://www.parliamentarystandards.org.uk/NewsAndMedia/Pages/LatestNews2.aspx?ListNews=739f9c00-b7d4-4282-bffd-9ae51fd8d92d&NewsId=18> See also, Sir Ian Kennedy's article of the same date: “*Ultimately, as an independent regulator, IPSA must then make its own determination on the basis of what, in the light of all the various factors and evidence, best serves the public interest. The public interest, as judged by IPSA, is the sole criterion*”:

<http://www.parliamentarystandards.org.uk/NewsAndMedia/Speeches/Sir%20Ian%20Kennedy%20article%20-%20September%202011.pdf>. See also Sir Ian's evidence to your Committee, 13 Sept: <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmmemex/uc1484-i/uc148401.htm>, eg Q10.

“constitutional watchdogs”, especially those connected to a parliament.<sup>19</sup> This situation not only confuses all involved as regulators or regulated, and unnecessarily complicates administrative and oversight arrangements. It also provides a perfect breeding ground for ill-informed public and media criticism, which further corrodes public confidence in Parliament and its Members.

#### PRINCIPLES FOR A ROBUST AND EFFECTIVE SYSTEM

8. The present system seems to satisfy no-one but IPSA and Parliament’s media and public critics. While not all criticisms from Members necessarily are fully merited, anecdotal evidence certainly suggests that the IPSA system has not created the certainty and convenience in resourcing that Members and their staff require to provide an effective service to those whom they represent.

9. The question arises whether this current system can be sufficiently improved by continued *ad hoc* review and tweaking, or whether there is a need for fundamental and empirical reform, conducted on a fully inclusive, transparent and evidence-based analysis. Comparative examination of how other parliaments and assemblies, both close to home<sup>20</sup> and beyond, would be essential for this process.

10. The problem with the latter option is how to achieve it in the current climate, where public/media distrust of Parliament is so strong, and where any government, which dominates how the House of Commons operates, would regard any such move as politically suicidal.

11. This suggests that the development of a proper system of adequately resourcing Members in a modern accountable democracy must be part of a wider reform of Parliament, where it can demonstrate that it can operate in an autonomous and accountable way for the good of the public which it represents.

12. Parliament is supposedly undergoing such a period of reform, although, being largely Executive-driven and Executive-controlled,<sup>21</sup> it is painfully slow and not based on any coherent analysis of the true principles upon which a modern parliamentary democracy should operate.

13. I have argued for a system of modern parliamentary self-regulation, most recently in written and oral evidence to CSPL’s 2009 review and the National Assembly for Wales’ committee scrutiny of a proposed Measure creating a Members Remuneration Board:<sup>22</sup>

5. The solution to Westminster’s ills is not less self-regulation, but more. But it must be self-regulation that is truly responsible, transparent and accountable, free from Executive dominance and control, and where fundamental legal protections and privileges are not abused as a barrier to transparency and accountability. The Committee’s original analysis and vision of parliamentary self-regulation buttressed by an independent element still applies.

6. Not everything need be done entirely “in-House”. Arm’s length operation by bodies acting on Parliament’s behalf may be more effective and accountable. It does require a fundamental culture shift in Westminster from insularity and privacy to openness and accountability, based on core principles. Public trust can only be restored by injecting the necessary element of true responsibility that should make self-regulation operate, not narrowly for Members or staff, but for the public interest....

9. ...Based on coherent and open underlying principles, applicable to all aspects of parliamentary operation, independent watchdogs can buttress robust internal House mechanisms. This can produce an effective, autonomous parliament, efficiently resourced and regulated, appropriate to modern representative and accountable democracy, and trusted by the public.

And

3. ... my view is that parliaments should be largely self-regulating, so as to preserve that necessary degree of constitutional autonomy, but that modern conditions require a new form and culture of self-regulation, where it can, where appropriate, be carried out “at arm’s length” for, and on behalf of, the parliament by, or with the cooperation of, external bodies and persons. This exceptional form of organisational regulation must include robust and comprehensive accountability provisions to ensure

<sup>19</sup> O Gay & B Winetrobe, *Parliament’s watchdogs: at the crossroads*, Study of Parliament Group/Constitution Unit UCL, 2008; O Gay & B Winetrobe, “Watchdogs of the constitution—the biters bit?”, in R Hazell (ed) *Constitutional futures revisited*, 2008; *Ethics and standards: the regulation of conduct in public life*, HC Public Administration Committee, 4th Report 2006–07, HC 121, 2007; Review of SPCB Supported Bodies Committee, 1st Report, 2009, SP Paper 266., May 2009.

<sup>20</sup> The different arrangements at Holyrood and Cardiff Bay merit proper comparative examination. For example, the Chair of the NAW’s Remuneration Board, George Reid, as not just a former MP but also a former Scottish Parliament Presiding Officer (and Chair of its Corporate Body), would seem to be ideally placed to provide your Committee with valuable information and perspectives in that regard:  
[http://www.assemblywales.org/memhome/mem-allow-pay-pensions/remuneration\\_board.htm](http://www.assemblywales.org/memhome/mem-allow-pay-pensions/remuneration_board.htm)

<sup>21</sup> The creation and operation of the Government’s e-petitions scheme, and its impact on the House and its business, is a good example of skewed “reform”, more to the benefit of the Executive than to Parliament or its public.

<sup>22</sup> [http://www.public-standards.org.uk/Library/Public\\_Hearing\\_No\\_9\\_Transcript\\_13.07.09.pdf](http://www.public-standards.org.uk/Library/Public_Hearing_No_9_Transcript_13.07.09.pdf): pp32–45 (paras 237–433), and pp118–120; NAW Legislation Committee No.1, 21 January 2010, pp 14–27 (paras 149–254): [http://www.assemblywales.org/bus-home/bus-third-assembly/bus-committees/bus-committees-perm-leg/bus-committees-third-lc1-agendas/lc120100121qv-lc1\\_3\\_02-10.pdf?langoption=3&ttl=LC1%283%29-02-10%20%3A%20Transcript%20%28PDF%2C%20175KB%29](http://www.assemblywales.org/bus-home/bus-third-assembly/bus-committees/bus-committees-perm-leg/bus-committees-third-lc1-agendas/lc120100121qv-lc1_3_02-10.pdf?langoption=3&ttl=LC1%283%29-02-10%20%3A%20Transcript%20%28PDF%2C%20175KB%29;);  
Written evidence: [http://www.assemblywales.org/bus-home/bus-third-assembly/bus-legislation-third-assembly/bus-leg-measures/bus-legislation-measures-proposed\\_remuneration/lc1\\_3\\_-remuneration-writtenresponses/lc1\\_3\\_-remuneration-writtenresponses-nawrm2.htm](http://www.assemblywales.org/bus-home/bus-third-assembly/bus-legislation-third-assembly/bus-leg-measures/bus-legislation-measures-proposed_remuneration/lc1_3_-remuneration-writtenresponses/lc1_3_-remuneration-writtenresponses-nawrm2.htm)

that it is being operated transparently and, in all senses, responsibly, and is not being abused. I accept that this view runs counter to the current, and, in my view, misguided, view that parliamentary self-regulation is an outmoded, much-abused “privilege” ...

10. As studies of constitutional watchdogs (especially those related to a parliament) have shown, the most complex and sensitive issue is achieving the proper balance between “independence” and “accountability” in a body’s structure, governance and operation, especially in its relationships with:

- (a) its “sponsoring body” which provides its administrative support, appoints its members etc, and
- (b) the bodies or people it regulates, supervises or oversees.

Many overlapping issues arise, which should be considered in advance by or under this Measure, and not when potential or actual difficulties or disputes arise.

14. The pity of the current position is that, instead of a self-regulating, but fully accountable, parliamentary model, buttressed by an independent, arm’s length body, we have the reverse: an independent, remote regulator with some parliamentary elements tacked on.

#### CONCLUSION

15. The House has to be brave enough to review fundamentally, in an open and inclusive way, the current sorry state of play, and be prepared to devise afresh whatever arrangements are deemed necessary for a functioning system of resourcing the people’s representatives, which is both fully accountable and meets the criterion of the three Es of efficiency, effectiveness and economy.

16. It has to demonstrate that, in so doing,

- it is not simply reverting to the bad old days of unaccountable self-regulation, which caused the present problems;
- a properly reformed system would be designed essentially to serve not the House or its Members or staff, but the public on whose behalf it operates, much better than either the old system or the present 2009 Act “system”; and
- the public can again justifiably trust its elected representatives and its democratic and accountable parliament.

17. The Committee, and the House itself, have a unique opportunity—largely missed, thus far, in terms of procedural and institutional reform—to turn the crisis of the expenses scandal into a springboard for not just a better resourcing scheme, but also for a new and more effective and accountable Parliament.

28 September 2011

### Written evidence from Dr Paul Seaward

#### A SUMMARY OF MEMBERS’ PAY AND EXPENSES 1911–71

##### INTRODUCTION

This note outlines the history of the issue of Members’ pay and expenses, and concentrates on the period from the introduction of the salary a century ago to 1971, when the Top Salaries Body became involved, and when a system of allowances was separated out from the salary. It is intended as background to the current discussion. The period between 1971 and 1988, when a system for linking pay to civil service pay began to operate, is more briefly outlined. The period after 1971 is covered in more detail by the House of Commons Library Standard Note *Members’ pay and allowances—a brief history* (SN/PC/05075), and numerous other research papers and standard notes from the Library. This note is indebted to the 1974 SPG publication edited by Michael Rush and Malcolm Shaw, *The House of Commons: Services and Facilities*.

The note concentrates on the salary and the initial creation of the main allowances. It does not attempt to deal with the parallel issues of ministerial pay, and the Members’ pension. The following points have been themes of the debates on Members’ pay and allowances throughout the period:

- The lack of any separation until 1971 between salary and provision in respect of Members’ expenses, and a consequent ambiguity about the purpose of the payments, and also some doubt about tax treatment.
- The changing roles and backgrounds of Members of Parliament, and how these have required a changing approach to the problem of pay and allowances.
- The controversy over whether Members should set their pay themselves (or if they did, do so only after the general election at which the issue had been explicitly raised) or find some external mechanism that would ensure that it adequately kept in line with other public sector pay settlements.

## THE 1911 RESOLUTION

The Liberal government's decision to establish a form of remuneration for Members in 1911 gave effect to long-standing party policy, although it was only after the Osborne Judgement of 1909—a decision in the House of Lords against Trades Unions' use of the political levy which rendered their existing support for Members illegal—that the party was actually forced to put it into effect. Reluctance to do so reflected a deep and common unease about the creation of a class of professional politicians, which was voiced frequently in the debate—held amid deep controversy over the Liberal government's proposals to remove the House of Lords' veto on legislation.<sup>23</sup> The opponents of the 1911 scheme regarded it as an insidious corruption of Parliament. Some thought that the effect would be, sooner or later, to encourage other voluntary public servants, especially those who sat on local boards and committees, to require allowances too. Arthur Lee, who spoke for the Unionist party, referred to the motion in an amendment as the “violation of the principle of gratuitous public service”, and suggested that paying MPs would encourage a new breed of dubious characters to enter Parliament.<sup>24</sup> Lee said that:

I think we have a notorious example before us of what happens—and I only speak of countries with which I am thoroughly familiar—in the United States of America and Canada. There we know that representative and influential men, speaking generally, have the greatest reluctance to enter politics at all. As a matter of fact, with very few exceptions they do not enter politics. How often have I myself, when I raised that very point with men of that description in Canada and in the United States, heard them reply, “Why should we? We pay others to do that for us.” I am afraid that will be the case very soon here, and, as a result, I believe we will get a different type of Member in this House from that which we have been used to. We will get a type of Member and a much larger proportion of men, resembling the paid professional speakers of political parties to-day, and, while these men are able men and do good work, I do not believe they will be a satisfactory substitute for the present personnel of the House of Commons.<sup>25</sup>

Payment, wrote another unionist, “attracts the very worst class that a country can be governed by—the caucus-fed professional politicians. Log-rolling and corruption are the inevitable corollary.”<sup>26</sup>

It was no doubt in an attempt to rebut this line of attack that Lloyd George, the Chancellor of the Exchequer, presented the payment as an allowance, rather than a salary:

[I]t is not a recognition of the magnitude of the service, it is not a remuneration; it is not a recompense; it is not even a salary. It is just an allowance, and I think the minimum allowance, to enable men to come here, men who would render incalculable service to the State and whom it is an incalculable loss to the State not to have here, but who cannot be here because their means do not allow it. It is purely an allowance to enable us to open the door to great and honourable public service.<sup>27</sup>

In another passage that would be frequently quoted afterwards, he insisted that:

The only principle of payment in the public service is that you should make an allowance to a man to enable him to maintain himself comfortably and honourably, but not luxuriously, during the time he is rendering service to the State. That is the only principle, and it is the principle on which we have proceeded.<sup>28</sup>

Despite the talk of allowances, the 1911 resolution for an annual payment to MPs of £400 incontrovertibly referred to the payment as a “salary” (Lloyd George himself also called it in his speech as “just the salary of a junior clerk in the Civil Service”).<sup>29</sup> The exclusion from the 1911 resolution of those Members who were in receipt of a salary as an officer of the House, or as a Minister or as an officer of the royal household seemed similarly to emphasise that the payment was intended as a salary, as did the fact that the Inland Revenue, initially at least, charged income tax on the full amount. From 1912, however, the Inland Revenue routinely treated a quarter of the amount as provided for expenses and free of tax, creating a confused situation in which the payment was treated as both a salary and covering expenses.<sup>30</sup> The Revenue said in 1921 that it received a number of claims against tax beyond the standard £100.

<sup>23</sup> The debate was on 10 August 1911: HC Deb 10 August 1911 vol 29 cc1365–483. In the division on the main question the government won 256–158.

<sup>24</sup> G R Searle, *Corruption in British Politics, 1895–1930*, Oxford, Oxford University Press, 1987, pp 108–9. Lee, later Viscount Lee of Fareham, was the man who donated Chequers to the state in 1917.

<sup>25</sup> *HC Deb 10 August 1911 vol 29 c.1391*.

<sup>26</sup> Frank Meyer, in 1914, quoted in Searle, *Corruption in British Politics*, p 109.

<sup>27</sup> *HC Deb 10 August 1911*, vol 29, c 1383.

<sup>28</sup> *HC Deb 10 August 1911 vol 29 c 1382*.

<sup>29</sup> 10 August 1911. Although as the TSRB said in its 1971 report, the relevant grade was that of Principal.

<sup>30</sup> Under section 3 of the Finance Act 1913 the Treasury was empowered to fix a sum representing a fair equivalent to the annual average expended “wholly, exclusively and necessarily in the performance of the duties in respect of which the salary is payable, and a 1913 minute fixed this sum as £100 in respect of Members of Parliament”:

## THE 1920 SELECT COMMITTEE

Inflation during the First World War significantly eroded the value of the salary, and resulted in pressure to increase it during the Parliament elected in 1918.<sup>31</sup> Prime Minister Bonar Law recognised the strength of feeling at least for an inquiry into the subject when speaking on the establishment of a select committee to review the issue in November 1920.<sup>32</sup> The Committee took evidence in December 1920.<sup>33</sup>

The ambiguity over whether the payment should be regarded as a salary, and the continuing controversy as to whether membership should be paid, was at the heart of many of its discussions. Some Members of the Committee clearly had difficulty with the notion of a salary on the basis that it was paid by the state but that there was no contractual relationship with the state. Major Farquharherson was particularly exercised by the philosophical question of the extent of the state's obligation to cover the expenses of individual members in working for their constituencies. "Do you reason that election by a constituency, which, after all, is an election by a majority of a constituency, creates an obligation upon the State to pay for such service as you voluntarily render under that arrangement?... can you give any other instance, in your own knowledge, whereby a similar obligation upon the whole State is created by the action of a small section of a community?".<sup>34</sup> The Committee heard from a number of Members who continued to oppose it, and from J.M. Hogge (a whip for the Independent Liberal party) who argued that "whatever payment... is made to a Member, that payment should be in the nature of expenses, and expenses only."<sup>35</sup>

I hope the Committee will make it quite clear that they are not discussing this even on the basis of salary. I think that is really important, because the word has been used so loosely from the time that the original payment was made to Members that the public have the notion that this is a salary. I say with regard to that, that if it is a salary, then you are altogether in deep water. Nobody has ever yet attempted to assess what might be the salary of a professional politician. I do not want to have professional politicians, and any provision that is made now is not made in the way of a salary, but as a relief to the charges which incidentally occur to any man who must come here.<sup>36</sup>

Hogge appeared to be unaware that the word was used in the original resolution: "if it has been it is very unfortunate".<sup>37</sup>

It was Labour Members who most strongly put the alternative view. The Chairman of the party, William Adamson, insisted that the payments ought to be regarded as a salary—"I do not see how the Members of this august assembly, which we fondly describe as the Mother of Parliaments, should be treated in respect to salary on a different footing from the Members of all the other Parliaments of the world, as far as I can ascertain".<sup>38</sup> He claimed that the £400 should have been uprated to £1,100 to retain its value,<sup>39</sup> but proposed an increase to £800 on the basis of inflation in travel and hotel costs. Dan Irving, another Labour Member, enumerated his costs: £105 for a third class railway pass, and the costs of keeping up his own home and accommodation and other expenses in London brought his annual expenses up to £370. It meant, he said that he did not have "a penny piece for clothing either for myself or my wife".<sup>40</sup>

A common view was that a period of austerity was not the right moment to increase the sum "because of the bad effect on the people outside",<sup>41</sup> but some of the conservative Members opposed to paying salaries were prepared to concede the justice of paying travel costs on the basis of the importance of frequent communication with the constituency, and the much greater difficulty for Members living at a distance from London. The Committee professed to be impressed by the evidence they had received of the "difficult financial position of certain members at the present time". They recognised that "if the sum of £400 per year was necessary in 1914, and no evidence has been submitted to the contrary, such an amount is inadequate today". Although they did not recommend a change to the salary, they did recommend the provision of first class railway travel for all Members, and the introduction of facilities for free postage of Members' letters. The Committee also noted the evidence they had received that many Members' expenses were substantially greater than the tax-free sum allowed for within the £400, and raised the question whether it should be regarded as an allowance or as salary. They did not however make a specific recommendation on this, although they noted that it was open to the Treasury to issue a Minute "to the effect that the whole £400, or any part thereof, should be treated as expenses".<sup>42</sup>

<sup>31</sup> HC Deb 05 March 1919 vol 113 cc515–29; HC Deb 14 July 1919 vol 118 c36. For the effect of inflation, see the chart in the appendix to this note.

<sup>32</sup> HC Deb 26 November 1920 vol 135 cc817–27.

<sup>33</sup> For the appointment of the committee, see HC Deb 26 November 1920, vol 135 cc817–27 Report from the Select Committee on Members' Expenses, HC (1920) 255.

<sup>34</sup> QQ 324, 437. See also QQ 101–17.

<sup>35</sup> Q 359.

<sup>36</sup> Q 370.

<sup>37</sup> Q 371.

<sup>38</sup> Q82.

<sup>39</sup> Q 84.

<sup>40</sup> Q 170.

<sup>41</sup> In the words of G.R. Lane-Fox MP, Q. 520. See also Sir John Butcher, Q 641.

<sup>42</sup> HC (1920) 255.

In a Treasury Minute of May 1921 the Inland Revenue duly deemed that it was reasonable to treat the whole amount of £400 as “wholly, necessarily and exclusively incurred in performing the duties of the office”.<sup>43</sup> When the House debated the consequent increases in the estimate for Members’ expenses, Austen Chamberlain as Leader of the House explained his own conversion to the idea of paying Members, and supported the Committee’s proposal. The division on it was treated as a free vote, however, and motions allowing for the changed treatment of the £400 salary and allowing for free travel between the House and constituencies and homes were all defeated.<sup>44</sup>

Members were still able to charge expenditure above £100 against tax, although they did so, as before, on a case by case basis.<sup>45</sup> Some pressure for uprating the amount was eased by post war deflation, although in 1924, during the first Labour government, free railway passes were finally introduced for Members of Parliament.<sup>46</sup>

#### THE BALDWIN INQUIRY, 1937

Under the emergency measures introduced in 1931 (the National Economy Bill) Members’ Salaries were reduced by 10% in line with the reductions in other public sector salaries.<sup>47</sup> They had returned to £400 by 1935. By 1937 sentiment had decisively turned towards raising the level of Members’ pay. Prime Minister Stanley Baldwin undertook to investigate the issue in April 1937, after it was raised in the context of debate of the Ministers of the Crown Bill that year.<sup>48</sup> In a debate a few days later on Ministerial salaries he said:

The time was, when I was a boy, when people hardly dreamed that the day would come when there would be large numbers of Members in this House who could not afford to perform their duties here unless they had an allowance; but I think, looking at the whole Continent of Europe, that the more the basis of our liberty and our Constitution is broadened, the better for our country. Would anyone who remembers the old days here go back to them and give up what we have gained? This Chamber, the most famous Chamber in democratic government in the world, is now open to all, and, once you admit that everybody has a right to be elected to this House if he can, you cannot logically create or leave a financial bar.

Baldwin announced in May his decision to increase the level to £600.<sup>49</sup> In moving the proposal in June to give effect to the change, Neville Chamberlain, who had replaced Baldwin as prime minister a few weeks earlier, referred to his own surprise and distress on discovering the difficulties in which many members found themselves. He accepted that the cost of living had declined since 1920, but argued that it was still at least 50% higher than it had been in 1911; moreover, there had been a considerable increase in the electorate since then. Although there were a number of voices arguing for caution, and arguing that the motion should only be brought forward after a general election, the increase itself was carried with only a small dissenting minority.<sup>50</sup>

#### THE 1945 COMMITTEE

The new level was still well below what had been advocated in 1920 (and even despite the reduction in prices that had occurred in the 1920s, the value had considerably diminished, as Baldwin stated). Hugh Dalton, Chancellor in the new postwar Labour government, moving for a new Committee in November 1945 to look at the issue, referred to the increase in constituency pressures on Members; for the opposition Osbert Peake again made the point that professional politicians were undesirable, but recognised the need to re-examine the subject.

The Committee said that practically all of its evidence and responses to its questionnaire recommended “some material increase” in remuneration. It concluded, as had its predecessors and as would its successors, that “many Members are finding themselves in a position in which they cannot perform those duties without financial anxiety”. Enumerating the various expenses that a Member found necessary, it avoided regarding the remaining payment as a “professional salary”: “though a member may be called upon to devote a great deal of time to the business of the House, he has complete freedom to allot his time between his parliamentary duties, either at Westminster or in his constituency, and his personal affairs. It would be most unwise to take this freedom from him by paying such a figure as would unequivocally demand his full time in return”.<sup>51</sup> They proposed an increase in the overall salary to £1,000, and that £500 of this should be allowed free of income tax to cover expenses (with Members still able if necessary to claim for expenses over and above that).

<sup>43</sup> Note by the Board of Inland Revenue on Expenses of Members of Parliament, May 1921, Cmd. 1352.

<sup>44</sup> HC Deb 01 June 1921 vol 142 cc1087–153.

<sup>45</sup> HC Deb 23 June 1921 vol 143 cc1541–3. The clerk of the House said in 1945 that the system for travelling expenses had been put into operation for a week when the vote was defeated in the House: HC (1945–46) Q. 235: see also HC Deb 03 June 1921 vol 142 c1402.

<sup>46</sup> HC Deb 25 February 1924 vol 170 c35; HC Deb 19 February 1924 vol 169 c1533; HC Deb 26 February 1924 vol 170 c299W; HC Deb 10 March 1924 vol 170 cc1899–900; HC Deb 13 May 1924 vol 173 c1159W; HC Deb 24 July 1924 vol 176 cc1505–7; HC Deb 05 August 1924 vol 176 cc2745–6.

<sup>47</sup> HC Deb 11 September 1931 vol 256 cc419–90; HL Deb 30 September 1931 vol 82 cc168–245.

<sup>48</sup> HC Deb 07 April 1937 vol 322 cc180–1. Baldwin expanded slightly on the format his inquiries would take in the debate on the Ministers of the Crown Bill on 12 April 1937.

<sup>49</sup> HC Deb 27 May 1937 vol 324 cc425–6.

<sup>50</sup> HC Deb 22 June 1937 vol 325 cc1049–122. The vote was 325–17. The resolution was moved by Neville Chamberlain, who had replaced Baldwin as prime minister on 28 May 1937.

<sup>51</sup> Para 7.



Because of these increases they did not recommend further increase in travel allowances (the free rail travel concession had already been enhanced by the government to include travel between Westminster and Members' place of residence as well as the constituency)<sup>52</sup> nor the introduction of a car travel allowance. The government's proposals for change on the basis of the Committee's report were considered on 29 May 1946. The government agreed with the increase to £1,000, but rejected the idea that £500, rather than the original £100, should be regarded as tax-free, and insisted that Members should have to make a claim to set their expenses against tax as previously. Osbert Peake, for the opposition, agreed with the government: "I found that [the idea that an increased proportion of salary should be tax-free] very abhorrent to my constituents. They took the view, and I think they were right, that it would be all wrong for hon. Members to come under what in practice would be a different Income Tax law from the ordinary citizen." The government's proposals were approved, resulting in an increased annual payment of £1,000, with £100 automatically tax-free.<sup>53</sup>

#### THE 1953–54 COMMITTEE

The £1,000 rate remained in operation over the next eight years, despite increasing concern from Members about the failure to raise it in line with inflation. Although the post-1951 conservative government seemed not to have been particularly sympathetic towards the idea of an increase,<sup>54</sup> it established a committee in July 1953 primarily to consider the Members' fund,<sup>55</sup> but also with the remit of reviewing the "nature and extent of the expenditure incurred by Members of this House in the performance of their duties". The committee believed that the expenses of Members had increased considerably even since 1946: in 1946, they said, the average amount allowed by Inland Revenue as expenses was £550; by 1953 it was £750. The committee commented on the difficulty of establishing proper rates for expenses, because of the "different modes of life and individual tastes" of Members, the differences in their constituencies, and especially the difference in accommodation needs and secretarial assistance. Nevertheless, the committee reported similar stories to those referred to by their predecessors:

some have sold or mortgaged their homes: the savings that others had made before entering Parliament are now exhausted and debts are accumulating: others have sacrificed pension rights which they had established with a company or firm, in whose employ they were before entering Parliament, and are now at an age when it would be difficult, if not impossible for them to find employment when they leave the House of commons: some have to refuse invitations to public functions which they ought to attend: in some cases, in order to supplement the family income, the wife of the member has had to find employment: for a long time some have not been able to afford lunch or dinner in the dining room of the House of Commons and use only the tea room.

The Committee recommended an increase in the annual payment to Members to £1,500, though it recognised the case for a larger increase and noted that the House might wish to consider in future "in broader terms than your committee are instructed to, the status and degree of financial independence appropriate to Members of Parliament in relation to their duties as these have developed in the modern world".<sup>56</sup> The Committee also recommended a non-contributory pension scheme payable to Members on retirement who had completed at least ten years' service beyond the age of 45.

The Prime Minister (Winston Churchill) gave the government's response to the report in April 1954, saying that in the government's view it would not be right in the present circumstances to proceed with the increase in salary, or to insist on a non-contributory pension scheme.<sup>57</sup> The recommendations were further discussed in an adjournment debate in May, at which the Chancellor (R.A. Butler) reiterated the government's opposition to the proposals as they stood, but suggested an alternative approach of expanding the provision of allowances in cash or in kind, including a daily subsistence allowance of around £2 per night that the House sat, the equivalent, he thought, of £200 to £300 a year.<sup>58</sup> Some Members complained that this was simply to fudge the issue.<sup>59</sup> In a debate later in May, George Thomas (Labour), in introducing a motion giving effect to the Committee's original proposal for an increase of £500 a year in the salary, said:

The proposal to base an increase on expenses incurred wholly and exclusively in the performance of our duties here means that hon. Members would have to be saving up chits for expenses into which they had entered throughout the whole year. It could mean all sorts of embarrassing and awkward

<sup>52</sup> Air and sea travel had also been included from 1945.

<sup>53</sup> On a division, 345–26.

<sup>54</sup> For complaints about the situation, especially from Mr Arthur Lewis see *HC Deb 16 March 1953 vol 512 c170W* (in which Boyd-Carpenter gave the current value of the £400 original payment as less than £1,500, in response to a question from Arthur Lewis); *HC Deb 17 March 1953 vol 512 c174W*; *HC Deb 20 March 1953 vol 513–c45W*; *HC Deb 06 July 1953 vol 517 c66W*; *HC Deb 07 July 1953 vol 517 cc1043–5*. *HC Deb 23 July 1953 vol 518 cc589–90*.

<sup>55</sup> In the debate on 22 June 1937, Chamberlain indicated openness to the idea of a pension for Members, but told the House first that it would require legislation, and secondly that it would require further consideration. A scheme was established under the House of Commons Members' Fund Act 1939, although this was a fund for the relief of hardship of former Members, rather than a pension.

<sup>56</sup> *HC (1953–54)*, 72, para 62.

<sup>57</sup> *HC Deb 14 April 1954 vol 526 cc1150–2*.

<sup>58</sup> *HC Deb 13 May 1954 vol 527 cc1439–1562*.

<sup>59</sup> Eg: any subterfuge that is attempted means that we shall be creating more inequalities and injustices than would occur by a straight increase' (John McGovern); 'I should have preferred a flat increase, and I say quite frankly to my right hon. Friend that I believe that a number of my hon. Friends and the Government have been unduly scared by the reactions of popular opinion' (Henry Raikes).

situations for the House, and, in the end, it could be far less desirable than dealing with this question as Parliament after Parliament has felt it necessary to deal with it. This is not the first Parliament which has had to consider whether it would deal with the problem of allowances for Members of Parliament by way of expenses or of an allowance. I believe I am right in saying that, each time—in 1911, 1937 and 1946, as also this time—there have been suggestions that these allowances should be by way of expenses, in its wisdom each successive Parliament has rejected the idea of the expenses account as being not nearly as desirable as a straight increase which the public will appreciate.<sup>60</sup>

The House, on a free vote, but against government advice, adopted the original proposals of the Committee. The government, however, subsequently persuaded the opposition to back the proposal that Butler had outlined, and the prime minister announced this to the House in July—although Clement Attlee nevertheless complained about the government's decision to proceed contrary to the declared will of the House.<sup>61</sup> The result was the addition of a £2 daily allowance to members' remuneration for the days except Fridays on which the House sat. At the same time the Treasury withdrew the automatic relief from tax for £100 of the salary.<sup>62</sup>

Attlee continued to reflect the view that Members were grossly underpaid, and argue for a proper increase. His successor as Leader of the Opposition, Hugh Gaitskell, initiated talks with the government on the subject, and a debate in July 1956, in which he referred to the government's failure to implement the House's decision of 1954 and suggested that the allowance (averaging about £280 per session) amounted to less than half the increase in pay proposed by the Select Committee. He claimed that it was impractical for many politicians to obtain other jobs, and indeed that the possession of other jobs by some Members made it difficult for the House to work properly, with committee attendances affected. The Prime Minister did not contest the case for a raise but reiterated, as had been said in 1954, that now was not the right moment to raise salaries:

I need not tell the House after that that an increase here at this time in the full glare of publicity, in which we have to live as Members of Parliament, whether we like it or whether we do not, cannot but have its effect at once on other sections of the community, at a time when we are urging restraint.<sup>63</sup>

By 1957, however, the government did accept that the situation had eased sufficiently for it to accept a proper increase,<sup>64</sup> and about a year after Gaitskell's debate, R.A. Butler introduced a series of resolutions which, leaving the salary at £1,000, introduced a payment of £750 in respect of expenses, which would be "a straightforward addition to salary". The sum was the same as that which the 1954 Committee had mentioned as the average which had been claimed as expenses against tax by MPs. "The fact that it is equal to the figure of average expenses quoted by the Select Committee", Butler emphasised, "must not lead hon. Members to believe that it is an expense allowance and as such exempted from taxation". He abolished the daily allowance introduced three years before.<sup>65</sup> Gaitskell supported the proposal, although he pointed out that the sum was not quite equivalent to the amount proposed by the Committee in 1954 taking inflation into account, that that figure had been based on the assumption that there would be a non-contributory pension (something which was still not conceded), and that the sum was still much less than some continental Parliaments. He argued once more for a proper system for uprating Members' pay:

I think that in due course we ought to consider the possibility either of relating the payment of Members of Parliament to some other salary which is paid in some official capacity or to the possibility of an outside tribunal considering the matter from time to time. I realise that there may be differences of opinion on this, but when one remembers the difficulties which we have encountered in the last years, I believe that this should now be looked at.<sup>66</sup>

#### THE LAWRENCE COMMITTEE, 1964

As on previous occasions, an uprating was followed by several years of inflation and inaction.<sup>67</sup> The Committee on the Remuneration of Ministers and Members of Parliament (the Lawrence Committee) was established by Alec Douglas Home as Prime Minister in December 1963 following consultations with the leaders of the main political parties in both Houses—though with an all-party agreement that the results of the review should not be presented to the government until after the general election.<sup>68</sup> As Michael Rush has emphasised, it was the first time that a review of Members' pay was given to a body outside the Government or Parliament.<sup>69</sup>

<sup>60</sup> HC Deb 24 May 1954 vol 528 cc30–157.

<sup>61</sup> HC Deb 08 July 1954 vol 529 cc2347–9.

<sup>62</sup> HC Deb 16 July 1954 vol 530 cc68–70W.

<sup>63</sup> HC Deb 12 July 1956 vol 556 cc607–720.

<sup>64</sup> For continuing pressure (especially by Mr Arthur Lewis) in the interim, see e.g. HC Deb 06 March 1957 vol 566 cc78–9W; HC Deb 05 March 1957 vol 566 cc176–7; HC Deb 14 March 1957 vol 566 cc1308–9.

<sup>65</sup> Although at the same time he introduced the Lords' daily attendance allowance.

<sup>66</sup> HC Deb 09 July 1957 vol 573 cc227–49.

<sup>67</sup> One Member referred to Members being subject to a 'pay pause' in the Debate on the Address in 1961: HC Deb 01 November 1961 vol 648 cc166–311; an all party-deputation visited the prime minister on the subject in late 1962: HC Deb 20 December 1962 vol 669 cc234–5W.

<sup>68</sup> HC Deb 19 December 1963 vol 686 cc1441–5; Edward Short, *Whip to Wilson* (1989), 77.

<sup>69</sup> *The House of Commons Services and Facilities* edited by Michael Rush and Malcolm Shaw (for the SPG, 1974), 168.

The Lawrence Committee report was the most thorough consideration of the subject of Members' pay that had been attempted. As previous committees had done, they canvassed the opinions of Members themselves with a questionnaire. Members themselves, they recognised, continued to be divided on whether the job should be considered a part-time or full-time activity, with a number still resisting the idea that there should be "full-time professional politicians". They also recognised that the personal circumstances of Members made it impossible to fit a salary at a level which would meet everyone's needs perfectly.<sup>70</sup> They concluded that the only practical way of proceeding was to make "the salary for all members, whatever the type of their constituency... such as will enable those Members who are without private means or the opportunity to earn income outside the House efficiently to discharge the duties of the service without undue financial worry and to live and maintain themselves and their families at a modest but honourable level". The Committee firmly rejected the idea of an automatic link with the Civil Service, or any other comparator: MPs' pay "should be determined on its own and should not enjoy any automatic built-in protection". The current salary of £1,750, they pointed out, fell well below the value of the original £400, and had long been inadequate, and echoing their predecessors, they accepted that there were cases of real hardship:

those Members, of whom there is an increasing number not limited to one side of the House, are forced to endure the discomfort, in spite of tax relief, of cheap and shabby lodgings in London; they cannot afford to use the Members' Dining Room; they have to submit to the humiliation of not being able to return hospitality even at the most modest level of entertainment; they are forced to impose considerable sacrifices upon their families and they find it necessary to cut down the number of days on which they can attend sittings of the House.<sup>71</sup>

The Committee recommended an increase in the salary paid to Members to £3,250 a year, with £1,250 of the sum as the amount of this which it was assumed might be required to cover expenses.<sup>72</sup> The Committee also finally recommended a contributory pension fund. It however made no very significant recommendations concerning allowances, which it largely regarded as beyond its terms of reference.

The changes were effected by resolution and the introduction of a pensions bill in December 1964, although the coincidence of a decision on Members' salaries and pensions with the deferment of a general pensions increase until the following spring was politically awkward, and the cause of some embarrassment to the government.<sup>73</sup> The innovation of referring the issue to an external body was widely welcomed; but one member regretted the fact that the Committee had:

seen fit to prolong this fiction of tax-free expenses. ... it is not a sensible or reasonable thing to do, because the public get the idea that Members of Parliament receive part of their salary tax-free—tax-free expenses—but this is not so. The nonsense of this arrangement can be clearly seen by the fact that if one spends less than £1,250, one gets a less allowance for tax purposes, and if one spends more than £1,250, one gets more than £1,250.<sup>74</sup>

Some lamented the Committee's failure to agree with the idea that salary should be linked automatically to another comparator, but this point was not taken up with any force: the proposal for automatic linkage was not yet popular, despite the difficult history of Members' salaries over the previous fifty years, no doubt partly because of a reluctance to concede (shared with the Lawrence Committee itself) that the role of a Member could in any way be compared with that of a "normal" job; and partly perhaps because of a hope—expressed by Selwyn Lloyd in the debate—that inflation might not be a persistent factor.

#### THE TSRB REPORT 1971: DIVIDING SALARY AND EXPENSES

In fact, inflation grew rapidly in the late 1960s and before it rose very quickly in the 1970s. The failure of the salary to keep pace with the cost of living and the lack of any means to ensure that it was reviewed were again the subject of comment in the late 1960s.<sup>75</sup> The introduction of a secretarial allowance in 1969 was one response to the issue. The sixth report of the Services Committee of 1968–69 argued that "the provision of a secretary is essential". Remarking that the value of the salary set at £3,250 in 1964 had fallen, and "that no machinery exists for its review", it recommended that provision should be made at public expense for secretarial assistance at the rate of a maximum of a full time secretary for each Member. A secretarial allowance was brought into effect by a resolution of December 1969, although it was pegged at a maximum of £500 per

<sup>70</sup> Paras 29–33.

<sup>71</sup> Para 42.

<sup>72</sup> Para 54.

<sup>73</sup> Short, *Whip to Wilson*, 77–8. As Selwyn Lloyd observed, when responding to the resolution, "some quite embarrassing Amendments could have been thought up about the timing and the amount. We take the view, rightly or wrongly, that though responsibility rests with the Government, this is a House of Commons matter and divisions on party lines are not really in the interests of Parliament." HC Deb 18 December 1964 vol 704 cc739.

<sup>74</sup> William Shepherd ' HC Deb 18 December 1964 vol 704 c809. As he commented, the reason for this continued division of salary into salary and a notional amount expected to cover expenses was to provide a benchmark for the sum Ministers would receive in respect of their parliamentary expenses, in view of the fact that they were not entitled to a Member of Parliament's salary.

<sup>75</sup> See HC Deb 05 May 1969 vol 783 cc40–4W for a comparison of Members' emoluments with those available in other countries.

Member, which many regarded as inadequate.<sup>76</sup> In the debate James Dickens said that “This House of Commons is by far the worst serviced and poorest paid of any assembly in any major democracy”, and Douglas Houghton complained that:

We are constantly having thrown at us that one of the first things that this Parliament did when it was elected in 1964 was to increase its own pay. This is because of the absurd method of combining remuneration and expenditure for hon. Members. I regard the Lawrence proposals in this respect as being quite unacceptable and based on wrong principles. I believe that we should get this matter straight before long.

The government had already conceded that the subject needed to be rethought. In July 1969, in its response to the Services Committee Report, it acknowledged the links between facilities and the expenses issue, and agreed to refer the matter to the National Board for Prices and incomes during the next Parliament.<sup>77</sup> It also proposed that the matter would become part of the regular business of a proposed Commission for Industry and Manpower. The Commission, however, was never established, and the government changed at the general election of June 1970. Early in the new Parliament, backbench concern on the subject was further signalled by Douglas Houghton’s private members’ bill to establish a review body for Members’ pay, allowances and pensions and conditions of service.<sup>78</sup> The new conservative government had previously announced that it would establish three pay review bodies, one of which would deal with top salaries in the public sector, and in December 1970, on the second reading of the private member’s bill it announced that the question of Members’ and ministers’ salaries would be referred to this review body.<sup>79</sup>

The first report of the new Top Salaries Review Body (TSRB) dealt with the issue. It began by observing that “the extent... to which Members of Parliament pay expenses of their work out of their salary is much higher than is generally the case in other occupations; indeed most salaried employees expect all their reasonable expenses to be met in full by the employer and not merely treated as deductible for tax”.<sup>80</sup> It estimated that the average net pay for Members after meeting all necessary expenses but before tax, was a little under £2,000 a year.

As a measure of the standard of living which their salary has represented during this time (while not implying that the pay of MPs should be fixed in relation to that of a given grade of civil servant), it is interesting to note that the equivalently paid official (in approximate terms) in the civil Service was, before the first world war, a Principal, between the wars a Higher Executive officer (two grades below a principal), after the second world war a Senior Executive Officer (one grade below a principal) and in 1964 a Principal again. The nearest equivalent grade now is a Senior Executive Officer. These comparisons are even less favourable to the MP if account is taken of the fact that the civil servant, within standard limits, is reimbursed for all expenses incurred in performance of his duties.<sup>81</sup>

The body complained that:

the difficulty of assessing a fair level of pay is compounded by the way in which the notion of the Member’s payment has developed. It has come to be regarded as being composed of two parts, one being in the nature of a salary from which Members have to meet their living expenses, and the other being intended to meet the expenses of carrying out their Parliamentary duties. But these expenses have varied not only according to the nature of the Member’s constituency, whether it is rural or urban and its distance from London, but also according to the way in which an individual Member sees his role and deals with his work.<sup>82</sup>

As it pointed out (and as had frequently been said before), the more expense a Member incurs in carrying out his job, the less were his disposable earnings: “this may mean also that the more work he does in visiting his constituency and dealing with his constituents’ problems, the less money is left in his pocket.”<sup>83</sup> It regarded as one of the most basic questions whether a Member’s salary should be independent of expenses. They concluded firmly that it should: “as a general rule we believe that, in future, a clear separation should be observed between salary, on the one hand, and provision for expenses on the other... it should not normally be the responsibility of the individual Member to finance the facilities he needs to do his job”. It acknowledged that it would be difficult to make this distinction perfectly, but it laid this down as a basic principle. The Body continued to resist the notion of an automatic system of uprating, and rejected linkage with a civil service comparator. It accepted that there was pressure from some members for such a system, which they attributed to “a desire to remove the question of salary determination from the political arena and to provide protection against the erosion of their salaries through inflation”, but believed it quite wrong that negotiations on civil

<sup>76</sup> *HC Deb 18 December 1969 vol 793 cc1693–722.*

<sup>77</sup> A suggestion that it had previously rejected: see Rush and Shaw, *The House of Commons: Services and Facilities*, 192; *HC Deb 24 July 1969 vol 787 cc474–6W.*

<sup>78</sup> The House of Commons (Conditions of Service) Bill, Bill 30 of Session 1970–71; Rush and Shaw, *The House of Commons: Services and Facilities*, 192.

<sup>79</sup> *HC Deb. 4 Dec. 1970, vol 807, cc 1721–5*

<sup>80</sup> Review body on Top Salaries, First Report: Ministers of the Crown and Members of Parliament, Dec. 1971, Cmnd 4836, para 6.

<sup>81</sup> Para 22.

<sup>82</sup> Para 27

<sup>83</sup> Para 28.

service pay might be affected by the question of Members' pay. "The question of remuneration should be examined periodically (and we would hope regularly) on its merits and in the light of the relevant circumstances at the time".<sup>84</sup> The Body said that there should be a review once in the lifetime of each Parliament.

The Body recommended a raise in salary to £4,500 a year, as well as a system of allowances, the most significant of which was to cover the additional costs of living away from home: "it is clear from the evidence we have received that many Members find the costs of additional accommodation, especially in London, a considerable burden, and we are of opinion that Members should not be expected to meet them entirely out of their salary". The additional costs allowance system was based on the notion of a subsistence allowance, and was a fixed daily sum paid to cover the additional cost to Members of staying in London or in their constituency when engaged on parliamentary duties, a sum set at £5.25 or £5 a day; London members would receive a £175 London supplement to their salary instead. The Committee also recommended the widening of the system of travelling expenses, and the increase in the secretarial allowance to £1,000 a year, to meet both secretarial and general office expenses, which might include the employment of research assistants. Another innovation was three month's severance pay to a Member who lost his or her seat during a general election.

The government implemented the rise in salary, although it rejected the additional costs system as proposed by the Body, on the grounds that it was too complex. It substituted a simpler scheme, an annual flat-rate payment of £750 for Members based outside London, with the London allowance of £175.<sup>85</sup>

With expenses finally divided from salary, following the 1971 report and consequent resolutions four principal allowances existed: car allowance (which replaced free travel vouchers); secretarial assistance; additional costs (subsistence) allowance and London supplement.

#### 1971–83 AND LINKAGE TO CIVIL SERVICE PAY

Inflation began to pick up in the 1970s very rapidly. While trying to enforce pay restraint more generally, the government was extremely reluctant to allow Members' pay to rise. As at least an interim approach, a strategy of increasing allowances while holding down the salary was explicitly stated by the then leader of the House, Ted Short, in May 1974:

The Government do not feel that it would be right at the present time to review the level of Ministers' and Members' salaries as these would more properly form part of a major review. But, on the other hand, there is no doubt that the value of the various allowances which Members may draw to help them defray the necessary expenses they incur in the course of their parliamentary duties has fallen to a level which is causing serious difficulties for many Members. I have in mind the secretarial allowance, the motor mileage allowance, London allowance, and the allowance which covers the additional cost of overnight stays away from home.<sup>86</sup>

He therefore invited the TSRB to review the allowances only. The result, announced to the House in July 1974, increased them significantly. The secretarial allowance went up from £1,000 to £1,750; the additional costs allowance from £750 to £1,050 a year, with a London supplement increased from £175 to £228. Many Members regarded this as inadequate. William Hamilton called it "a backhanded way of giving increases to Members", and argued that "it would be much more honest if we were to be paid an adequate salary and allowed to decide how much we chose to spend on secretarial assistance and other things". Ted Short agreed to invite the TSRB to review salaries and allowances again in the autumn, and did so in December 1974,<sup>87</sup> after the October election. The TSRB recommended an increase from £4,500 to £8,000, an increase of 78%, designed not only to take into account the two thirds increase in the retail prices index since 1971, but also the changing demands of the role of the Member. The secretarial allowance it recommended raising to £3,200 a year, the additional costs allowance to £1,350 a year, and the London supplement to £340 a year (and in future automatically in line with changes in civil service London weighting). The Body again considered the question of an automatic link with civil service pay, only to reject it, arguing that it would not make the issue any less politically sensitive, and other automatic linkages, to inflation or wage movements, might put Members into a more advantageous situation than other people. It urged, however, that reviews be held more frequently than they had originally recommended, suggesting a biennial review, rather than one review in each Parliament.

The government felt unable to allow the full salary increase, limiting it to £5,750 in 1975. In each of the following three years it was supplemented within the current policy of wage restraint, despite pressure to bring it up to the level recommended by the TSRB more quickly.<sup>88</sup> Many Members were angry about the failure to pay the recommended increase, and returned to the argument, rejected by the Review body, to bring the salary into line with civil service comparators, a point on which the government promised to consult.<sup>89</sup>

<sup>84</sup> Para 35.

<sup>85</sup> HC Deb 20 December 1971 vol 828 cc1132–1251. The government previously announced its acceptance of the report on 6 December.

<sup>86</sup> HC Deb 21 May 1974 vol 874 cc194–8.

<sup>87</sup> HC Deb 19 December 1974 vol 883 cc1821–30.

<sup>88</sup> Eg, HC Deb 23 July 1976 vol 915 cc2337–47.

<sup>89</sup> HC Deb 16 July 1975 vol 895 cc1503–15; HC Deb 22 July 1975 vol 896 cc441–516.

In July 1978 the government announced another periodic review by the TSRB, which was published in June 1979, after the General election. The increase proposed by the Body, to £12,000, was agreed by the new Conservative government, but would again be staged. The 1979 discussion marked the beginnings of a more general acceptance of the principle that Members' pay should be set on the basis of a comparator. The Leader of the House, Norman St John Stevas, signalled a radical shift in the general view when in 1979 he introduced the government's proposals for an increase:

The tradition in this country is of unpaid and voluntary public service. ... That tradition, although it is not sustainable in the conditions of today, dies hard. It influences public attitudes. It seems to me that the contemporary manifestation of it is that Members should be paid, but not paid adequately. That is not a principle of great logical merit, but it is a principle of powerful effect. I would make clear at the outset, both to the House and the country, that the Government's view is that Members of Parliament should be adequately paid. Hon. Members occupy a position of prestige, influence and responsibility and that position should be reflected in their remuneration. Furthermore, the Government believe that ad hoc arrangements by which hon. Members' salaries are reviewed once in each Parliament are no longer satisfactory by themselves in inflationary periods. It is therefore the Government's intention that if the proposals that I have put before the House command support Lord Boyle's committee should be requested to find one or more professional analogues to which the pay of hon. Members should be linked between reviews.<sup>90</sup>

In its response to this, the Body held to its view that automatic linkage was not an appropriate solution to the problem, but it said that it recognised the frustration of Members about the unwillingness of governments to implement the Body's recommendations. It therefore set out some ideas concerning what sort of linkage might be established.<sup>91</sup> In February 1981, the government established a select committee to further examine the question, which proposed a link to average earnings.<sup>92</sup> When the government set out its proposals in relation to the uprating of Members' pay following the next periodic report by the TSRB, in July 1983, however, it accepted backbench amendments, proposed by Edward Du Cann, to raise the level of the salary over four years to the level recommended by the TSRB, and thereafter to link pay directly to the civil service pay scale. The linkage to civil service pay began in 1988. More detailed information on pay and allowances since then is provided in the Library's standard notes and other publications.

*October 2011*

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<sup>90</sup> HC Deb 11 July 1979, vol. 970, cc. 479–80.

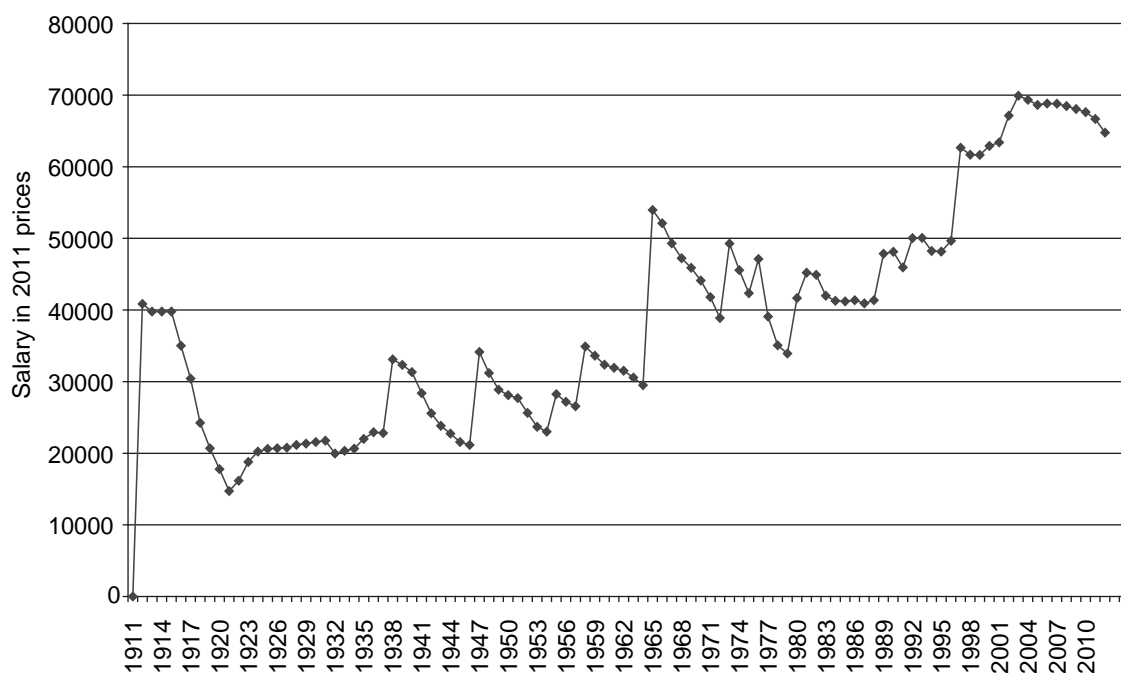
<sup>91</sup> Top Salaries Review Board, Report No 12 (June 1979), Cmnd. 7598, chapter 5.

<sup>92</sup> HC (1981–2) 208.

This chart shows the value of the sum provided to Members as salary over the period 1911–2011. It is included here to show the fluctuations in the value of the salary over time, particularly before 1971. It should be remembered that until 1971 a substantial part of the salary (all of it in some cases) was treated as expenses, and therefore to compare the pre- and post-1971 situation it would be necessary to add in the sums available for these purposes: however it should also be noted that the changing conception of the role of a Member of Parliament also makes it difficult to compare in any straightforward way their remuneration across the century.

### Chart

THE VALUE OF THE MEMBERS' SALARY FROM 1911–2011 IN CONSTANT 2011 PRICES  
(House of Commons Library)  
MPs Salaries and GDP deflator 1911 - 2011



### Written evidence from Michael Rush, University of Exeter and Philip Giddings, University of Reading

#### INTRODUCTION

1. MPs' pay and expenses have long been matters of controversy and are always likely to be so, notwithstanding the introduction of independent reviews in 1971. Even though "pay" and "expenses" are conceptually distinct—a point recognised in the first such review,<sup>93</sup> it has never been possible to separate the two entirely in the minds of the media or the public or indeed Members themselves, as evident in the frequent use of the envelope expression "remuneration package". That fact has to be kept in mind when considering issues relating to expenses, as has been underlined in the recent expenses scandal.

2. Nonetheless, this memorandum will focus primarily on expenses rather than pay, drawing on lessons that can be learned from the development of expenses, overseas experience, and the expenses scandal. In doing so it draws on research carried out over a number of years by the authors, separately and together, evidence presented to the Committee on Standards in Public Life in 2009,<sup>94</sup> unpublished written evidence presented to the Parliamentary Commission for Standards in May 2011, and our recently published book, *Parliamentary Socialisation*.<sup>95</sup>

<sup>93</sup> See Top Salaries Review Body, *First Report: Ministers of the Crown and Members of Parliament*, Cmnd 4836, December 1971, para 33. For a detailed account of the history of pay, expenses and allowances see Michael Rush and Malcolm Shaw (eds), *The House of Commons: Services and Facilities*, Allen & Unwin, London, 1974, Chap 6, Michael Rush (ed), *The House of Commons: Services and Facilities 1972–82*, Policy Studies Institute, London, 1984 pp. 112–26, and successive TSRB/SSRB reports.

<sup>94</sup> Committee on Standards in Public Life, *MPs Expenses and Allowances: Supporting Parliament, Safeguarding the Taxpayer*, Cm 7724, November 2009, memorandum by Michael Rush, [www.public-standards.org.uk/Library/MPs\\_Expenses\\_E505](http://www.public-standards.org.uk/Library/MPs_Expenses_E505)

<sup>95</sup> Michael Rush and Philip Giddings, *Parliamentary Socialisation: Learning the Ropes or Determining Behaviour?*, Palgrave Macmillan, Basingstoke, 2011.

## LESSONS FROM THE DEVELOPMENT OF MPs' PAY AND EXPENSES

## 3. The history of MPs pay and expenses falls into three phases:

- Pre-1911: no pay, and expenses met by the member, a patron, supporters, or the Member's party.
- 1911–71: MPs paid a salary, part of which from 1912 was treated as an allowance to meet expenses and was tax deductible. Indeed, it was possible for Members to claim expenses up to the full parliamentary salary against tax. From 1924 MPs received financial assistance with travel and, due an historical anomaly, free telephone calls in the London area. And in 1969 a secretarial allowance was introduced.
- 1972—: following the first report of the Top Salaries Review Body (TSRB, now the SSRB), a distinction was drawn between the MP's salary and the expenses incurred in carrying out parliamentary duties, laying the foundations of the present system. These allowances were extended in scope and levels in the ensuing years.

4. The conceptual distinction between pay and expenses is crucial for two reasons. First, it has allowed successive governments to limit Members' pay increases, whether as part of an incomes policy or because it was thought politically desirable. Second, it thus enabled successive governments to increase allowances separately from any consideration of pay as such. However, despite the conceptual separation of pay and expenses, the two sometimes became entangled, a point we shall return to later (see para. 14)

5. In 1967 the late Sir Bernard Crick wrote: "Clearly a member should be able to draw on public funds, or be reimbursed from them, those essentials he needs to do his job properly: secretary, office, postage, telephone and travel."<sup>96</sup> The TSRB, in its first report in 1971, implicitly endorsed this view and additionally recommended a subsistence allowance to cover the costs of working away from home, applicable to most Members.<sup>97</sup> However, notwithstanding consideration of increasing the level of existing allowances or introducing new ones, there was no systematic review of expenses between 1971 and the aftermath of the expenses scandal in 2009–10. In the meantime, the scope and level of expenses, though subject to independent review by TSRB/SSRB, expanded in an ad hoc fashion. Like Topsy, they just "grew"—epitomised by the transmogrification of the subsistence allowance into the Additional Costs Allowance.

6. The 1971 TSRB Report also firmly rejected the practice of MPs being expected to meet a substantial proportion of their expenses from their salaries through tax relief and the practice of some overseas legislatures of making all or part of the salary tax free in lieu of an expense allowance.<sup>98</sup> It did so on the grounds that MPs with alternative sources of income would be unfairly advantaged by such an arrangement.

## LESSONS FROM OVERSEAS

7. On five occasions the TSRB/SSRB has had information gathered about the pay and allowances provided in a number of other countries.<sup>99</sup> The countries covered varied, but usually included members of the EU, Australia, Canada, New Zealand and the United States. Such comparisons are complicated by variations in the constitutional provisions and institutional arrangements of the countries concerned. This is most obvious when looking at the United States, with its separation of powers between the Congress, the President and the judiciary. It also applies to other states and the differences between federal and unitary systems, bicameral and single chamber legislatures, and geographical size. Failure to take account of such differences can result in facile comparisons being made, especially by the media and sometimes by politicians. Nevertheless, used with appropriate discrimination, data from other states are useful for comparing pay and what support is provided, enabling judgements to be made about where British MPs come in the pay and support international league tables. They do not, however, usually provide detailed information about the operation of support systems and allowances, nor the policing of them.

8. One important point is very clear from international data. If it were decided to abandon the system of allowances for MPs and adopt instead a substantially increased salary with tax deductible expenses (or expect MPs to take second jobs), the United Kingdom would be the exception to the general practice, especially in comparable countries, such as Australia, Canada, France, Germany and Italy. Of these only France has a tax-free element in the parliamentary salary, but there is also a range of allowances.

<sup>96</sup> Bernard Crick, *The Reform of Parliament: the Crisis of British Government*, Weidenfeld and Nicolson, London, 2nd ed 1968, pp 66–7.

<sup>97</sup> See TSRB, *First Report*, Cmnd 4836, paras 38–52.

<sup>98</sup> In 1969–70 a quarter of Members (excluding ministers) legitimately claimed as much as three-quarters of their parliamentary salaries as expenses against tax and more than two-fifths were allowed by the Inland Revenue to claim more than half. See TSRB, *First Report*, Cmnd 4836, Appx D, Table 3.

<sup>99</sup> See TSRB, *First Report*, Cmnd 4836, December 1971, Appx. E; TSRB, *Report No. 20*, Cmnd 8881-II, May 1983, Sections 5a and 5b; TSRB, *Report No. 24*, Cm 131-II, April 1987, Appx F; TSRB, *Report No 32*, Cm 1943, July 1992, Appx E; and SSRB, *Report No 38*, Cm 3330-II, July 1996, Sections 3a and 3b. The SSRB, *Report No 64*, Cm 7270, January 2008, Annex C contains data on legislators' pay, but not allowances.



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 LESSONS FROM THE EXPENSES SCANDAL

9. This section of our evidence is based on research undertaken for our book, *Parliamentary Socialisation*, in which one of the topics we address is MPs' conduct and ethical standards. It also reproduces written evidence we submitted to the Parliamentary Commissioner for Standards in May 2011.

10. Our research focused on two questions. First, how do newly-elected MPs learn how to function as Members of Parliament? Second, to what extent are MPs socialised into particular attitudes and norms of behaviour in performing that role? To answer the first question we examined the experience and behaviour of the 1992 and 1997 intakes of new MPs, but to answer the second we extended our research beyond the 1992–97 and 1997–2001 Parliaments and compared their attitudes and behaviour with those of longer-serving MPs.

## CHANGING THE RULES AND THE EXPENSES SCANDAL

11. In our exploration of Members' attitudes to ethical standards and behaviour we paid particular attention to how those standards are acquired and how they affected Members' behaviour. We note at the outset that the introduction of the Register of Members' Interests in 1975 and the ban on paid advocacy in 1995 were directed at conflicts of interest. Both resulted in specific rules or sets of rules to deal with a particular problem, which were subject to periodic review and modified if necessary. The impact of the ban on paid advocacy is clear: in 1975, 15.8% of MPs (excluding ministers, the Speaker and Deputy Speaker) registered employment as advisers or consultants; in 1985 the proportion had nearly doubled to 27.7%; and in 1995, after the appointment of the Nolan Committee but before it had reported, to 41.6%. By 2005, however, it had fallen dramatically to 11%. Attitudes towards conflicts of interest had changed because the rules had changed.

12. However, there is a crucial difference between the conflict of interest issues of the early 1990s and the expenses scandal of 2009: the former applied to a minority of MPs, though most came from one party and it was a substantial minority; that arising out of MPs' expenses applied to the overwhelming majority of MPs across all parties. What they have in common is that the scandals they gave rise to were caused by a lack of appropriate ethical norms rather than a flouting of them.

13. It is true, of course, that the House authorities, especially the Fees Office, had produced increasingly detailed advice on the expenses and allowances available to MPs, both by offering all newly-elected Members one-to-one interviews with an official from the Fees Office and the production in 1987 and subsequently of a detailed guide, known as *The Green Book*. Successive editions of the latter became more and more detailed and explicit, particularly after the adoption of the *Code of Conduct and the Guide to the Rules*. But in contrast to paid advocacy, the rules on expenses changed, but behaviour did not—a potentially dangerous gap.

14. Thus whereas rule changes with regard to conflicts of interest and paid advocacy led to change of attitudes and behaviour, in the case of expenses they did not. Why was this? Why did this potentially dangerous gap emerge? A major part of the explanation appears to be that allowances have developed in a piecemeal fashion, a new one introduced here, an existing one extended in scope there. Furthermore, although Members' salaries were subject to regular reviews by the Senior Salaries Review Body (SSRB), successive governments were often reluctant to accept the SSRB's recommendations for salary increases, but less reluctant to allow increases in expenses and allowances. In addition, governments were vulnerable to cross-party backbench rebellions on salaries and allowances and from time to time encouraged MPs to see allowances as a more acceptable means of increasing their remuneration. Thus, when, in 2001, the SSRB proposed an increase in the Additional Accommodation Allowance (ACA), the government offered only token resistance to a backbench amendment to increase the allowance by a massive 46.1%, ostensibly to bring the ACA in line with allowances paid to members of the House of Lords. The vote was not whipped; indeed, some ministers and opposition frontbenchers voted for and some against, while others did not vote.<sup>100</sup>

15. In addition, as more allowances were introduced and others extended, the rules governing their application became more complex and these too developed in a piecemeal fashion, epitomised by the use by the Fees Office of the "John Lewis list". The latter vividly illustrated what can be described as a "culture of entitlement".

## MPs, ETHICS AND SOCIALISATION

*A process of osmosis*

16. In her book, *The Ethical World of British MPs*, Maureen Mancuso concluded that "...ethical standards are instilled as if by osmosis."<sup>101</sup> Mancuso's research was conducted between 1986 and 1988 and, twenty years later, was replicated by Nicholas Allen,<sup>102</sup> who came to a similar conclusion. After examining the expenses scandal, so did we.

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<sup>100</sup> Hansard, 5 July 2001, c464.

<sup>101</sup> Maureen Mancuso, *The Ethical World of British MPs*, McGill University-Queen's University Press, Montreal and Kingston, 1995, p 17.

<sup>102</sup> Nicholas Allen, "A new ethical world of British MPs", *Journal of Legislative Studies*, 14, 2008, pp 297–314.

*Ethics and socialisation*

17. Our research into the attitudes and behaviour of newly-elected MPs at Westminster found that they were subject to significant levels of socialisation and that over the period of a Parliament and more their attitudes and behaviour moved closer to those of their longer-serving colleagues. Some of these attitudes were driven largely by party, but in areas such as ethics they appeared to apply regardless of party. For example, an analysis of ACA expenses in 2004–05 shows that four out of five Conservative and three out of four Labour MPs entitled to claim received 75–100% of the ACA and with little difference between the various intakes.

## MPs AND THE CODE OF CONDUCT

18. In a later study, Allen reported: “MPs are fully aware of the Code’s existence, but judging by the responses of those interviewed most MPs rarely consult it...Some MPs never consult the Code”.<sup>103</sup> He went on to quote a senior select committee chair: “Once you’ve seen it, there’s no need to return to it”. He reported that another said: “I’ve no idea what the Code says, I’m entirely indifferent. I’ve never read it”, adding for good measure, “It’s balls and it’s bullshit.”<sup>104</sup> Overall, nine of Allen’s 38 interviewees admitted to never having read the Code. Some believed the Code was solely concerned with outside interests and, not having such interests, felt no need to read it.

19. This attitude towards the Code is further illustrated by the widespread reaction of MPs to the expenses scandal. Rather than examining the ethical implications of the revelations, they mounted two defences. First, they argued, expenses had been “within the rules” and approved by the Fees Office; and, second, that successive governments had encouraged MPs to maximise their use of allowances, in effect treating them as part of their salary. Similarly, in August 2009, after the expenses scandal had been in the news for some months, MPs were asked who they blamed for the erosion of their reputation: half said MPs themselves, but 64% blamed the press and 20% the Fees Office.

20. Such reactions suggest not so much that MPs lived in an ethical vacuum but rather that they lived and may still live, largely in an *internalised* ethical world, not totally but significantly at odds with that of the general public. Comparative evidence indicates that this MP-public gap is not unique to Westminster: a Canadian study describes it as a “worlds apart” syndrome.<sup>105</sup>

21. Our research suggests that, until very recently, underlying ethical values have been largely taken for granted because of the increasing efforts invested by the House authorities and the parliamentary parties in helping newly-elected MPs learn how to do their job—how to do things at Westminster and how to deal with constituency matters. However, after the 2010 general election and in the aftermath of the expenses scandal, the House authorities provided induction sessions on the Code of Conduct and the Guidance to the Rules. And in the particular context of expenses, the Independent Parliamentary Standards Authority sought to make much clearer the detailed information and advice to MPs provided on its website on what may be claimed and the procedures involved. The acid test here is not whether IPSA, the House authorities or outside observers consider the position is clearer but whether MPs themselves find them so and therefore have confidence in them. This is a matter on which further research is required.

## CHANGING ETHICAL ATTITUDES AND BEHAVIOUR

22. Our research shows that rules can change behaviour, but changing attitudes is a longer-term process. The unusually large intake of first-time MPs in 2010<sup>106</sup> may speed up a change in attitudes, though how far they will be affected by socialisation is a moot point.

23. We conclude that clarifying and modifying the Code and the detailed rules in the light of experience is to be welcomed and may indeed directly affect and determine ethical attitudes and behaviour, but time and experience are the main driving forces. We therefore make three recommendations to the Committee.

24. First, to underline the significance of the Code, we recommend that after each election MPs should be required to sign both a commitment to the Code and rules and a declaration that they have read them. This is no different from the requirement often made of members of the public that they accept terms and conditions in the purchase of some goods or services. It may not bring MPs and the public closer together, but it would place them on a similar footing.

25. Second, we recommend a review of how new Members (including those elected in by-elections) are made aware of ethical standards, as well as the specific rules on expenses. It follows that special attention should be paid to communicating to *all* Members any changes which are in the rules and procedures, including any actions or changes which are required on their part.

<sup>103</sup> Nicholas Allen, “Voices from the shop floor: MPs and the domestic effects of ethics reforms”, *Parliamentary Affairs*, 62, 2009, p 91.

<sup>104</sup> *Ibid.*

<sup>105</sup> Michael Atkinson and Gerald Bierling, “Politicians and political ethics: worlds apart”, *Canadian Journal of Political Science*, 28, 2005, pp 1003–28.

<sup>106</sup> At 34.9% the 2010 intake was the second largest in the post-war period. The largest post-war intake was in 1997 (36.9%). In 1945 the proportion of newly-elected MPs was 50.2%, but 1945 was exceptional, there having been no general election since 1935. The total turnover between 1935 and 1945 was a massive 73.8%.

26. Third, without clearer information about how well ethical standards are understood by those who have to use them, it is difficult to decide what further measures may be needed. We therefore recommend that the Committee commission an independent survey of MPs into the effectiveness of the work done by IPSA and the House authorities to communicate to *all Members and their staff* appropriate ethical standards, particularly with regard to expenses.

September 2011

## Written evidence from the Archbishops' Council

### 1. THE REMUNERATION PACKAGE

The normal remuneration package for parochial clergy in the Church of England includes stipend and the provision of housing, with the payment on behalf of clergy of council tax, water charges, maintenance, external decorations and insurance. Section 6 below gives the historical background. Most parochial clergy nowadays receive most (if not all) of the stipend from the diocesan stipends fund.

*Stipend.* The Archbishops' Council, as Central Stipends Authority, sets a national minimum stipend each year and also makes recommendations for stipend levels more generally, though actual stipend levels over and above the minimum are set by the relevant funding body (each diocese in relation to parish clergy and archdeacons, cathedral chapters in respect of some cathedral clergy and the Church Commissioners in relation to archbishops, bishops and cathedral clergy funded by them). The minimum stipend for 2011–12 is £21,370. Average stipends paid to incumbents are around £23,100. Diocesan bishops receive around £40,000.

*Provided housing.* Stipends are set on the basis that accommodation is provided free of rent, water charges, repairs and insurance and, in England, the Council tax. Dioceses have the power to defray these expenses on behalf of clergy.<sup>107</sup> In some dioceses the payment of some or all of these expenses has been delegated to parishes.

The Central Stipends Authority provides a figure for the estimated value of provided housing. The intention is to provide a general indication of the amount of additional gross income which clergy of incumbent status would require in order to provide basic domestic accommodation (excluding office space) for themselves and their families. In 2011 the estimated value of provided housing is on average calculated to be £9,860 (including an element for "grossing up" for tax and national insurance contributions).

Clergy are also able to have part of the stipend paid free of tax as reimbursement of expenditure on certain costs in respect of the provided house. See section 4 Taxation, below, for the tax treatment of payments defrayed on behalf of clergy, and the tax free reimbursement of costs met by clergy.

From time to time we are asked to provide an estimate of what the value of the remuneration package is to a typical member of the clergy (an incumbent). On the basis that the remuneration package is compared to someone in a comparable public sector pension scheme the calculation comes to a value of about £36,600 for 2011. This includes stipend £23,100, and benefit of provided housing £9,860. The cost to the Church of the package is estimated to be £45,560 or £64,800 if the estimated loss of income on the capital tied up in the typical parsonage house is taken into account.

### 2. STIPEND AGAINST SALARY

#### *Definition of Stipend*

One view is that stipend should be seen as a maintenance allowance which allows clergy to carry out their duties.

In 1943 the House of Bishops defined stipend as:

"The stipends of the clergy have always, we imagine, been rightly regarded not as pay in the sense in which that word is understood in the world of industry today, not as reward for services rendered... but rather as a maintenance allowance to enable the priest to live without undue financial worry, to do his work effectively in the sphere to which he is called and, if married, to maintain his wife and bring up his family in accordance with a standard which might be described as neither of poverty or riches..."

It is doubtful whether the stipends of the clergy of the Church of England have ever been paid in accordance with this definition and so the Clergy Stipends Review Group in its 2001 report "*generosity and sacrifice*" GS1408, suggested an updated definition (though this was not formally adopted):

"The stipend is part of the remuneration package which is paid for the exercise of office. It reflects the level of responsibility held. This package acknowledges the dual demands in Scripture of generosity and sacrifice on both those who receive the stipend and those who raise the necessary funds."

<sup>107</sup> Under section 16 of the Repair of Benefice Buildings Measure 1972, as amended.

### *Right to stipend*

#### Freehold clergy

In England parochial clergy with the freehold have no statutory right to a stipend.<sup>108</sup> Furthermore, they are not employed, and so do not enjoy any contractual rights to remuneration.

A stipend is provided for clergy as office holders. The amount of a stipend is fixed by the diocese, taking into account national guidelines from the Central Stipends Authority (which is the Archbishops' Council). A diocesan bishop under s.5 (2) Diocesan Stipends Funds Measure 1953 can direct, with the concurrence of the Diocesan Board of Finance, how diocesan stipends fund monies are to be applied.

#### Clergy on common tenure

From 31 January 2011, common tenure applies to all office holders in England who do not have the freehold, and will apply to all office-holders appointed in future to what would have been freehold appointments, if common tenure had not been introduced. Office-holders who are currently in freehold posts can opt to go on to common tenure.

Office-holders on common tenure now have a statutory right to stipend at a minimum level (currently £21,370) (Ecclesiastical Offices (Terms of Service) Regulations 2009, regulation 11—see below).

#### “Entitlement to stipend of office holders

11.—(1) Subject to paragraph (3), an office holder who is occupying a full-time stipendiary post which is stated to be such in his or her terms of appointment shall be entitled to receive an annual stipend of an amount—

- (a) which is not less than the National Minimum Stipend, or
  - (b) which, together with any income received by the office holder from other sources which is related to or derived from the duties of the office, is not less than the National Minimum Stipend.
- (2) In sub-paragraph (1) above ‘National Minimum Stipend’ means the amount specified from time to time by the Archbishops’ Council, in exercise of its functions as the Central Stipends Authority, as the National Minimum Stipend, and the circumstances in which income is treated, for the purposes of paragraph (1) (b) above, as to be taken into account for the purpose of calculating an office holder’s entitlement, shall be specified from time to time by the Council in the exercise of those functions.
- (3) An office holder who is occupying a part-time post shall be entitled to such stipend as may be specified in the statement of particulars of office given under regulation 3 above.
- (4) Paragraphs (1) and (3) above do not apply to an office holder who is serving a sentence of imprisonment following a conviction for a criminal offence.
- (5) Any directions given by a diocesan bishop under section 5(2) of the Diocesan Stipends Funds Measure 1953(a) with respect to providing or augmenting the stipends of the office holders mentioned in that section shall be consistent with the provisions of this regulation.”

### 3. STIPEND OR SALARY

If employed by a secular organisation (for example a NHS trust, or the prison service) salary is paid by that secular organisation. Many clergy employed in administrative roles paid by the Church (for example those who work at Church House, Westminster) are paid a salary in the same way as their colleagues who are not ordained. In the case of clergy working at Church House, Westminster they receive no other allowances or help with housing, so are treated in the same way as lay staff. It is possible for a diocese to offer an employee a remuneration package in the form of a payment at the same level as stipend, and with provided housing or a housing allowance, in the same way as stipend is normally paid, if this was appropriate.

Whether clergy received stipend or salary would be determined by the nature of the post and the policy of the body responsible for providing pay.

See section 5 Employment status of clergy.

### 4. TAXATION

Although the majority of clergy are not employees, they are treated for tax purposes as if they were. However, there are two areas of particular note in the taxation of clergy.

First, HMRC accepts that a tax charge on the value of the benefit of the provided house does not arise for parochial clergy, because they are required to live in provided accommodation for the better performance of their duties, and it is customary for accommodation to be provided for them.<sup>109</sup> The tax position applies not only in respect of the basic provision of the house but also in respect of some housing costs, for example

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<sup>108</sup> except in the few cases when the 2005 Stipends (Cessation of Special Payments) Measure did not apply, where incumbents were still in post who had been appointed before the 1976 Endowment and Glebe Measure came into effect.

<sup>109</sup> Section 99(2) of the Income Tax (Earnings and Pensions) Act 2003.

Council Tax and water charges<sup>110</sup> which are paid by the diocese (or parish). If these costs were paid by the clergy occupiers, they would have to come from taxed income, which would be more expensive than the current situation.

Second, for clergy undertaking full-time duties, a proportion of the stipend may be paid free of tax and national insurance in respect of reimbursement of the cost of heating, lighting and cleaning of the official house.<sup>111</sup> This benefit, however, is restricted by the operation of a claw back mechanism known as “service benefit”.

The heating, lighting and cleaning allowance is only of value to those in an official house and undertaking full-time duties, although HMRC may give a study allowance in other circumstances.

## 5. EMPLOYMENT STATUS OF CLERGY

Most Church of England clergy are not employees. Those who are include chaplains—whether of hospital trusts, chaplains in the prison service, school, college and university chaplains, or any other organisations—and those in administrative roles in dioceses or in the national institutions.

### *Ecclesiastical office*

The courts have consistently held that Church of England clergy who hold freehold appointments and those who are licensed by the bishop to the exercise of ministry in an ecclesiastical parish or district are office holders. Since January this year office holders who do not hold a freehold appointment have been on common tenure.

It does not follow that the categories of office-holder and employee are mutually exclusive. A cleric with divided duties may be an employee as to part of the work but an ecclesiastical office holder as well: for example a residentiary canon in a cathedral may also serve as—say—Diocesan Director of Education and hold a contract of employment in relation to that element of his or her work.

### *Chaplains*

The position of chaplain is not recognised in law as an ecclesiastical office. Although they are engaged in ministry their duties and the parameters of their role are not defined in statute or the canons, unlike parochial ministry, but are governed by the requirements of the person or body that they serve, or the person or body that appointed them, if different. Guidance is that they should be given a written contract of employment.

### *Diocesan Posts*

A diocesan post is likely to be a full or part-time role which is not attached to any other role and which by its nature, fulfils the qualifications for employed or self-employed status regardless of whether being ordained is a pre-requisite of appointment. If the post holder has to be ordained, an Occupational Requirement will be attached to the post. It may attract either a straightforward salary or a remuneration package equivalent to stipend plus housing (which may be seen as a taxable benefit by the Inland Revenue) or a housing allowance, and a clergy pension or an administrator’s pension, dependent upon the diocese’s policy.

### *Employed clergy who hold the bishop’s licence*

Employed clergy in chaplaincy or diocesan roles may hold the bishop’s licence to enable them to preach and officiate in connection with their duties. The licence technically brings these clergy within the scope of common tenure, but s2(3) of the Ecclesiastical Offices (Terms of Service) Regulations 2009 disapplies the Regulations to such clergy, whose terms and conditions are instead governed by their contracts of employment. These clergy do not, therefore, have the entitlement to stipend described in section 2 above.

## 6. HISTORICAL BACKGROUND TO CLERGY STIPENDS AND HOUSING

### *Stipend*

Historically clergy stipends were made up of a number of sources:

1. *Endowment*—including private endowments providing for the retention of a priest, perhaps for a family or an estate.
2. *Glebe*—property in addition to the parsonage house and grounds which was owned by the incumbent by right of his office. An incumbent was entitled to retain the glebe for his own use, or let it, and the income from letting formed part of the stipend.

In England, the Endowment and Glebe Measure 1976 swept up the amounts of income received from endowment income and glebe income into a “Guaranteed Annuity” of a maximum of £1,000 per year (“Endowment” also included permanent augmentation grants—“Permanent Annuities”—made by the Ecclesiastical Commissioners to individual benefices over the years, and any trusts which were covered by the

<sup>110</sup> Section 290(1) of the Income Tax (Earnings and Pensions) Act 2003.

<sup>111</sup> Section 290(2) of the Income Tax (Earnings and Pensions) Act 2003.

provisions of the 1976 Measure). By the Stipends (Cessation of Special Payments) Measure 2005 Guaranteed Annuities were abolished unless the incumbent in post wished it to continue for such time as he remained in post. The 2005 Measure did not apply where incumbents who had been appointed before the 1976 Measure came into effect, were still in post.

3. *Tithe*—an annual payment of an agreed proportion (originally one tenth) of the yearly produce of the land which was payable by parishioners to the parish church, to support it and its clergyman. From early times money payments began to be substituted for payments in kind.

Income from tithes was largely transferred to Queen Anne's Bounty (which merged with the Ecclesiastical Commissioners in 1948 to form the Church Commissioners) by the Tithe Act 1925 and tithes were largely abolished by the Tithe Act 1936.

4. *Parochial Fees*—From early times voluntary offerings were made on the occasion of spiritual ministrations either by those who received them or by others on their behalf. By virtue of the development of local customs, fees began to be recognised as payable to parochial clergy in relation to the performance of occasional offices (weddings, funerals etc).

In 1938 power was conferred on the Ecclesiastical Commissioners to establish a table of fees for any parish. This was replaced by the power (now exercisable by the Archbishops' Council, subject to the approval of the General Synod) contained in the Ecclesiastical Fees Measure 1986 which continues to provide for a nationally-applicable table of parochial fees.

While, historically, fee levels were one of the many reasons why clergy incomes varied considerably from parish to parish this is no longer the case. Each diocese now provides a stipend for each member of the clergy irrespective of the fees earned in the parish. About 91% of clergy choose to assign their fees to the diocese and the rest who choose to keep them have to declare the amount to the diocese, which then reduces the stipend by a corresponding amount. Under legislation passed earlier this year, which has not yet been brought into effect, fees that are currently legally payable to the incumbent will become payable to the diocese.<sup>112</sup>

5. *Offerings*—Easter offering (Whitsun offering in some parts of the country) was a payment to which an incumbent was entitled as an emolument of his freehold office. Again this practice has ceased. One or two parishes still make direct payments to clergy for stipend, and more towards heating, lighting, cleaning and garden upkeep expenses at the parsonage house. These count as stipend and are subject to tax.
6. *Other income*—it remains the case that some incumbents receive chaplaincy fees or other income, eg for teaching, arising from functions which are regarded as part of the duties of their office.
7. *Local Trusts*—in the past some clergy received income from local trusts and some still do so.

While these sources of income have been important in the past, the position now is that most parochial clergy receive most of the stipend (if not all) from the diocesan stipends fund.

#### *Provided Housing*

The origin of the tied house system lies in the middle ages when clergy were provided with land, on which to live, and farmed or rented out to provide income. To secure it incumbents were given freehold rights in the property for the tenure of their office, (in the form of a "corporation sole") and this arrangement continues to this day. Full-time clergy in receipt of a stipend who are on common tenure have a statutory right to provided housing. In the case of an incumbent this is in the form of a "parsonage house", which, with the church and churchyard, constitutes the property of the benefice. Otherwise it is housing provided by arrangements organised by the Diocesan Parsonages Board.

October 2011

**Annex**

#### NOTE ON EMPLOYMENT

It is impossible to draw up a complete list of factors that should be weighed in the balance when determining employment, as every case will depend very much upon its own facts.

There is no comprehensive statutory definition of "employee" mainly because of the sheer diversity of working arrangements so the courts have had to develop a number of tests to help determine employment status.

However, the four irreducible minima for the existence of a contract of service, which defines employment,<sup>113</sup> are:

- A legally binding commitment (a legal contract, not necessarily in writing).

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<sup>112</sup> Except for incumbents who currently receive fees direct who have given notice that they wish to continue to receive them while they remain in the current post.

<sup>113</sup> IDS handbook Contracts of Employment 2001.

- Mutuality of obligation (an obligation on the employer to provide work and a corresponding obligation on the employee to accept and perform the work offered).
- Requirement for a personal service (where any power of delegation is only occasional or limited) ie where the service is provided personally by the individual and not delegated or outsourced to others.
- Sufficient element of control by the employer of the employee (whether an individual is under a duty to obey orders, has control over his or her hours of work, is supervised in his/her mode of working and provides his/her own equipment).

If any of these components are missing, then the role is not employment but not necessarily an office (it may be, for instance, self employment). On the other hand, if these components are present the entirety of the picture presented should be looked at to determine the matter in the round.

This status can only be finally determined by the courts weighing these factors and it is important to note that the status agreed between the employer and the employee or the office holder and the relevant overseeing authority, is not relevant. This means that it may be agreed that the status is x but the courts could determine it to be otherwise.

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### Written evidence from the Chartered Institute of Taxation

#### TAX AND MPS—SOME GENERAL TAX PRINCIPLES AROUND PAY, EXPENSES AND BENEFITS

##### 1. INTRODUCTION

1.1 These notes are intended to cover in general terms the tax rules around employment, expenses and benefits, with the position of MPs in mind. The paper is not a proposal, nor is it comprehensive; the tax consequences are set out in outline to help inform debate. The appendix comments on the tax consequences of the current system of expenses payments made to MPs. It is hoped that the paper will be of assistance to the Committee on Members' Expenses.

##### 2. EMPLOYED OR SELF-EMPLOYED

2.1 Whatever salary is paid to an employee is subject to income tax (IT) and National Insurance (NICs). MPs are currently treated as employees. There are undoubtedly features of their role that would support an argument for their being treated as self-employed. In broad terms, the key points are probably:

*Employed:* have to perform their role personally; various conditions laid down by the “employer” (Parliament) to which the MP adheres; hours laid down for when Parliament sits; set main place of work; paid a set annual salary; system of reimbursement for their expenses including “tools”.

*Self-employed:* a good deal of freedom as to exactly how they perform their role and what hours they put in; a fair amount of control over their second work location; tend to employ their own staff; provide a good deal of their own “tools”.

The intention of the parties is also a factor.

2.2 There have been many cases over the years before the Courts that have considered employment status. As the recent *Autoclenz* Supreme Court decisions emphasise, much depends on what happens in practice: documents and intentions cannot override what is obviously (or is obviously not) an employment situation.

2.3 Self-employment does normally mean lower NIC bills for the individual, offset by fewer benefits (eg no entitlement to jobseekers' allowance) and of course no employee rights (arguments about rights, including such things as termination payments, are at the hub of many of the cases reaching the Courts). The major tax difference is no employer's NICs to pay. This has led to much attention being paid to “disguised employment” and thus the “IR35” and Managed Service Company anti-avoidance legislation.

2.4 Employees can deduct expenses that are incurred wholly, exclusively and necessarily in the performance of the duties of the employment. The “necessarily” word is important and is used quite strictly by HMRC to deny a lot of expenses claims. Their stance is typically that if an employee *needs* something for their work...then the employer should provide it. If the employer does not provide it, that suggests the item is not *really* necessary. Some expenses, however, are specifically tax deductible by statute (or concession). Expenses for the self-employed are essentially in terms of “business” expenses—ie those incurred wholly and exclusively for the purposes of the business (though many expenses are apportioned between business and private use) but expenses do not need to be “necessarily” incurred.

2.5 The rest of this note looks at expenses and other payments for employees.

### 3. OFFICE EXPENSES

3.1 Employers will routinely consider what is needed for employees to do their job properly and provide appropriately. This guides most employers to provide what is “necessary for the job”. Typically that would include such things (for an office-based worker) as:

- Office and office equipment (desk, chairs, conference table and chairs for senior staff, bookcases/shelves, PC and peripherals, phones, etc); and
- Office consumables (stationery, telephone calls, tea/coffee, etc).

3.2 There would normally be no question of a taxable benefit-in-kind arising on such items. One assumes that if the central authority provided similar levels of provision to all MPs, then again there would be no taxable benefit. Note that there can be an issue in practice about “provision for all”—if, for example, tea/coffee is only available to a select few staff that may mean a taxable benefit for them.

3.3 Above the standard provision, employees typically have to make a case for any other equipment they require to perform their duties. Such things could be provided centrally or incurred by the individual and reimbursed by the employer. Whether there would be a taxable benefit would depend on necessity vs. private benefit. If, for example, a blackberry is provided, is it mainly for business use? Normally, one mobile phone is accepted as necessary for business but employers are expected to monitor private use to the extent of making sure that the phone is used primarily for business.

3.4 Employers will usually discuss their arrangements with HMRC and obtain a “dispensation” over many expenses (whereby HMRC agree there is no taxable benefit); others will be agreed to be taxable. Presumably, a similar route could be followed for MPs with central guidelines being used and “normal” office costs/equipment met.

3.5 The position over constituency office equipment will need to be considered for MPs, to the extent that such costs are covered by the public purse.

### 4. STAFFING EXPENSES

4.1 Employees do not normally employ other staff; their employer does the employing. There is normally no issue around a taxable benefit arising for an employee (eg for their secretary) though this could arise (possibly for a personal chauffeur<sup>114</sup>/handyman).

4.2 Accordingly, if MPs were given a central guideline on what staff an MP could have (eg a researcher and a secretary) but the staff were engaged, and paid, centrally there would be no issue around a taxable benefit. That would follow despite the MP presumably interviewing and approving them, and having a certain amount of discretion over who they were, their qualifications, etc. If a family member were employed, they would of course be taxable on their salary.

4.3 This route would obviate any tax problems, given that the employer would be Parliament, even if there were an employment contract linking the staffer to the MP. It would also mean that MPs do not waste time acting as employers, making returns, etc.

### 5. PERSONAL EXPENSES

5.1 A significant category of expenses for many staff is travel and subsistence. Provided this is business travel, then expenses reimbursed do not give rise to a taxable benefit: the tax rules allow as deductible from salaries expenses “...necessarily incurred on travelling in the performance of the duties of the employment.” This also covers subsistence—and hence accommodation. There are considerable rules and guidelines here; taxable benefits will arise over such matters as home to office commuting costs, over-lavish subsistence and (in most circumstances) spouse/civil partner travel. Entertaining can also give rise to a taxable benefit.

5.2 An employee with two places of work is normally able to regard travel between the two places of work as “business”, with reimbursement of such costs non-taxable.

5.3 The position of accommodation costs would normally be that there would be a benefit-in-kind if the employer provides a flat/house, either rented or bought.<sup>115</sup> In addition, there can be a benefit if running costs (eg heat, light) are paid. However, someone working away from home would normally not be taxable on the accommodation provided at the second site, though if that runs (or is expected to run) for more than two years then a taxable benefit usually starts to arise.

5.4 Clearly, travel and subsistence will be a major consideration for those MPs with constituencies well away from London. Those MPs who need accommodation in London may provide their own or there may be central provision. It is an area where MPs’ arrangements could give rise to a taxable benefit, but s292 ITEPA 2003 puts the matter beyond doubt.

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<sup>114</sup> Note the provisions of s 295 ITEPA 2003, which exclude any possible taxable benefit from transport services provided to Ministers.

<sup>115</sup> The general rule that provision of accommodation gives rise to a taxable benefit is overridden with the special exemptions for the occupation of Chevening House and Dorneywood.



5.5 Some employers will give their employees an expense allowance to cover travel costs, etc. That allowance would be taxable, with the employee able to make claims for valid expenses to reduce the taxable amount.

## 6. OTHER MATTERS

6.1 When an employee loses their job, there is the well-known £30,000 tax-free amount. However, this needs great care: in fact, the exemption covers redundancy payments and other amounts that are non-contractual; payments in lieu of notice, for example, are normally taxable in full. MPs do receive "Resettlement grants" which are probably treatable as termination payments, although their contractual nature strictly means they are fully taxable rather than the first £30,000 tax free. However, s291 ITEPA provides for the £30,000 exemption to apply.

6.2 Payments to cover special security arrangements would need care in practice; they are often non-taxable but this is not automatic.

6.3 There is also the question of pension arrangements. In simple terms, employee contributions are deductible for IT (but not NICs); employer contributions are not taxable. However, the various limits on contributions (broadly £50,000 a year and a "pot" of, currently, £1.8 million) need to be considered carefully.

6.4 The remainder of the special tax rules for MPs' expenses in Sections 291–295 ITEPA 2003 need to be borne in mind.

## 7. CONCLUSION

7.1 We have tried to make this note a useful and, deliberately, relatively short general guide. As stated at the start, it is not intended to be exhaustive and is in places only a summary of the issues and tax considerations.

## 8. THE CHARTERED INSTITUTE OF TAXATION

8.1 The Chartered Institute of Taxation (CIOT) is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it—taxpayers, advisers and the authorities.

The CIOT's comments and recommendations on tax issues are made solely in order to achieve its primary purpose: it is politically neutral in its work. The CIOT will seek to draw on its members' experience in private practice, Government, commerce and industry and academia to argue and explain how public policy objectives (to the extent that these are clearly stated or can be discerned) can most effectively be achieved.

The CIOT's 15,600 members have the practising title of "Chartered Tax Adviser" and the designatory letters "CTA".

*17 October 2011*

## APPENDIX

### EXPENSES FOR MPS: COMMENTS OF THE CURRENT POSITION AND ITS TAX CONSEQUENCES

#### 1. INTRODUCTION

1.1 This note contains comments on the tax implications of MPs' expenses, as provided for in "The Green Book: A Guide to Members' Allowances" (Revised Edition, July 2009) <http://www.parliament.uk/documents/commons-finance-office/greenbook0907.pdf>. This covers allowances to cover the costs of running an office and employing staff, having somewhere to live in London and in their constituency, and travelling between Parliament and their constituency, among other things.

1.2 This paper is a commentary on the tax consequences of the various provisions as set out in the Green Book. No comments or judgments are made or intended on the basis of the payments or the amounts involved.

#### 2. GENERAL COMMENTS

2.1 Pay for income tax purposes includes wages, salaries, commissions, bonuses, tips, certain benefits-in-kind (some are tax exempt) and taxable expenses payments (some expenses payments are not taxable).

2.2 Certain expenses incurred by an employee may be deducted in arriving at taxable earnings (if not reimbursed by the employer). Those expenses are those that the employee/officeholder is obliged to incur and pay as the holder of the employment and are incurred wholly, exclusively and necessarily in the performance of the duties of that employment.

2.3 This is akin to the principles that MPs are reimbursed only for the costs of a Member carrying out his or her parliamentary duties and that claims must only be made for expenditure that it was necessary for a Member to incur to ensure that he or she could properly perform his or her parliamentary duties.<sup>116</sup>

2.4 There are some special rules in sections 291–295 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) to exempt MPs and Ministers from tax on certain payments.

2.5 In most cases, an employer reimburses expenses necessarily incurred by an employee in the performance of their duties, so that for income tax purposes the expenditure is balanced by the employer's payment. If an employer reimburses or pays other expenses incurred by the employee (eg private expenditure incurred on a company credit card), this will usually be taxable as a benefit-in-kind. Generally speaking, the employer reimburses actual costs, although in some cases the employer may reimburse at or up to a rate agreed by HMRC.<sup>117</sup>

2.6 A strict application of the rule for allowable expenses would require all expenses payments to employees to be treated as employment income, leaving the employee to claim tax relief for the allowable part. To avoid this unnecessary work, expenses payments that would not give rise to a tax liability may be subject of an HMRC "dispensation". This permits the employer to make payments of expenses to the employee without tax consequences. Employers must stick to the terms of the dispensation, which HMRC will occasionally police.

2.7 There appears to be a dispensation and a PAYE Settlement Agreement (PSA)<sup>118</sup> covering certain expenses and benefits-in-kind for MPs, including, winding-up expenditure and cash reimbursements for allowable journeys by rail, air or sea. The exact remit is unknown.

2.8 Where an employer does not reimburse expenses incurred by an employee the employee can deduct, for the purposes of determining taxable pay, the expense that he or she was obliged to incur. Relatively few expenses satisfy the rules for a deduction but some expenses are specifically allowable by statute. An employee can also deduct qualifying travelling expenses not reimbursed by the employer.

### 3. STAFFING EXPENDITURE (SE)

3.1 It is not usual for employees to employ their own staff. Normally, the employer would employ the support staff they regard as necessary for the employee to perform his or her duties.

3.2 However, MPs are perhaps in a unique situation and it would not be unreasonable to regard the reimbursement of the reasonable costs of staffing expenditure incurred in the performance of the MPs parliamentary duties to be tax-free.

3.3 The MP is the employer and, assuming the staffing expenditure is that which one would expect an employer to meet,<sup>119</sup> then the reimbursement of that expenditure by Parliament to the MP would presumably be tax-free. This would extend to meeting or paying the expenses of staff incurred in the performance of their duties, including travel and subsistence costs incurred whilst travelling on business.

3.4 MPs presumably register as an employer and make all necessary returns and payments to HMRC, as appropriate.

### 4. ADMINISTRATIVE AND OFFICE EXPENDITURE (AOE)

4.1 If it is necessary for an employee to work at home, he or she may claim the appropriate proportion of the cost of light, heat, telephone calls, etc but not council tax. Also, reasonable expenses payments by employers to cover additional household expenses where an employee regularly works at home under a home working arrangement are exempt from tax (HMRC permit £3 per week to be paid without supporting evidence of actual costs).

4.2 An employee can also claim a deduction against taxable earnings if he or she buys equipment that is necessary for use in his or her job and for the interest on money borrowed to finance the purchase of such equipment (in both cases a restriction arises for any private use proportion).

4.3 An employer can also provide to an employee tax-free a single mobile phone (the cost of line rental and private calls paid directly by the employer is tax exempt). The provision of additional mobile phones is not tax exempt. However, the provision of a mobile phone solely for business use is exempt so long as any private use is not significant. At present, PDAs (eg a Blackberry) are regarded as computers and not mobile phones by HMRC.

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<sup>116</sup> The Green Book also states that "expenditure for which reimbursement is claimed under the Green Book should be wholly, exclusively and necessarily incurred for the performance of a Member's parliamentary duties, and therefore deductible from income for tax purposes" [Paragraph 3.3: Taxation of allowances].

<sup>117</sup> Either because there is a general rule that permits an allowance up to that figure to be paid tax-free or where the employer has agreed an allowance with HMRC, so as to reduce the administrative burden—usually after a sampling exercise of actual costs has been carried out.

<sup>118</sup> A PSA is where the employer settles tax on behalf of an employee, usually on a "grossed up" basis.

<sup>119</sup> There may be some cross-reference here to costs that may be reimbursed under the AOE allowance, for example, with regard to training costs for members of staff.

4.4 Where an employer pays an employee's home telephone bills the payments are normally taxable on the employee (unless private use is insignificant) but a deduction for tax purposes may be claimed for the cost of business calls (in effect, any reimbursement of the line rental and private calls are taxed).

4.5 It is reasonable in tax terms for the costs of accommodation for office use, or for occasional meetings elsewhere, and for equipment and supplies for the office to be reimbursed tax-free. Where part of the home is used as an office the claim is restricted to the "additional costs"—this would include telephone costs where a separate "business" line is installed but would be restricted to the cost of "business" calls where this is not the case. It would probably also extend to the cost of broadband installed because of "business" demands (but some "disallowance" could arise if there was significant private use).

4.6 Where equipment is purchased (see 4.2 above) the claim for a tax deduction would normally be restricted to the amount deductible under the "capital allowances" rules. Given that for "plant and machinery" there is an annual investment allowance of £100,000 (to be reduced to £25,000 from April 2012) the net effect is likely that the "full" amount would be claimed. However, there is a requirement to restrict the capital allowances claim for any private use.

4.7 Other costs (eg work commissioned and other services, and certain travel costs not met out of the travel expenditure) do appear to meet the normal requirements to be reimbursed tax-free—although they are not the sort of costs that would normally arise to an employee/officeholder, they are costs that could arise to an employer.

## 5. PERSONAL ADDITIONAL ACCOMMODATION EXPENDITURE (PAAE)

5.1 It is not unusual these days for employees to have more than one workplace, or be required to stay away from home overnight because of the requirements of their employment.

5.2 Generally, an employer meeting the cost of overnight accommodation (eg hotel costs etc) and other incidental expenses, including subsistence, would not give rise to a taxable payment. This would, generally, include staying in accommodation (eg a house or flat) owned or rented by the employer.

5.3 As an individual has to eat and drink to live, such expenditure cannot be said to be incurred wholly and exclusively in the performance of the duties of one's employment. Nor can it be said to be additional expenditure if one normally resides away from home for part of the week.<sup>120</sup>

### 5.4 Accommodation

5.4.1 It would be quite unusual for an employer to meet, tax-free, the costs of the employee providing permanent accommodation for him or her at, or near, one or other (or both) workplaces. It is difficult to think of a situation where an employer could reimburse the cost of a second home without the payments being liable to tax.

5.4.2 Normally, if an employer provides an employee with living accommodation the employee is charged to tax on the amount of rent the employer pays (or the "rental value" if the accommodation is owned by the employer) (less any amount made good by the employee).

5.4.3 Generally, the only exception to this rule is where it is customary for employees to be provided with living accommodation for the better performance of their duties or the accommodation is provided for security reasons. In such circumstances, the exemption from tax extends to the payment by the employer of council tax and water charges. However, normally, the employer would own or rent the accommodation.

5.4.4 From a tax viewpoint, the position is less clear-cut with regard to rent, mortgage interest, etc. If a "second home" were "necessary", it would be more normal for the employer to own or rent it. However, if we assume that MPs are in a unique position and that they should personally own or rent the "second home" then it would seem reasonable to regard the accommodation as "job-related accommodation". Consequently, it would then be reasonable to reimburse tax-free the rent (including ground rent), service charges, mortgage interest, council tax, etc. However, it would not be correct to claim overnight subsistence in such circumstances (such reimbursements are for the additional cost of staying away from home overnight but if the employee is residing in their "second home" it is a cost that would normally be incurred when at "home" and so is not an additional cost).

### 5.5 Travel and subsistence

5.5.1 Where an MP stays overnight away from their home for the purposes of performing his or her parliamentary duties, it is reasonable in tax terms for the additional expenses necessarily incurred to be reimbursed tax-free.

<sup>120</sup> So, in normal terms, if an employee lives in (say) Birmingham and takes a job in London, travel to London and overnight stays in London (if he/she decides not to commute) are not deductible (or will be taxable if reimbursed by the employer. (This is developed further below under Travel Expenditure.) The position can be different, for a period, if the employer moves the employee.

5.5.2 Generally, PAAE may only be claimed in respect of one “home” (whether in London or in the MPs constituency) (there are exceptions for MPs with constituencies within 20 miles of the Houses of Parliament). Section 292 ITEPA 2003 provides a “special” exemption for PAAE (see paragraph 3.3 of The Green Book).

5.5.3 The reimbursement of hotel accommodation and overnight subsistence when travelling away from “home” in the performance of one’s duties would be normal business practice.

5.5.4 An employee away from home overnight on business is exempt from tax on payment or reimbursement by his or her employer of incidental personal expenses such as newspapers and telephone calls so long as they do not exceed £5 per night.

5.5.5 The Green Book permits a flat-sum of £25 to be claimed. Presumably, this is to cover the cost of meals and incidental personal expenses. HMRC may grant a dispensation to an employer for subsistence and incidental costs incurred in an overnight stay in this sort of sum.

## 5.6 Capital Gains Tax

5.6.1 The Green Book says that MPs must make a declaration that a property on which PAAE has been claimed is not their main residence for CGT purposes (see paragraph 3.3). It is unclear to whom this declaration is made.

5.6.2 Normally, for CGT purposes, where an individual (or couple) has an interest in more than one residence, they should make a declaration to HMRC, within two years of residing in the additional residence, of which is their main residence for CGT purposes. In the absence of an election, it becomes a question of fact (it is not impossible, for example, for one residence to be the main residence during the week and another at weekends—the main residence exemption may be apportioned between the two in appropriate circumstances).

5.6.3 MPs are, perhaps, in the unusual position of having to declare which is not their main residence. It is, however, unclear whether on a subsequent sale of a property on which PAAE has been claimed any gain is automatically fully chargeable to CGT. This should not be the case and HMRC’s guidance<sup>121</sup> would seem to agree. Thus, if a property on which PAAE has been claimed has been the MP’s main residence at some other time the usual CGT exemptions (eg last 36 months, etc) will apply and the gain will be apportioned appropriately.

5.6.4 In essence, the same CGT rules as apply to individuals generally apply to MPs. The only difference between an MP and any other individual with two residences is that the MP receives tax-free help with the costs of running the second residence.

## 6. COMMUNICATIONS EXPENDITURE (CE)

6.1 The types of expenditure outlined here would appear to be those one would expect an employer to incur direct, as part of their normal business expenditure. It would be expected that the reasonable costs of CE incurred to be paid or reimbursed tax-free.

## 7. HOUSE STATIONERY AND POSTAGE (SP)

7.1 Similarly, one would expect an employer to provide stationery, etc for an employee’s use in the performance of his or her duties, as part of their normal business expenditure. Therefore, it would be reasonable for the provision of House SP to be tax-free.

7.2 Any modest use of House stationery for personal correspondence would probably be regarded as an incidental benefit and would not be taxable.

## 8. TRAVEL EXPENDITURE

8.1 An employee/officeholder is entitled to relief for the full cost he or she is obliged to incur in travelling in the performance of his or her duties, or travelling to or from a place, he or she has to attend in the performance of his or her duties. This is provided the journey is not ordinary commuting between his or her home and his or her permanent workplace or private travel (ie travel for a private rather than business purpose).

8.2 It would be reasonable to reimburse tax-free the full cost of travel and subsistence incurred whilst journeying on parliamentary business. Where appropriate, reimbursement should be made at agreed rates (eg when using one’s own car for business it would be reasonable to expect the reimbursement to be made in accordance with the Authorised Mileage Allowance Payment (AMAP) rates incorporated into the Income Tax Acts (note: this is what The Green Book provides for).

8.3 In tax terms, an MP has two permanent workplaces, the Houses of Parliament and his or her constituency. Travel between the two would be “business travel”, as would travel from either “workplace” to any other place the MP has to attend in the performance of duties.

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<sup>121</sup> See form MP/M1 <http://www.hmrc.gov.uk/forms/sa102-mp-m1.pdf>

8.4 However, for most people travel from one's main home to one's permanent workplace (as opposed to another location one travels to in the performance of one's duties) would normally be ordinary commuting and any reimbursement of the costs of travelling by an employer would be expected to be a taxable expenses payment.

8.5 Hence, if an MP's main home is in their constituency, the cost of travelling from home to the Houses of Parliament would be a business journey (one permanent workplace [the constituency] to another [the House]) but the cost of travelling to the constituency office would be "ordinary commuting" and, if reimbursed, should be taxed (see below regarding MPs' special exemption). Similarly, if an MP's main home is in London, the cost of travelling from home to their constituency would be a business journey but the cost of travelling to the House would be "ordinary commuting". Travel from the MP's main home to any other place he or she attends in the performance of their duties would be business travel. Travel from an MP's "second home" to a workplace would probably be a business journey although there are arguments to the contrary.<sup>122</sup>

8.6 Thus, although travel between Westminster, the MP's constituency and his or her main home may be considered to be routine, it would not automatically all be tax exempt.

8.7 The Green Book does not require a full breakdown of mileage for constituency travel. However, HMRC would expect employees to maintain full records of all business journeys and it would therefore seem reasonable to expect MPs to retain the same information (even if they are not required to provide it to Parliament to support allowance payments).

8.8 The reimbursement of travel and subsistence costs incurred by the MP's staff, when travelling in the performance of their duties (including accompanying MPs who are travelling in the performance of their duties) would be expected to be paid tax-free.

#### 8.9 *Statutory overrides*

8.9.1 Section 293A ITEPA 2003 provides a specific exemption for the UK travel and subsistence expenses of MPs. This includes certain journeys by the MP's spouse or partner if they share caring responsibilities. It would not normally be the case that, when travelling within the UK, the paying or reimbursement of the costs of an accompanying, or visiting, spouse, or civil partner, or dependent family member would be considered to be tax-free.

8.9.2 Section 294 provides a specific exemption for European travel expenses.

8.9.3 Section 293A(1)(b) only provides a limited exemption for "relevant subsistence expenses" (where the House sits beyond 7.30pm). It is unclear whether other subsistence expenses (eg those incurred whilst travelling in the performance of one's duties) falls within the exemption for UK travel expenses at Section 293A(1)(a) or whether the "normal" travel and subsistence rules apply.

8.9.4 Section 293A(1)(a) is limited to "relevant UK travel expenses" (being those journeys that are necessary for the performance of the MPs parliamentary duties). Presumably, this is to ensure that there is no exemption for the payment or reimbursement of the costs of "ordinary commuting" (ie home to the constituency).

### 9. RESETTLEMENT GRANT (RG)

9.1 At face value, this would appear to be akin to a termination payment, so that the exemption in Section 291 ITEPA 2003 may apply.

9.2 The rule for termination payments is that, usually, the first £30,000 is exempt and only the balance is taxable.<sup>123</sup> However, a payment may be taxable under the "normal rules" for earnings from employment because it is a payment for services already rendered rather than a termination payment (eg outstanding pay or bonus, pay in lieu of notice, compensation for loss of office or payment for a restrictive covenant). In effect, to be a payment made in connection with termination (and, thus, fall within the special rules) the payment(s) must be by way of compensation because the employer has broken the contract, is purely ex-gratia, or is redundancy pay.

9.3 It could be said that, since The Green Book provides for the RG, it is a "contractual" entitlement and it would be taxable in full. However, Section 291 overrides this conclusion and makes the termination payments rules apply.

### 10. WINDING-UP EXPENDITURE

10.1 Given that it is designed to meet the costs of completing outstanding parliamentary duties, the costs it is designed to cover are those that are incurred wholly, exclusively and necessarily in the performance of the

<sup>122</sup> For example, if the second home is in London and the claim is for travel to Westminster, one could argue that that is no more than ordinary commuting.

<sup>123</sup> Payments to registered pension schemes are considered separately.

duties of the former “employment”. As such, the reimbursement of the costs incurred in this respect should be tax-free.<sup>124</sup>

10.2 There is apparently an HMRC dispensation in place for winding up expenses.

#### 11. SECURITY BUDGET

11.1 It is difficult to find parallels in “UK business”. It would be interesting to see if HMRC would grant a dispensation to other employers for the reimbursement of this expenditure.

11.2 That said, MPs are in a unique situation and it does not seem unreasonable in tax terms for the costs of security measures that are taken on police advice to be paid or reimbursed tax-free. There are, in any event, limits on the costs that will be paid or reimbursed.

#### 12. HELP FOR MEMBERS WITH DISABILITIES

12.1 Help is provided for MPs with disabilities (see paragraph 2.10 of The Green Book).

12.2 The Income Tax Acts do, generally, provide exemptions for expenditure incurred by employers to assist employees with disabilities to carry out their duties of employment. Therefore, it is not unreasonable in tax terms for assistance provided to MPs with disabilities to be paid or reimbursed tax-free.

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### Written evidence from Bill Cockburn CBE TD, Chairman, Senior Salaries Review Board (SSRB)

#### MEMBERS' SALARIES

You wrote to Gabrielle Kann in the Senior Salaries Review Body secretariat on 19 September asking for written evidence from the SSRB on the criteria which it believes should be used to set the salaries of Members of the House of Commons, together with any other observations it wishes to make on Members' salaries and expenses. I am replying on behalf of the SSRB; although we have not met since receipt of your letter, I have consulted my colleagues and sought to reflect their views in what follows.

The SSRB has advised on Members' salaries, expenses and pensions on many occasions since it was created in 1971, but by virtue of the Parliamentary Standards Act 2009 (as amended) these are now matters for the Independent Parliamentary Standards Authority (IPSA). IPSA must consult the SSRB (among others) before preparing or revising an allowances scheme or determining Members' salaries and may delegate to the SSRB its function of reviewing a determination (but not its function of deciding whether or not to make a new determination). Although salaries and allowances are often mentioned together, the SSRB has long argued that they are entirely separate and one of the principles it has adopted in successive reviews is that a clear distinction must be made between salary and reimbursement of expenses.

The SSRB is an evidence-based, independent, advisory body which conducts reviews and produces reports when requested to do so. It has, in effect, a standing mandate from the Government to review and report each year on the pay of its four main remit groups, namely the salaried judiciary, senior civil servants, senior military officers and certain senior NHS managers. It also receives specific mandates to review the pay, and sometimes other conditions, of further groups. In the past these groups have included Members of both Houses of Parliament, Members of devolved assemblies, the Mayor of London and Members of the London Assembly, tribunal judges, chief executives of executive non-departmental public bodies and, most recently, police and crime commissioners.

When the SSRB carries out a review, whether annual or ad hoc, it first seeks to gather evidence from all those with a relevant interest, for example the employing organisation if there is one, any trade unions or other bodies representing members of the remit group and those members themselves. Sometimes it will commission research from its own secretariat in the Office of Manpower Economics or from external advisors. It then weighs the evidence and draws up its recommendations in accordance with its standing terms of reference (a copy of which is attached to this letter) or any specific terms of reference for an ad hoc review.

Thus each SSRB review represents the views of the current membership of the SSRB at the end point of that review, in the light of all the evidence received during the review. Of course the membership of the SSRB changes over time. It is a part-time body which convenes as necessary to carry out specific tasks and members normally serve two three-year terms. But more importantly, the evidence on pay and related matters is also likely to change, as is the broader social, economic and labour market context.

I hope it will be clear, given this explanation of how the SSRB works, that the SSRB may revise its previous views when we come to reconsider an issue. When IPSA consults us about a future determination of Members' salaries, we shall need to gather and consider evidence, and form our recommendations in the normal way, taking account of the terms in which IPSA consult us. Since we have not considered Members' salaries and expenses in detail since 2006–07, we do not have recent evidence on which to base fresh views or recommendations.

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<sup>124</sup> The exemption in Section 291 ITEPA 2003 applies to winding-up expenditure (see paragraph 3.3 of The Green Book) but it is questionable whether the exemption is needed in this case.

The evidence, background research, considerations and recommendations of the SSRB as constituted in 2006–07 are set out in the two volumes of our Report No. 64 on the *Review of parliamentary pay, pensions and allowances 2007* (Cm 7270). That report explained the principles we followed in paragraphs 1.20–1.22 (reproduced in Appendix B to this letter). The SSRB subsequently continued to apply those principles in giving evidence to the Committee on Standards in Public Life in 2009 and in responding to IPSA consultations in 2010.

The report also contained a package of recommendations on pay, pensions and allowances which the SSRB intended to be taken together and I therefore hesitate to single out those on Members' salaries. However, for ease of reference, the key recommendations on Members' pay were the following:

*Recommendation 1:* We recommend that for 2007 the salaries of MPs be increased by a further 1.9% of the salary payable from 1 November 2006, taking the new salary to £61,820, and that this increase be backdated to 1 April 2007.

*Recommendation 2:* We recommend that, instead of the existing annual uprating mechanism, the pay of MPs be uprated on 1 April each year, beginning in April 2008, by the average percentage increase in base salary of the senior civil service (SCS), or of Pay Band 1 of the SCS if that figure is identified separately.

*Recommendation 3:* We recommend that for three years, beginning in April 2008, MPs' salaries be increased by £650 a year, in addition to the increase resulting from the proposed uprating mechanism, in order to achieve a more sustainable relationship between the remuneration of MPs and relevant public sector comparators.

*Recommendation 4:* We recommend that, subject to the adoption of Recommendations 1 to 3 above, future reviews of parliamentary pay, pensions and expenditure should henceforth normally take place at four-yearly intervals (rather than every three years as at present).

*Recommendation 5:* We recommend that with effect from 1 April 2007 the salary supplements paid to chairmen of Select and Public Bill committees should be increased in April each year by the same percentage as the overall increase in the MP's salary resulting from our recommendations on MPs' pay.

Most of these recommendations have been overtaken by subsequent events, including the House's Resolution of 3 July 2008, repealed earlier this year, which required the SSRB to calculate the annual increase in Members' salaries as the median increase of 15 specified groups of public sector workers. However, the most important from the Committee's point of view may be recommendation 3 which refers to "relevant public sector comparators". When it carried out the review which led to the 2007 report, the SSRB commissioned consultants to carry out job evaluations of a sample of 30 Members and to identify public sector jobs of similar weight. In practice those Members' jobs varied significantly in weight, and the comparators were chosen from jobs which fell within the range of job weight scores for the sample of Members. At that time the SSRB chose to look only at public sector comparators because, as it put it in the report: "we believe MPs are quintessentially public sector workers" and:

"Many of those who work in the public sector, especially at more senior levels, appreciate the social value of what they do. Similarly, the factors that arguably partially compensate MPs for a salary below that of their public sector comparators ... also go some way to offsetting higher private sector salaries. We therefore gave less priority to the private sector comparators of MPs. They are informative but not directly relevant for our purposes." (Paragraph 3.15, p 16)

It is important to note that in 2007 the SSRB did not recommend a simple read-across between the salary for Members and the average of the comparators, after allowing for the relative value of pensions. The key passage in the report states:

"Having considered all the evidence, we believe there are some non-financial benefits of being an MP compared to other jobs which go some way to compensating for a lower salary and which help to ensure that there is little or no difficulty in recruiting sufficient suitable candidates to stand for election. There does not appear to be a problem of retention. We heard no evidence to suggest that MPs are leaving the Commons because of inadequate pay. However, we do believe it would be reasonable to move MPs' total remuneration closer to the average of the public sector comparators identified by [SSRB's consultants] while recognising that there are special features of the MP's position. We believe this will help to head off any incipient problems with recruitment and ensure that MPs' relative pay position in the public sector is sustainable conceptually and in practice." (Paragraph 3.19, p. 17)

I must stress that these were the SSRB's views in 2007 based on the facts and evidence available at that time. If today's SSRB were to be asked to review Members' salaries, it would need to take fresh evidence and would not necessarily adopt the same approach of identifying public sector comparators; if it did use the same approach, it might not choose the same comparators; and even if it did stick with the same comparators, it might not come to the same conclusions about where Members' salaries should be set in relation to those comparators. Much has happened since 2007, not least a major recession, and there is currently a two-year public sector pay freeze for those paid over £21,000 a year, so the whole context would be different.

Similarly, if IPSA were to consult the SSRB again on expenses, SSRB would need to take and consider fresh evidence before making recommendations.

17 October 2011

## APPENDIX B

### EXTRACT FROM REVIEW OF PARLIAMENTARY PAY, PENSIONS AND ALLOWANCES 2007 (CM 7270)

#### PRINCIPLES

1.20 In our last report on the review of Parliamentary Pay and Allowances<sup>125</sup> we set out the following principles at paragraphs 2.6 and 2.7:

*“2.6 The 1996 Report set out the general principles applied by the Review Body in determining pay levels. In its evidence to us the Government commented that these principles remained a good basis for determining parliamentary pay and allowances. We consider they remain relevant, and have applied them again in this review. They are:*

- Pay should not be so low as to deter suitable candidates, nor so high as to make pay the primary attraction of the job;*
- Pay should reflect levels of responsibility rather than workload;*
- Whereas those with outside interests should not be deterred from entering Parliament, those who choose to make Parliament a full-time career should be adequately rewarded to reflect their responsibilities;*
- Pay should not be augmented in an attempt to compensate MPs for job insecurity, which is not unique to MPs;*
- The basic parliamentary salary should continue to be the same for all MPs;*
- There should be no pay progression linked to length of service; and*
- A clear distinction must be made between salary and reimbursement of expenses.*

*2.7 To this list we would add one further principle, to which the new disclosure rules, to be implemented from October 2004, will help give effect:*

- Claims for expenses should be appropriately validated, and their reimbursement should be transparent.”*

1.21 The principles on *pay* seem fundamentally sound and we see no need to change them although we should make clear that we take account of the value of MPs' pensions in comparing the remuneration of MPs with that of other workers. This is good and normal practice in assessing remuneration and we already do it for our other remit groups (senior civil servants, the judiciary and senior military officers).

1.22 On reflection we believe the principles on *expenditure* should be expanded and clarified as follows:

- Expenditure incurred wholly, necessarily and exclusively on parliamentary duties should be reimbursed subject to reasonable limits (ceilings, not entitlements); and
- Claims for reimbursement of expenditure should be appropriately substantiated.

We seek to apply these principles in the following chapters.

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### Written evidence from the Comptroller and Auditor General, National Audit Office

#### INQUIRY INTO THE OPERATION OF THE PARLIAMENTARY STANDARDS ACT 2009

Thank you for your letter of 9 November in which you asked me to provide written evidence to the Committee to assist its inquiry into the operation of the Parliamentary Standards Act 2009 (the Act). In particular you asked what discussions the NAO has had with the IPSA about the evidence it should request and the validation it should carry out on Members' expense claims in order that the IPSA's accounts should not be qualified, and what guidance the NAO has given the IPSA on the evidence and validation needed for that purpose. You also asked whether the guidance on evidence had changed over time, and said that it would be helpful for the guidance to be broken down by type of expense.

Before turning to my substantive response I thought it would be helpful to clarify for the Committee the respective responsibilities on the IPSA and on me, in relation to the accounts and audit process.

#### THE RESPONSIBILITIES FOR THE ACCOUNTS AND AUDIT PROCESS

The Act states that the Chief Executive of the IPSA is to be its Accounting Officer, and that the IPSA should prepare accounts, for each financial year, in accordance with any directions made by the Treasury. The Treasury has directed the IPSA to prepare resource accounts in accordance with the Government Financial Reporting

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<sup>125</sup> Review of Parliamentary Pay and Allowances 2004, Cm 6354.



Manual. The responsibilities of an Accounting Officer are as set out in *Managing Public Money* which confirms, in particular, the responsibility for the regularity and propriety of the public finances for which he is answerable.

The Act requires me to examine and certify the accounts prepared by the IPSA, and to lay a copy of my report before Parliament. I carry out my audits in accordance with professional auditing standards as set by the UK Auditing Practices Board.

#### DISCUSSIONS WITH THE IPSA ON EVIDENCE REQUIREMENTS TO AVOID QUALIFICATIONS, INCLUDING A BREAKDOWN BY TYPE OF EXPENSE

As part of the financial audit process, my officials have had discussions with the IPSA on the evidence needed by the Accounting Officer to meet his obligations and support his accounts. These discussions take place at all stages of the audit process; planning, fieldwork and audit completion.

For most of the payments made to Members and their staff, the documentary evidence requirements of the Scheme are sufficient for the Accounting Officer to satisfy himself that the amounts paid fall within the ambit of the Estimate and the rules of the Scheme. Accordingly, in these areas there has been little or no discussion on the evidence requirements.

In other areas, such as constituency mileage claims, rail travel, telephone costs and publicity/website costs, the Scheme rules do not require sufficient documentary evidence to provide assurances to the Accounting Officer that the expenditure has been incurred exclusively for Parliamentary purpose. My officials had discussions with the IPSA on what alternative assurances might be available.

These discussions are entirely consistent with those discussions held with the House prior to the creation of the IPSA. Those discussions, both with the IPSA and previously with the House, focused on how the Accounting Officer could gain sufficient evidence where the prevailing Scheme rules were not sufficient for this purpose. The Scheme rules as operated by the IPSA have resulted in a significant change in the nature of the evidence available to the Accounting Officer when compared with the Scheme operated by the House prior to 2010, and accordingly, on examination of that evidence, I was able to conclude that the accounts were free from material misstatement or material irregularity, and provided an unqualified opinion on the IPSA's accounts for 2010–11.

Given the respective responsibilities it is common for Accounting Officers to consult with their external auditors on the evidential requirements needed for the Accounting Officer to satisfy their obligations. I see this as a perfectly natural aspect of the relationship between the external auditor and the Accounting Officer, and a way that external audit can both assist Accounting Officers in meeting their obligations and also Parliament in holding Accounting Officers to account.

In addition, in February 2011, the IPSA discussed with us the changes they were proposing as part of the first annual review of the Scheme. Few of these changes impacted directly on the evidence requirements but, where they did, in particular the proposal to submit monthly mileage claims, we were supportive of the proposed change.

#### DISCUSSIONS WITH THE IPSA ON VALIDATION PROCESSES

As part of our audit of the accounts, we have also held the following discussions with the IPSA on the validation checks used to assess claims from Members:

- in October 2010, the IPSA asked us to comment on their proposals for reducing their internal validation requirements. We were supportive of these proposals, which allowed some streamlining; and
- in September 2011, following publication of my report *The payment of MPs' expenses*, the IPSA notified us of their proposals to introduce risk-based validation. We confirmed that we were supportive of the proposals but emphasised that it was for the IPSA to determine the operational procedures necessary to provide the Accounting Officer with the assurances he needs to support regularity.

#### CHANGES IN GUIDANCE ON EVIDENCE REQUIREMENTS OVER TIME

The responsibilities of the Accounting Officer to ensure the regularity of transactions, and my responsibilities to obtain evidence to support my opinion, as set out in professional auditing standards, have not changed over time.

I trust that this letter will assist the Committee with its inquiry.

21 November 2011

ISBN 978-0-215-03997-2



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