



Review Body on Senior Salaries

REPORT No. 71

Review of financial support for Members of the House of Lords

November 2009

Chairman: Bill Cockburn, CBE TD



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Presented to Parliament by the Prime Minister
by Command of Her Majesty

November 2009

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25 November 2009

To:

Rt Hon the Baroness Hayman, Lord Speaker

Rt Hon Gordon Brown, Prime Minister

REVIEW OF FINANCIAL SUPPORT FOR MEMBERS OF THE HOUSE OF LORDS

On behalf of the Senior Salaries Review Body, I am pleased to submit the report of our review of financial support for Members of the House of Lords.

Our review was informed by many responses to our consultation document and discussion groups and we are grateful to all the Members of the House of Lords and others who gave evidence. Our proposals are designed to replace the current system of expenses, which falls well short of best practice, with a funding regime that is both rigorous and transparent.

We propose a balanced package of measures which, provided they are adopted in full, will provide appropriate financial support for Peers to carry out their very important work, value for the taxpayer and a high standard of governance. We believe these proposals will help to restore public confidence in the funding arrangements of the House of Lords.

Yours sincerely,

Bill Cockburn CBE TD

Chairman



Foreword

Review Body on Senior Salaries

The Review Body on Top Salaries was appointed in May 1971 and renamed the Review Body on Senior Salaries (SSRB) in July 1993, with revised terms of reference. The terms of reference were revised again in 1998 as a consequence of the Government's Comprehensive Spending Review, in 2001 to allow the devolved bodies direct access to the Review Body's advice and in 2007 to add certain National Health Service (NHS) managers to the remit.

Value of our independent process

The SSRB consists of ten individuals from varying walks of life, including business, human resources and economics, and with public, voluntary and community, and private sector experience. It has independent status and is required to be politically impartial. Each member of the SSRB is recruited through an open process based on advertisement in the national press and overseen by the independent Office of the Commissioner for Public Appointments. The SSRB is supported by a secretariat based in the Office of Manpower Economics (OME), an independent Non-Departmental Public Body which does not report to Ministers.

In discharging our remit we insist on an open and transparent process to which stakeholders are invited to contribute. This combination of independent support, a range of professional experience and well-trying process allows us to study the evidence, receive views from all parties and consider all sides of any particular remuneration issue. As a result we can make balanced, evidence-based recommendations underpinned by sound rationale and taking into account all relevant factors and information.

The terms of reference of the Review Body on Senior Salaries

The standing terms of reference are:

The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor, the Secretary of State for Defence and the Secretary of State for Health on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; very senior managers in the NHS¹; and other such public appointments as may from time to time be specified.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975. If asked to do so by the Presiding Officer and the First Minister of the Scottish Parliament jointly; or by the Speaker of the Northern Ireland Assembly; or by the Presiding Officer of the National Assembly for Wales; or by the Mayor of London and the Chair of the Greater London Assembly jointly; the Review Body also from time to time advises those bodies on the pay, pensions and allowances of their members and office holders.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;

regional/local variations in labour markets and their effects on the recruitment and retention of staff;

¹ NHS Very Senior Managers in England are chief executives, executive directors (except medical directors) and other senior managers with board level responsibility who report directly to the chief executive, in: Strategic Health Authorities; Special Health Authorities; Primary Care Trusts; and Ambulance Trusts.

Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;

the funds available to departments as set out in the Government's departmental expenditure limits;

the Government's inflation target.

In making recommendations, the Review Body shall consider any factors that the Government and other witnesses may draw to its attention. In particular it shall have regard to:

differences in terms and conditions of employment between the public and private sector and between the remit groups, taking account of relative job security and the value of benefits in kind;

changes in national pay systems, including flexibility and the reward of success, and job weight in differentiating the remuneration of particular posts;

the need to maintain broad linkage between the remuneration of the three main remit groups, while allowing sufficient flexibility to take account of the circumstances of each group; and

the relevant legal obligations, including anti-discrimination legislation regarding age, gender, race, sexual orientation, religion and belief and disability.

The Review Body may make other recommendations as it sees fit:

to ensure that, as appropriate, the remuneration of the remit groups relates coherently to that of their subordinates, encourages efficiency and effectiveness, and takes account of the different management and organisational structures that may be in place from time to time;

to relate reward to performance where appropriate;

to maintain the confidence of those covered by the Review Body's remit that its recommendations have been properly and fairly determined; and

to ensure that the remuneration of those covered by the remit is consistent with the Government's equal opportunities policy.

The Review Body will take account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Our specific remit for this review of financial support for Members of the House of Lords is at Annex 1.

Members of the Review Body are:

Bill Cockburn CBE TD, *Chairman*²
Professor Richard Disney²
Professor David Greenaway
Martin Fish
Mike Langley
Professor David Metcalf CBE
Sir Peter North CBE QC²
Chris Stephens
Bruce Warman²
Paul Williams²

The Secretariat is provided by the Office of Manpower Economics.

² Members of the Parliamentary Sub-committee, chaired by Bill Cockburn.

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Summary and recommendations

The House of Lords is a vital component of the legislature of the United Kingdom, scrutinising proposed legislation and holding the Government to account.

We were asked by the House Committee of the House of Lords and the Prime Minister to review the system of financial support for Members of the House of Lords and to make recommendations. This report sets out in detail our terms of reference and our proposals. This review has been undertaken against a climate of unprecedented public concern arising from serious abuse by some MPs of their expenses system. While not on the same scale, there have been some allegations of abuses of the expenses system in the House of Lords.

We were asked to review the system of financial support for Members of the House of Lords as it is currently constituted, pending more fundamental review, having regard to clarity and transparency, public acceptability, value for money and the geographical diversity of the House, among other factors. We were asked to work closely with the Committee on Standards in Public Life, which has been reviewing the Commons' expenses system. We have sought consistency with the Committee's report, particularly in matters of principle, whilst recognising that differences between the two Houses make it appropriate for our recommendations to differ in some areas.

We also held informal discussions with the chairman of the Leader's Group on the Code of Conduct for the House of Lords that was set up earlier this year "to consider the Code of Conduct and the rules relating to Members' interests, and to make recommendations". We welcome the proposed revised Code of Conduct which includes a requirement to act in accordance with the rules for financial support of Members.

Members of the House of Lords (except Ministers and office holders) do not receive salaries but may claim certain expenses. The expenses system in the House of Lords differs markedly from that in the Commons and has not provoked the same degree of media and public criticism. However, some Peers are concerned about the operation of their expenses regime. In principle the scheme reimburses expenses incurred in attending the House but in practice over the years the scheme has been used to generate an income for some Peers. Many Peers have been uncomfortable with this and pressed for a review because they believed the current arrangements, which have evolved over time, lack precision, transparency and rigour and do not meet current standards for control of public money. The allowances available to Ministers and office holders in the Lords also raise concerns, not least because current practice appears to be out of line with legislation and inconsistent between government departments.

We have received much evidence from Peers, individually and collectively, and others. Views were wide ranging and helpful, but with little consensus about the kind of financial support necessary to facilitate an effective, representative and sustainable House of Lords, nor about what is needed to restore public confidence.

We believe our proposals strike the right balance. At their heart is a recognition that many Peers give up time and other earnings opportunities to work, unsalaried, in the House of Lords. They deserve and often need a contribution to income as well as repayment of expenses necessarily incurred in carrying out their Parliamentary duties. We therefore propose a daily payment of up to £200. This is intended to cover daily expenses of attendance (other than travel), office and secretarial costs and a contribution to income. We also propose an overnight allowance of up to £140, for Members whose principal residence is beyond reasonable commuting distance. Both payments would be free of tax under current legislation. At the same time we propose changes to the present system because it lacks proper controls. It is ambiguous and open to abuse, leaving some Peers uncertain as to what they can properly

claim. The new system must command public confidence and provide clear guidance to Peers. Our proposals include the following key points:

- each daily payment to be subject to a confirmed attendance in the chamber or at another specified parliamentary event;
- payment of the overnight allowance to be conditional on a Peer's principal residence being outside Greater London and a declaration by the claimant that the principal residence is beyond reasonable commuting distance;
- the overnight allowance may be used for bed and breakfast in a hotel or club, or specified running and rental costs of second homes up to the maximum of £140 per night, subject to the production of receipts;
- in respect of owned second homes the overnight allowance may be used only for specified running costs, not including mortgage interest. However, those with mortgages taken out before the date of publication of this report may claim additional, transitional relief, capped at £100 per day for each day of attendance, for a maximum of five years, subject to proof of mortgage costs incurred and within the overall £140 limit. Other owners may claim an additional transitional amount, initially capped at £60 per qualifying day from 1 April 2010 and with the daily cap reducing by £10 in each subsequent year, for a maximum of five years, also within the overall £140 limit;
- travel costs for public transport to be reimbursed much as at present, but subject to receipts for all claims other than those covered by the House credit card. Family travel concessions to remain at the same limit (up to six return trips per year) but confined to standard class rail fares or equivalent rates;
- Peers' expenses are tax free under current legislation. We recommend that Peers should in principle be liable to tax and that legislation should be amended accordingly in due course. If and when this takes place, we recommend that the allowances should be referred back to the SSRB for reconsideration;
- the Government should invite the SSRB to review the salaries and allowances of Ministers and office holders as a matter of priority.

Our proposals and comments are set out more fully in the following chapters. In conclusion, we are convinced of the fundamental importance of the House of Lords and of the work carried out there by Peers. Our recommended overall level of financial support is broadly unchanged but the proposed conditions are more precise and transparent, requiring receipts for allowable expenditure on overnight accommodation and travel. We also recommend that the system be subject to independent audit including a sample of individual claims. We believe the new arrangements will produce benefits to the tax payer as a result of better governance of the payments system and narrower eligibility criteria for claiming for second homes. Equally, for Peers, there is greater clarity and access to the new daily payments, which we believe will provide a suitable contribution to income.

Recommendations

Recommendation 1: We recommend the introduction of a daily fee for attendance by Members of the House of Lords.

Recommendation 2: We recommend that the allowance for secretarial and office costs be incorporated into the daily fee for attendance.

Recommendation 3: We recommend that the House explore how technology could be used to improve the system of verifying and measuring Members' attendance at the House.

Recommendation 4: We recommend that the daily fee for Members of the House of Lords should be for attendance on a sitting day. Members should present claims for fees in respect of days on which they attended the House and certify that they carried out appropriate parliamentary duties on those days. Members who do not wish to receive a fee need not claim it. Members should also be able to claim less than the full daily fee where they consider that appropriate.

Recommendation 5: We recommend that the House consider and define which activities, in addition to attendance at sittings of the House or its committees at Westminster, should entitle Members to claim a daily fee and any other relevant allowances, subject to approval by the House authorities as 'authorised parliamentary business'.

Recommendation 6: We recommend that in principle fees for attending the House of Lords should be taxable (and subject to National Insurance contributions for those under pensionable age); that until legislation is amended to bring Members of the House of Lords into the tax system, the fee should be set at a lower level so as to make an approximate allowance for the absence of tax; and that Members' reimbursed travel-to-work expenses should continue to be untaxed.

Recommendation 7: We recommend that the daily fee for attending the House be set at £200, subject to review by the SSRB once legislation is amended to bring Members into the tax system, or after three years, whichever is sooner. Thereafter, it should be reviewed every three years by the SSRB.

Recommendation 8: We recommend that Members whose principal residence is not within a reasonable commuting distance from the House of Lords should be entitled to recover the cost of one night's overnight accommodation for each qualifying attendance at the House. In exceptional circumstances, Members may be permitted to claim for an additional night in hotel or club accommodation before or after a qualifying attendance.

Recommendation 9: We recommend that financial assistance with overnight accommodation in London be payable in respect of rent, running costs on owned or rented accommodation, or bed and breakfast in a hotel or club, for those Members whose principal residence is not within a reasonable commuting distance of the House, up to a maximum of £140 per night. All claims must be accompanied by receipts, bills or other appropriate documentation.

Recommendation 10: We recommend that, for a transitional period, financial assistance with overnight accommodation in addition to running costs be payable to Members who were Members of the House of Lords before the date of publication of this report and who own a second home in London which they use in order to attend the House of Lords. This should be payable for five years starting from the 1 April 2010 or until there is a radical change in the structure of the House, whichever is sooner.

Where the Member's second home is subject to a mortgage and the mortgage agreement was taken out in that Member's name (either jointly or singly) before the date of publication of this report, the Member should be entitled to claim for reimbursement of mortgage interest for up to five years. We recommend that the maximum total claim, including running costs, for each night should be set at £140, no more than £100 of which should be mortgage interest.

For other second homes owned jointly or singly by Members, a claim may be made in respect of the cost of ownership. The maximum total claim, including running costs, for each night should be £140, no more than £60 of which should be in respect of the cost of ownership in the first year. In each subsequent year until the end of the five year transitional period, the maximum daily amount claimable for the cost of ownership should be reduced by £10.

Recommendation 11: We recommend that all Members seeking to claim financial assistance with overnight accommodation in London sign a declaration stating the location of their principal residence, explaining the criteria by which they have identified their principal residence and giving confirmation that it is outside Greater London. They should also make a confidential statement of why it is not within reasonable commuting distance of the House of Lords.

Recommendation 12: We recommend that Members who claim for financial assistance with accommodation in London which is shared with another Member of the House of Lords should have a combined upper limit for claims of £186.50 (being $1\frac{1}{3}$ x the standard rate of £140) for days on which both sharing Members make a claim.

Recommendation 13: We recommend that Members who have registered rented or owned accommodation with the Finance Department be permitted to claim for financial assistance with their London accommodation when spending a sitting day on authorised parliamentary business away from Westminster.

Recommendation 14: We recommend that necessary car parking at stations and airports and road tolls should be treated as permissible travelling expenses. In incurring such costs, Members should have regard to value for money.

Recommendation 15: We recommend that if the Member's travel credit card is not used to pay for travel, Members should supply receipts or vouchers as proof of expenditure for all claims.

Recommendation 16: We recommend that Members be allowed to claim for first class rail travel where this is justified by their need to work whilst travelling. Flights within Europe should be reimbursed at economy class, but flights outside Europe may continue to be reimbursed at business class.

Recommendation 17: We recommend that all claims for vehicle mileage should be accompanied by details of individual journeys. Only one claim should be made per journey, per vehicle.

Recommendation 18: We recommend that travel expenses should be paid from a Member's residence to the door of the House of Lords, excluding taxis. Members choosing to use private cars within London should not have any Congestion Charge reimbursed.

Recommendation 19: We recommend that, the spouse or civil partner and dependants of a Member be entitled to three return journeys per calendar year to the House of Lords from the Member's declared principal residence, plus a further return journey for each 45 days of attendance by the Member, up to a maximum of six return journeys in total. Neither the outward nor return portions of the journeys should fall within Parliamentary recess other than in exceptional circumstances. Family members should travel by standard class rail or economy air.

Recommendation 20: The Government should give the SSRB a remit to review the salaries and allowances of Ministers and office holders when it reviews MPs' pay in the new Parliament.

Recommendation 21: We recommend that unsalaried Ministers should not claim the Section 5 allowance, but should be automatically paid the daily fee for every day that the House of Lords sits during the time in which they are a Minister. We recommend that those unsalaried Ministers who are eligible to claim financial assistance with overnight accommodation be allowed to claim the overnight allowance for every day that the House of Lords sits during the time in which they are in office.

Recommendation 22: We recommend that a summary record of the fees and expenses paid to Members under each category of claim (daily fee, overnight expenses, travel) be published quarterly, and that Members' declarations concerning their principal residences be published annually, subject to advice from the House's security advisors.

Recommendation 23: We recommend that the fees and expenses paid to Members of the House of Lords continue to be externally audited by the National Audit Office. We recommend that the audit process should also check Members' eligibility for financial assistance with overnight accommodation.

Recommendation 24: We recommend that once a new system for financial assistance is in place, the Finance Department write and publish a clear guide to the rules of the system and the procedures which Members should follow, in conjunction with a new set of claim forms.

Recommendation 25: We recommend that misuse or abuse of the system of fees and expenses paid to Members of the House of Lords be dealt with as a breach of the Code of Conduct. Complaints should be investigated by the House of Lords Commissioner for Standards.

Recommendation 26: We recommend that the next full review of financial assistance to Members of the House of Lords should consider whether there would be advantage in using the Independent Parliamentary Standards Authority for the administration of fees and expenses paid to Members of the House of Lords. In the interim, we recommend that the House of Lords Finance Department continue to be responsible for this process.

Chapter 1

Introduction

Introduction

1.1 The House of Lords is a vital component of the legislature of the United Kingdom. It fulfils two essential roles: scrutinising proposed legislation and holding the Government to account. Its composition and in particular the presence of many Members with particular expertise and experience in a wide range of subjects mean that it operates differently from the House of Commons. In short, the upper House is a very important element of our constitutional framework, although much of the population probably does not fully appreciate its significance, impact and the value it provides. We deal in more detail with the composition and role of the House in Chapter 2.

Terms of reference for our review

1.2 The initiative to carry out a review of the financial assistance available to Members of the House of Lords came from the Lords' House Committee which includes the leaders of the political parties, the Convenor of Crossbench Peers and backbench Members, and is chaired by the Lord Speaker. Our terms of reference, laid out in our formal remit from the Prime Minister, were:

"To review options for the system of financial support for Members of the House of Lords, given its current role and composition; and to make recommendations.

In conducting the review, SSRB should have regard to:

- clarity and transparency;*
- accountability and public acceptability;*
- value for money;*
- differing attendance patterns of Members;*
- the geographical spread of the membership of the House;*
- the financial consequences for Members in participating in the work of the House; and*
- schemes operated in comparable circumstances by other institutions."*

1.3 Our remit, reproduced at Annex 1, additionally asked us to "pay particular attention to the need for transparency and accountability, the need to obtain value for money and the desirability of reducing costs to the taxpayer." The remit also asked us to work closely with the Committee on Standards in Public Life, which launched a review of MPs' expenses earlier this year and published its report on 4 November 2009³.

³ Committee on Standards in Public Life: *MPs' expenses and allowances*, available at http://www.public-standards.org.uk/Library/MP_expenses_main_report.pdf, November 2009.

Background to our review

- 1.4 Members of the House of Lords (except Ministers and office holders) do not receive salaries but may claim certain expenses. The expenses system in the House of Lords differs markedly from that in the Commons and has not provoked the same degree of media and public criticism. There have, however, been concerns amongst Peers about the operation of the expenses regime. The principle underlying the scheme is that of reimbursement of expenses arising out of Members' parliamentary duties. In practice, over the years the scheme has also been used to generate an income for some Peers, particularly those Members without other significant means of financial support. Many Peers have been uncomfortable with this and believed it risked public criticism. That is why those Peers wanted this review to be carried out. Moreover, there have been some well-publicised allegations of abuse and a few Peers are currently under investigation. It was against that background that the House Committee and the Prime Minister asked us to carry out this review.
- 1.5 Media reports of MPs claiming for inappropriate items and 'flipping' first and second homes for financial advantage caused unprecedented public concern which in turn led to the reviews by the Committee on Standards in Public Life and Sir Thomas Legg. The Committee on Standards in Public Life began its enquiry into the system of MPs' expenses on its own initiative. It looked at the propriety of the rules governing all of MPs' expenses (and other matters, such as the resettlement grant) and has made 60 recommendations.
- 1.6 We have been in close touch with the Committee on Standards in Public Life while we were carrying out our respective reviews, as requested in our remit. There are obvious parallels between their work and ours, though there are also significant differences, and we are grateful to the Committee for their co-operation.
- 1.7 Subsequently the House of Commons authorities contracted Sir Thomas Legg to review every MP's claims over the past five years and decide whether each claim was fully within the rules.

The expenses system in the House of Lords

- 1.8 It is important to understand that the system of funding for the House of Lords differs significantly from that in the Commons. The 645 MPs in the Commons are paid salaries. In addition, they may claim money under a variety of headings to pay for employing staff, renting offices in their constituencies, travel, communications and other items. MPs with constituencies outside inner London may also claim costs, up to an annual ceiling, currently £24,222, of maintaining a second home either in London or in their constituencies under what is now known as Personal Additional Accommodation Expenditure.
- 1.9 The House of Lords system is fundamentally different. Members of the House of Lords do not have constituency work. The House sits for an average of 150 days a year. Some Peers attend for all the sittings but the majority attend on a part-time basis. Most of the more than 700 Members of the House of Lords do not receive a salary or other payment for their work in the Lords. The exceptions are some 25 Government Ministers, three office holders, the Leader of the Official Opposition and the Opposition Chief Whip. We deal with salaries and allowances for Ministers and office holders in Chapter 6.
- 1.10 Members of the House of Lords are, however, entitled to claim for certain expenses under what is known as the Members' Reimbursement Scheme. Some claim the maximum amounts permitted, others lower amounts and around a tenth claim nothing at all. The scheme is much simpler than that in the Commons and is based largely on daily attendance, rather than annual amounts. However, the criteria for claiming are

ambiguous and no receipts are required under most headings of expenditure. There is confusion about whether the scheme is intended only to reimburse actual expenditure or allows Members to claim up to the maximum under each heading regardless of what they have actually spent.

1.11 The main allowances and rates with effect from 1 August 2008 are:

- Day Subsistence: up to £86.50 per day of attendance at sittings of the House or its committees at Westminster, to meet costs such as meals and refreshments and incidental travel;
- Overnight Subsistence: up to £174.00 per night when attending the sittings of the House or its committees at Westminster, to meet the cost of overnight accommodation in London while away from the main home outside Greater London;
- Accommodation maintenance allowance for a second home: £116.00 per night for continuing accommodation costs incurred whilst on certain categories of parliamentary business away from Westminster, on the same basis as Overnight Subsistence, if the Member maintains a second residence in London for the purpose of attending the House; and
- Office Costs: up to £75.00 per day of attendance to cover such costs as secretarial support, research assistance and necessary equipment. Additional Office Costs may be claimed for up to 40 days when the House is not sitting or when the Member is not attending.

Members may also claim for a number of other expenses, mainly for travel on parliamentary business. Full details and levels of the expenses and allowances are given in Annex 2. The total cost of financial support for Members of the House of Lords was £18.4 million in 2007-08. This compares with nearly £103 million for MPs' allowances and £56.5 million for MPs' salaries in the same year⁴.

1.12 The system of expenses for Members of the House of Lords has been developed over the years on the basis of a series of recommendations by the Senior Salaries Review Body. We considered it in our last review of parliamentary pay, pensions and allowances⁵, submitted to the Government in July 2007. At that time we concluded that the daily allowances were simple and convenient, but inevitably ran the risk of creating winners and losers. The alternative would be a robust system of reimbursement of actual expenditure. However, we stopped short of recommending a thorough overhaul of the Lords' system at that time because the Government had recently brought forward proposals for reforming the House of Lords⁶, prompting us to the view that "fundamental revision should await reform of the second chamber" which appeared then to be imminent.

1.13 Members of the House of Lords are not required to produce receipts to claim the allowances for day and night subsistence (and accommodation maintenance allowance) and office costs, nor for car travel and ticketed travel not exceeding £25 per single journey. Members are required to certify that the expenses have been incurred as follows:

⁴ The House of Commons: *Members Annual Report, Resource Accounts & Audit Committee Annual Report 2007-08*, available at <http://www.publications.parliament.uk/pa/cm/cmresource/975.pdf>, p.14

⁵ Review Body on Senior Salaries, Report No. 64, *Review of parliamentary pay, pensions and allowances 2007*, Cm 7270, available at <http://www.ome.uk.com/review.cfm?body=4>

⁶ House of Lords: *Reform*, 7 February 2007, Cm 7027, TSO.

- Overnight Subsistence: “incurred in such attendance [i.e. attendance at a sitting of the House or a Committee] or in respect of the maintenance of a London residence (other than a main residence) used for the purpose of attending the House”;
- Day Subsistence and incidental travel expenses: “incurred in such attendance [i.e. attendance at a sitting of the House or a Committee”]; and
- Office Costs: “incurred in respect of ... parliamentary duties”⁷.

1.14 Some Members of the Lords had doubts about the propriety of their own Reimbursement Scheme. They felt there was ambiguity about the conditions governing the payment of expenses, for example about whether the daily amounts were entitlements or maximum amounts, and about the definition of a main home outside London which enabled a Member to claim Overnight Subsistence. In addition there was recognition that some Members of the House had little or no other means of financial support and in practice relied on the expenses to contribute to their living costs, rather than simply to reimburse necessary expenditure incurred in parliamentary duties. A further cause of concern was that no receipts were required for most claims, whereas in both the public and private sectors most organisations require expense claims to be substantiated by receipts. These reservations about the current system in the Lords were not unanimously held: some Members told us during the course of our review that they regarded the system as entirely satisfactory or requiring only minor changes.

Our view of the current system

1.15 Having now examined the House’s arrangements for financial support as they have evolved over the years, we can only conclude that they do not meet the standards of governance, precision and transparency now demanded for the use of public funds. The rules for claiming expenses set out in the Members’ Reimbursement Scheme do not generally require the production of receipts. It is clear from the written and oral evidence we received that some Peers, but not all of them, claim at or close to the maximum available allowances even when that may be in excess of actual expenses directly incurred, as a contribution to their living costs. Those Peers have said openly that, but for this contribution, they would not be able to afford to undertake their Parliamentary duties. Equally, many Peers are deeply concerned about the lack of precision and clarity in what can legitimately be claimed. That uncertainty deters some from claiming any expenses, even though others claim in excess of actual expenses incurred. Since no receipts are required for day and Overnight Subsistence, the House authorities have no means of checking expenses claimed under those headings. Peers in effect self-certify their own claims. The current crisis of confidence in the House of Commons’ arrangements and the growing media interest in the Lords has heightened the desire of Peers to see their expenses put on a sound and clear footing.

1.16 Thus the present arrangements fail to reach the standards of best practice in governance. There are therefore strong reasons for moving away from the current patchwork system and instituting a more robust and transparent system of financial support for Members participating in the important work of the House. Our package of recommendations would represent, for some Members, a considerable change and we do not underestimate this. But we do consider change to be essential in order to support the reputation of the House by moving to a system which is transparent and accountable.

⁷ House of Lords, *Claim for Attendance Expenses, Form AE (front)*, May 2009

- 1.17 Since we submitted our report in 2007⁸, there has been relatively little progress with fundamental reform of the upper chamber. Moreover, as described above, public and media concerns, as well as those of Peers themselves about the Lords' expenses system have increased. We no longer believe that revision of the system should await reform of the House. Instead we propose in the following chapters a package of changes designed to make financial support for Members of the House of Lords as it is presently constituted precise, transparent, fair and in accordance with high standards of propriety. We consider that our recommendations on a revised system of financial support should be implemented from 1 April 2010.
- 1.18 The Government has made clear its intention to carry out a thorough reform of the upper House following which Members will receive a salary. It will be necessary to carry out a further, fundamental review of financial support when the House itself is reformed.

Our methods

- 1.19 We always seek to base our recommendations on evidence and for this review we wished to give Members of the House of Lords every opportunity to provide us with evidence and views. We therefore issued a consultation document at the beginning of July 2009⁹ which elicited a total of 129 written and online replies, 121 of them from Members of the House, including the leaders of the three main parties in the Lords. We also received evidence from the Government and some non-governmental organisations and individuals. All non-confidential responses are published on the website of the Office of Manpower Economics at www.ome.uk.com and the authors are listed at Annex 3.
- 1.20 We were greatly impressed by the volume and quality of both written and oral responses. Many Members had clearly taken considerable time and effort to think about the issues and give us both their considered views and insights into their specific circumstances and patterns of attendance at the House, and their suggested solutions to perceived problems. Although there was a very wide range of views and no clear consensus, those responses helped us to understand both the House as a whole and the great degree of variation in the individual circumstances of Members. We take this opportunity to thank again all those who responded and took time to meet us, write to us or both.
- 1.21 We also held three well-attended open meetings in the House of Lords during July 2009 to enable Members to put points to us. Some 150 Members attended these meetings and we heard a wide range of views and comments. In addition we held meetings with smaller groups and with individual Members including the Lord Speaker, the leaders of the three main parties in the Lords and the Convenor of Crossbench Peers.
- 1.22 We have considered all the evidence very carefully. Much of it is reflected in the following chapters in which we first examine how the House of Lords is currently constituted and its important role in the United Kingdom's governance, before going on to consider and make recommendations on a new system of financial support for Members.

⁸ Review Body on Senior Salaries, *Report No. 64, Review of parliamentary pay, pensions and allowances 2007*, Cm 7270, available at <http://www.ome.uk.com/review.cfm?body=4>

⁹ Review Body on Senior Salaries, *Review of the financial assistance available to Members of the House of Lords*, available at www.ome.uk.com/review.cfm?body=4

Chapter 2

The composition, role and funding of the House of Lords

Membership of the House of Lords

- 2.1 The House of Lords currently has just over 700 members. There are now three different categories: life Peers, bishops and elected hereditary Peers. The large majority, the life Peers, are appointed by the Queen on the recommendation of the Prime Minister or of the House of Lords Appointments Commission.
- 2.2 The right of most hereditary Peers to sit and vote in the House of Lords was ended by the House of Lords Act 1999, though the Act provided for 92 to remain until further reform of the House. The Government introduced the Constitutional Reform and Governance Bill on 20 July 2009. The Bill would end by-elections of hereditary Peers to replace those who die, so this category would gradually disappear if and when the Bill is enacted.
- 2.3 The Bill would also enable all Peers to resign and life Peers to disclaim a peerage. Hitherto this has not been possible, although a Peer could apply for leave of absence if he or she would not attend the House for an extended period, and a hereditary Peer could disclaim the peerage under the Peerage Act 1963. The Bill will allow a Peer who resigns to retain the title while giving up the right to sit and vote in the House of Lords. However, such a Peer will still be disqualified from standing and voting in elections for the Commons. A life Peer who disclaims the peerage will be able to stand and vote in elections for the Commons in the same way as a hereditary Peer who disclaims the peerage¹⁰. Introducing a right to resign (or, in effect, to retire) from the House of Lords will be an important change since at present life Peers are appointed for life and remain Members of the House even if they have no wish to do so or are no longer able to carry out parliamentary duties.

¹⁰ The Government's white paper *An Elected Second Chamber: Further Reform of the House of Lords*, Cm 7438, July 2008, said: "The Government proposes that a cooling off period of five years be required between someone ceasing their membership of the second chamber and being eligible for election to the House of Commons." However, the Constitutional Reform and Governance Bill as currently drafted does not provide for such a period.

Current composition of the House

2.4 The latest available figures give the following breakdown of Members:

Table 2.1: Composition of the House of Lords

Party	Life Peers	Hereditary: Elected by Party	Hereditary: Elected Office Holders	Hereditary: Royal Office Holder*	Bishops	Total
Conservative	142	39	9	0	0	190
Labour	208	2	2	0	0	212
Liberal Democrat	66	3	2	0	0	71
Crossbench	150	29	2	2	0	183
Bishops	0	0	0	0	26	26
Other**	21	2	0	0	0	23
TOTAL	587	75	15	2	26	705

NB Excludes 13 Members who are on leave of absence, 2 who are suspended, 16 disqualified as senior members of the judiciary and 1 disqualified as an MEP.

* These are: The Marquess of Cholmondeley, Lord Great Chamberlain (Crossbench), The Duke of Norfolk, Earl Marshal (Crossbench).

** Comprises 12 non-affiliated Members and 11 Members of other parties, e.g. DUP, UUP, UKIP

(As at 2 November. Source: http://www.parliament.uk/mpslordsandoffices/mps_and_lords/analysis_by_composition.cfm)

2.5 The Archbishops of Canterbury and York, the Bishops of London, Durham and Winchester and the 21 next most senior diocesan bishops in the Church of England are *ex officio* members of the House of Lords. They are not Peers. They lose their seats as Lords Spiritual when they leave Episcopal office.

2.6 From 1 October 2009 the judicial function of the House of Lords has transferred to the Supreme Court. Eleven Law Lords transferred to the Supreme Court and lost their right to sit and vote in the House of Lords while they are members of that Court. However, retired judicial members appointed under the Appellate Jurisdiction Act 1876 will continue to sit in the House and the eleven judges who transferred to the Supreme Court can return to the House of Lords when they retire, but newly-appointed Justices of the Supreme Court will not have seats in the House of Lords.

Recent developments in the House of Lords

2.7 There have been major changes to the House of Lords over the last 50 years. The House has moved from being composed almost entirely of hereditary Peers (plus Law Lords and bishops) to one which comprises nearly 90% appointed life Peers. Most life Peers are appointed on the recommendation of political parties and a significant proportion of Peers are former MPs, though nearly a third of Peers are crossbenchers who do not take a party whip. Crossbenchers are typically people who have had successful careers in fields other than politics, for example as academics, in industry, business, trade unions, the law, medicine or the voluntary sector.

2.8 In 2000 the House of Lords Appointments Commission was created and has now recommended 51 people who have been appointed to the House of Lords as crossbenchers. People can apply themselves or be nominated by others with their consent to be considered by the Lords Appointments Commission for membership of the Lords. The Commission selects independent Members on merit and their commitment to contribute to the work of the House, scrutinising legislation, sitting on committees and participating in debates. The Commission seeks to add to the breadth

of expertise and experience that already exists within the House and to ensure that the House represents the diversity of the United Kingdom population. The Commission also vets those nominated by the political parties.

- 2.9 In past decades, when there has been a change of government, the new government has usually increased its own number of Peers relative to the other parties. However, it is apparent from Table 2.1 that although the Labour party group is the currently the largest in the House, it is well short of an overall majority. Since the exclusion of most of the hereditary Peers, no Government is likely to have an overall majority in the House of Lords. This has an important effect on the way business is done in the House and we return to this below.
- 2.10 Since appointment to the House of Lords often takes place following a successful career and, as noted above, there is no means of retiring at present, it is not surprising that the average age of Members is around 69 and many have pensions from previous employments. However, some are significantly younger. In this, as in much else, the membership is diverse.

Legislative role of the House of Lords

- 2.11 The House of Lords forms a vital part of the United Kingdom Parliament and conducts important work scrutinising legislation, holding the Government to account and examining a broad range of public policy matters. The most important part of the work of the House of Lords is checking and revising legislation. About two-thirds of the time in the Chamber is spent on this function, with more time spent in committees examining Bills and secondary legislation. Unlike the House of Commons where the Government normally has a majority and can programme Bills (i.e. limit the time allowed for debate), there is no such programming in the Lords and, as noted above, the Government does not have an overall majority so cannot force business through against the will of the House¹¹. As well as taking time to scrutinise draft legislation, the House of Lords has Members with a wide range of experience and expertise. The House does not have a general power of veto over the Commons, but its strength lies in the thorough examination of, and expert input into, draft legislation. Thus the House frequently succeeds in persuading the Government to accept amendments to Bills. Where the House of Lords votes for amendments to Government legislation, the Government may eventually accept those amendments in whole or in part, sometimes after one or more attempts to reverse them in the Commons¹². Moreover, the Lords' influence is not limited to occasions where the Government is defeated. During debate a Government Minister may undertake to consider a point made by a Member, or even to bring forward a Government amendment to deal with the point. In return the Member will usually withdraw the proposed amendment. Thus the Lords may bring about changes to draft legislation without actually defeating the Government in a vote.
- 2.12 The Lords also scrutinise pieces of secondary or delegated legislation, known as 'statutory instruments'. These are usually detailed regulations or orders which are made under powers granted by primary legislation, i.e. Acts of Parliament. The Lords consider some 200 affirmative statutory instruments and 1000 negative instruments each year. Affirmative instruments are usually the more important and must be approved by a positive vote in both Houses before they become law. Negative procedure instruments

¹¹ However, under the Salisbury Convention the House of Lords refrains from defeating at second or third reading a Government Bill mentioned in the governing party's election manifesto. In addition, a Government can override the defeat of a Bill in the Lords by bringing the Bill back in the following parliamentary session and invoking the Parliament Acts 1911 and 1949.

¹² Research into 274 Government defeats in the House of Lords during the parliamentary sessions from 1999-2000 to 2005-2006 found that in more than half of cases the Government made some concessions to the Lords: Russell and Sciarra, *The Policy Impact of Defeats in the House of Lords*, British Journal of Politics and International Relations 2008, Vol 10, pp.571-589.

become law unless a Member opposes them, triggering a debate and possibly a vote. Statutory instruments cannot be amended by either House and are rarely rejected. However, the House of Lords has two committees to check on delegated legislation and these contribute to its ability to hold the Government to account.

- 2.13 The influence of the Lords has been further extended by the relatively new process of pre-legislative scrutiny whereby the Government publishes a draft of a Bill which is then considered by a select committee, sometimes a joint committee of both Houses. The committee takes evidence from interested parties and experts and its comments help to shape the Bill before it is formally introduced to Parliament.
- 2.14 Finally, Members of the Lords may influence the Government through holding meetings with Ministers and officials and through correspondence.
- 2.15 Clearly the role of the House of Lords in formulating, scrutinising and influencing legislation is extremely important. One of our objectives in this review is to help to ensure that no Members of the House are prevented or deterred from playing their part in this vital constitutional process by their financial circumstances.

Holding the Government to account

- 2.16 As in the Commons, the Lords hold the Government to account by asking oral and written questions, responding to Ministerial statements and holding debates. The House benefits from the presence of many Members with significant experience and expertise.
- 2.17 The House of Lords also has a structure of some 12 investigative committees and sub-committees which, unlike Commons committees, do not each focus on a Government department but instead have wide remits and examine broad policy areas in a cross-cutting way, taking written and oral evidence and publishing reports.
- 2.18 In the course of our review we have come to understand and appreciate the vital constitutional role played by the House of Lords. It relies heavily on the goodwill and public-spiritedness of Members who devote substantial time and effort to their work (including preparatory work) in the House. Almost all of them receive no salary for their work in the Lords and many could (and often did before joining the House) earn additional income from a wide range of other activities including directorships, consultancies, professional activities, media work and membership of other public bodies if they were not working in the House.

Our principles

- 2.19 In drawing up the recommendations set out in the following chapters we have been particularly mindful, as required by our remit, of the current role and composition of the House of Lords. We therefore set ourselves the following principles against which we have tested the package of our recommendations:
- to ensure that no Member of the House is prevented from attending and playing a full part in the activities of the House because of lack of financial resources;
 - to ensure that Members have the right to be reimbursed against receipts for unavoidable costs incurred wholly, exclusively, and necessarily in the performance of their parliamentary duties, but not otherwise;
 - to maintain the geographical diversity of the House by ensuring that Members from throughout the United Kingdom can afford to attend;

- to minimise new administrative burdens on both Members and the House authorities while ensuring that public money is spent and accounted for in accordance with best practice;
- to minimise the scope for abuse of allowances and for manipulation, by drawing up unambiguous rules for expenses claims.

2.20 In its report of 4 November 2009, the Committee on Standards in Public Life set out a number of principles, derived from the Seven Principles of Public Life drawn up by the Committee in 1995, that it said should underlie the system for MPs' expenses. The Committee stated that "There are a number of important differences between the House of Commons and House of Lords. [...] But on matters relating to expenses there ought to be a consistent approach between the two chambers. The principles we have set out [...] should also, *mutatis mutandis*, in our view apply to the expenses system for members of the House of Lords."¹³ We have sought to apply those principles (reproduced in Annex 4) to financial support to Members of the House of Lords while taking account of the differences between the two Houses.

2.21 In this context we note that the Report of the Leader's Group on the Code of Conduct for the House of Lords, published on 29 October 2009, ('the Eames report') incorporates the Seven Principles of Public Life into the proposed revised Code. The proposed Code also states: "In order to assist in openness and accountability Members shall ... act in accordance with any rules agreed by the House in respect of financial support for Members or the facilities of the House." The proposed Guide to the Rules on the Conduct of Members of the House of Lords adds: "A breach of such rules therefore constitutes a breach of the Code of Conduct, and could lead to an investigation by the House of Lords Commissioner for Standards." We very much welcome that the proposed Code of Conduct extends to propriety in the use of facilities provided by the House and financial support.

Funding of the House of Lords

2.22 Although the House of Lords currently has some 60 members more than the House of Commons, its total cost and cost per Member are both less than a third of those of the Commons. There are several reasons for this. First, as noted in Chapter 1, Members of the Lords are not paid a fee or salary (with the exception of Ministers and office holders). Secondly, Members of the Lords have much smaller allowances for secretarial and office costs than MPs, most of whom maintain offices in their constituencies and employ several staff. In addition the Commons spends some four times more than the Lords on staff. This cost differential also reflects the fact that the House of Lords has not been a body where every Member need contribute on a full-time basis.

2.23 However, the House of Lords has far more Members than most other second chambers, many of which have 100 or fewer members. Summary information on a selection of countries' second chambers is at Annex 5. The next largest upper chamber in the sample after the House of Lords is the French Senate with 343 members. France's second chamber costs considerably more than the House of Lords, as do the Italian and US Senates with 322 and 100 members respectively, but most other second chambers, for example those of Austria, Belgium, Germany, Ireland and the Netherlands, appear to cost significantly less than the House of Lords.

¹³ Committee on Standards in Public Life: *MPs' expenses and allowances*, available at http://www.public-standards.org.uk/Library/MP_expenses_main_report.pdf, November 2009, figure 1, p.33; paragraph 3.5, p.34.

2.24 Clearly in any future reform of the House of Lords a reduction in the number of Members towards the levels found in other countries would be one way of containing costs. However, our remit for this review is concerned solely with the House as it is now. We were asked to recommend a sound system of funding pending fundamental reform of the House which the Government envisages will include the introduction of salaries for elected and appointed members of the reformed second chamber¹⁴.

2.25 Currently, as can be seen from Table 2.2 below, Members' expenses constitute some 15 – 20% of the total costs of the House of Lords.

Table 2.2: House of Lords expenditure by type

Expenditure by type	2008/09 £000	2007/08 £000	2006/07 £000
Staff costs	22,964	20,976	19,651
Members' Expenses	18,988	18,399	17,718
Security	9,774	9,427	9,313
Property Costs	15,060	13,978	19,379
Other expenditure	15,172	13,107	12,510
Non-cash items (building depreciation etc.)	29,513	51,730	27,354
Income	(7,553)	(6,117)	(7,303)
Total	103,918	121,500	98,622

Source: House of Lords Resource Accounts, notes 6-8 (2006/07; 2007/08 & 2008/09). The figures are in resource terms.

2.26 Our remit asked us to pay particular attention to “the need to obtain value for money and the desirability of reducing costs to the taxpayer”. In addition, the Government's evidence to us also emphasised the importance of reducing costs:

“It would clearly be desirable if the new system [of allowances] reduced the overall cost to the taxpayer, even if the present size of the House were maintained. The Government offers no steer as to whether reduced cost should be achieved by discontinuing certain allowances, by reducing rates or by changes to the rules for claiming such that the volume of claims fell.”
(Government evidence to SSRB, paragraph 5).

We have sought in the chapters that follow to balance the objective of reducing costs with a range of other priorities, including those set out in the Government's evidence which is reproduced at Annex 6.

¹⁴ See *An Elected Second Chamber: Further Reform of the House of Lords*, Cm 7438, Ministry of Justice, London, 2008, available at <http://www.justice.gov.uk/publications/docs/elected-second-chamber.pdf>, paragraphs 7.38-7.42.

Chapter 3

Financial assistance for Members of the House of Lords

Introduction

3.1 We received a wide range of well argued views from Members of the House of Lords and others on the question of whether Members should be paid for their work in the House. One view was that membership of the Lords was an honour, that Members should not be paid but simply recover necessary expenses and that participation in the work of the House was *pro bono* and should remain so. In contrast, others thought that being a Member of the House was a full-time job and should attract a commensurate salary. However, around half of all the Members who responded to our consultation favoured an intermediate position, namely payment of a fee or allowance for each day of attendance.

Discussion

3.2 We have already noted the great diversity in the House. This includes the level of attendance. On an average day, just over 400 Peers attend. However, some Members attend never or very rarely; others, notably some frontbenchers, attend on virtually every sitting day and regularly work on non-sitting days. In 2007-08 some 220 Members attended for fewer than 50 days each while over 350 attended for 100 days or more. One Peer proposed to us that Members could be broadly grouped into four categories:

- a. Members nominated by the main parties who are expected to attend close to full time;
- b. Crossbenchers with expertise who no longer have very active careers and who attend frequently;
- c. Crossbenchers who are in mid-career with extensive interests outside the House and who attend and contribute less frequently, mostly on occasions when their expertise is particularly relevant;
- d. Members who attend rarely or never because of other interests, age or infirmity.

No doubt some would argue that that they do not fit into any of these categories but this seems to us to be a useful working generalisation.

3.3 Given that wide variation, we do not think an annual salary for Members of the House of Lords as it is currently constituted would be appropriate. It would be wrong to pay Members equally when there is such wide variation in attendance – and in practice there is no duty on Members to attend. (Some would argue that the writ of summons does require Members to attend the House, but there is no sanction for failure to do so.) Moreover, it is a legitimate feature of the current House that some Members attend only to speak on subjects in which they have expertise or a special interest.

A daily fee

3.4 We therefore turn to the possibility of a daily fee which many Members appear to support. We described in paragraph 1.14 above some disadvantages of the current system of allowances:

- there is ambiguity about the conditions governing the payment of expenses, for example about whether the daily amounts are entitlements or maximum amounts;

- some Members of the House have little or no other means of financial support and in practice rely on the expenses for their living, rather than simply to reimburse necessary expenditure incurred in parliamentary duties;
- there is also ambiguity about the definition of a main home outside London which enables a Member to claim overnight subsistence; and
- no receipts are required for most claims, whereas in both the public and private sectors most organisations require expense claims to be substantiated by receipts for purposes of good corporate governance and audit.

3.5 We see strong positive arguments in favour of introducing an explicit contribution to living expenses in addition to the payment of out-of-pocket expenses for attendance at the House. For regular attenders, membership of the House is a part-time or near full-time commitment (especially for those such as frontbenchers and some backbenchers who work on their Parliamentary duties during the recess) and deserves to be paid. Many Members could earn significant amounts in other activities if they were not attending the House. For them, attendance has a high opportunity cost. Members without other significant sources of income should not be prevented from attending the House because they have no other means of support. Members who attend less frequently may nevertheless bring great experience and expertise to the House. Although some public bodies are still voluntary, most offer some form of compensation to those who give up their time to serve on them and we consider the House of Lords should do likewise.

3.6 The introduction of a daily fee for attendance would address the first two points in paragraph 3.3 above and, when combined with our proposals in subsequent chapters to move to a receipt-based system for reimbursing certain expenditure, would in our view put the system of financial support for Members of the House of Lords on a transparent and proper basis. A fee should be regarded as a contribution towards income for most Members, many of whom have other sources of earnings or pensions. However, we believe a fee set at the level we propose below will enable a Member without significant income from elsewhere to attend the House.

Recommendation 1: We recommend the introduction of a daily fee for attendance by Members of the House of Lords.

Components of a daily fee

3.7 Our remit requires us to obtain value for money and if possible to reduce costs to the taxpayer. In our discussions with senior Members of the House and others we found much agreement that the overall budget for financial support of Members was about right and that it would be difficult to justify an increase, especially in the current economic climate.

3.8 We have therefore looked at ways of reallocating the existing budget in such a way as to achieve greater clarity and propriety. One proposal to us was that the three existing allowances – Day and Overnight Subsistence and Office Costs – should be rolled together into a single daily fee, with only travel expenses to be claimed in addition. We do not support this proposal because we believe it would be inappropriate to include overnight expenses in a single allowance since there are many Members who can and do commute to the House on a daily basis. We believe that failure to recognise the extra costs that non-London based Members have to bear in relation to overnight accommodation would be contrary to our remit, which requires us to have regard, among other things, to the geographical spread of membership of the House. However, we believe there is a good case for combining the Day Subsistence and Office Costs allowances into a single daily fee.

- 3.9 Currently, Members are entitled to claim up to £75 under the Office Costs allowance for each qualifying attendance at the House and for up to 40 additional days. The latest detailed figures available to us are for 2007-08. These show that 156 Peers (excluding Ministers and office holders) did not claim anything for secretarial and office costs. The average amount claimed was £6,180, the highest was £15,278 and the total was £4,647,321, slightly more than the total of Day Subsistence which was £4,369,493.
- 3.10 We recognise that there is a wide range of practice. Some Peers told us they employ secretaries or assistants, sometimes on a shared basis. Others received secretarial support from other organisations and paid the allowance to those organisations. It was put to us that some Peers may claim the allowance on the basis that they do their own secretarial work and use office space in their own homes. No receipts are required to claim the allowance.
- 3.11 In addition, Members are entitled to the loan of up to two PCs (one desktop, one laptop or two laptops) and a printer for use on parliamentary business. The House also pays the costs of a broadband installation and line rental. Members are also entitled to the loan of one personal digital assistant device for use on parliamentary business. Line rental, data usage on official parliamentary business within the UK and up to £10 per month of voice and additional overseas data costs are borne by the House and free pre-paid envelopes and postcards are available for Members' correspondence on House of Lords business.
- 3.12 We propose to roll the Office Costs allowance in with the daily fee. The guidance booklet on the Members' Reimbursement Scheme notes that the current allowance can be used for a wide variety of purposes, including 'domestic costs'. This suggests to us that the amount should more properly be included in a daily payment, as a contribution towards enabling the Member to take a full part in the work of the House. This will mean that those who employ secretaries or assistants, or have other costs currently met from this heading, will in future have to meet them out of the daily fee. However, as we explain below, our proposed daily fee is higher than the current total of Day Subsistence and Office Costs (though it will not be payable for an additional 40 days as the current Office Costs allowance is) so few if any Peers should be out of pocket as a result of this change.

Recommendation 2: We recommend that the allowance for secretarial and office costs be incorporated into the daily fee for attendance.

Attendance as basis of daily fee

- 3.13 At present Members of the House must normally appear in the Chamber or be recorded as present in the minutes of certain committees in order to be able to claim allowances on a given day. There are problems with this system. On the one hand we have heard reports of abuse by some Members who claim allowances after only a brief appearance in the Chamber or a committee. On the other, Members who do not appear in the Chamber or a qualifying committee may not claim even though they may have been engaged in parliamentary duties throughout the day in question. One of the key themes to emerge from the evidence we received is how much work is done away from the Chamber and committees, for example at all-party parliamentary group meetings, in party meetings, meetings with people with particular knowledge of a policy, and research work in the library and Members' offices.

- 3.14 For the present we can see no alternative to the current system for defining attendance at Westminster. However, this is an antiquated system which runs the risk of abuse and fails to recognise some legitimate and worthwhile parliamentary activities. We therefore urge the House to consider whether a system of electronic logging of presence on the parliamentary estate could be developed. We understand that Members already have electronic passes which provide access to the parliamentary estate. Extending this system would, in our view, have advantages for the verification of and measurement of attendance and payment of fees.

Recommendation 3: We recommend that the House explore how technology could be used to improve the system of verifying and measuring Members' attendance at the House.

- 3.15 In addition, we believe that a daily fee should be an entitlement but not paid automatically, so that those who wish to work *pro bono* in the House may continue to do so. Moreover, it should be open to Members to claim less than the full amount if they so wish, for example because they spend part of a working day on activities unrelated to the House.
- 3.16 Meanwhile we believe there are steps which could be taken to ensure that the system is not abused by a daily fee being claimed when attendance is very brief and little or no parliamentary work is performed:
- when claiming fees, Members should make a declaration that they have performed appropriate parliamentary duties during the periods in respect of which they claim;
 - application of the proposed Code of Conduct for Members, contained in the recent report from the Leader's Group on the Code of Conduct. As noted above, the Code includes a requirement to act in accordance with the rules on financial support and states that Members should "act always on their personal honour", while the Guide to the Code makes clear that "Members are required not only to obey the letter of the rules, but to act in accordance with the spirit of those rules and the sense of the House"¹⁵; and
 - party leaders or whips and the Convenor of the Crossbench Peers should challenge Members whom they have reason to believe may not be observing the Code of Conduct with regard to claims for financial support.

We have no evidence to suggest that this is a widespread problem at present but many Members in their evidence to us recognised it as a reputational risk, even if only very few Members were thought to behave inappropriately.

Recommendation 4: We recommend that the daily fee for Members of the House of Lords should be for attendance on a sitting day. Members should present claims for fees in respect of days on which they attended the House and certify that they carried out appropriate parliamentary duties on those days. Members who do not wish to receive a fee need not claim it. Members should also be able to claim less than the full daily fee where they consider that appropriate.

¹⁵ Leader's Group on the Code of Conduct: *Report*, House of Lords, October 2009, available at <http://www.publications.parliament.uk/pa/ld200809/ldselect/ldlead/171/171.pdf>, paragraph 8 (b) of Code, p.25, paragraph 10 of Guide, page 30.

- 3.17 Currently, some categories of parliamentary activity away from Westminster (such as outreach work and participation in the Police Service Parliamentary Scheme) entitle Members to claim a sub-set of the allowances, as described in the Members' Reimbursement Scheme: General Guide. This entitlement is usually subject to prior approval by the House authorities. With the introduction of a daily fee and the discontinuation of the Day Subsistence and Office Costs allowances, we recommend that the House consider whether some or all of these activities should entitle Members to claim a daily fee (and any other relevant allowances) subject to approval as 'authorised parliamentary business'.

Recommendation 5: We recommend that the House consider and define which activities, in addition to attendance at sittings of the House or its committees at Westminster, should entitle Members to claim a daily fee and any other relevant allowances, subject to approval by the House authorities as 'authorised parliamentary business'.

Tax

- 3.18 Membership of the House of Lords is neither an employment nor an office. As Members are neither employees nor office holders (with the exception of certain office holders such as Ministers), they do not have a taxable source of income in relation to their parliamentary activities and consequently they do not pay tax or National Insurance contributions (NICs) on the allowances they receive in connection with those unpaid activities.
- 3.19 A majority of those who commented on the question in our consultation thought Members of the House of Lords should be subject to tax. We agree in principle: once a daily fee for attendance is introduced, Members of the House of Lords should pay tax on that element of their income, in the same way as any other citizen. Those under pensionable age (currently 65 for men and 60 for women) should also pay NICs where appropriate. However, it will require changes to legislation to bring Members of the House into the income tax and NICs systems in relation to their parliamentary activities. In the meantime, we believe the level of the daily fee should be set and other allowances adjusted on the basis that Members do not currently pay tax on those fees and allowances. Assuming the necessary changes to legislation are made, the SSRB should be asked to review the level of fees and any allowances that are to be subject to tax. This will not be an automatic process. We shall need to consider the different rates of tax payable by Members in different circumstances, as well as the fact that Members may be able to offset certain expenses which they cannot recover from the House against tax. Although as a general rule the reimbursement of the cost of travelling to work is treated as a taxable benefit, we consider that this would be unreasonable in the case of the House of Lords. It is clearly desirable that the House should represent all parts of the United Kingdom and many Members would be unable to attend if their fares were not paid. We therefore recommend that the travel-to-work expenses of Members should continue to be untaxed.

Recommendation 6: We recommend that in principle fees for attending the House of Lords should be taxable (and subject to National Insurance contributions for those under pensionable age); that until legislation is amended to bring Members of the House of Lords into the tax system, the fee should be set at a lower level so as to make an approximate allowance for the absence of tax; and that Members' reimbursed travel-to-work expenses should continue to be untaxed.

Sick pay and pensions

- 3.20 We have received representations from some Members that they should be eligible for sick pay and pensions in addition to a daily fee or annual salary. We have some sympathy in principle with such arguments. A Peer whose financial planning is based on the assumption that he or she will attend close to the maximum number of sitting days could face serious difficulties if prevented from attending for an extended period by illness. Similarly, a Peer who has given up other work while well below retirement age in order to work in the Lords may well cease to accrue pension entitlement from previous employment.
- 3.21 Nevertheless, we are tasked with making proposals for an interim system pending thorough reform of the House. We do not think sick pay or pensions can sensibly be introduced at this stage and within the constraints of our remit. They should await full reform of the House and the introduction of salaries for Members, as envisaged in the Government's white paper published in 2008¹⁶.

Level of the daily fee

- 3.22 Deciding on the appropriate level of fee for Members of the House of Lords has been a particularly difficult task. Many Members provided evidence to us of their personal circumstances. There is a huge range of variation, e.g. by age, income and location. As noted above, some see membership of the House as an honour, others as a part-time job, often part of a portfolio of work or supplementing a pension, while some regard it as a full-time job. For a few it is their sole or principal source of income.
- 3.23 Like the views of Members themselves, the Government's evidence to us pulls simultaneously in different directions by arguing for:
- reducing the overall cost to the taxpayer;
 - providing Members with adequate resources;
 - recognising the costs necessarily incurred by Members normally resident outside London;
 - avoiding any Member being precluded from serving in parliament because of his or her income;
 - enabling members to carry out their parliamentary duties without having to meet costs from their own pocket that other public servants would reasonably expect to be met by their employer;
 - supporting the inclusion of people with disabilities;
 - not usurping the right of Members to themselves decide how they do their work;
 - not allowing people to enrich themselves from playing a role in the House of Lords;
 - avoiding effective membership of the House being concentrated among only certain strands of the population (for example, the financially independent; those living primarily in the South-East; those whose external employment fits most easily with membership of the House).

¹⁶ *An Elected Second Chamber: Further reform of the House of Lords*, Cm 7438, Ministry of Justice, London, 2008, available at <http://www.justice.gov.uk/publications/docs/elected-second-chamber.pdf>. Paragraph 7.38 includes the statement that: "The Government proposes that members of a reformed second chamber in the UK should receive taxable salaries." (p. 70).

3.24 We base our recommendation on the level of the daily fee on three main considerations:

- what is a reasonable level of compensation for spending a day contributing to the work in the House?
- what can be afforded within the current budget for Members' expenses?
- what level of fee will allow Members without other significant income to participate fully in the work of the House?

3.25 We have looked at what is paid for posts in the public sector that are paid on the basis of a fee for each day worked. We found that most advisory posts which are paid by a daily fee were in the range of £115 to £400 per day, subject to tax and National Insurance contributions for those below pensionable age. Some examples are listed in Annex 7.

3.26 We recommend a daily fee of £200. We regard such a fee as a contribution to income of Members who have other earnings or pensions, but it should enable a Member with no other significant source of income to play a full part in the House. The fee would mean that a Peer who attended all sitting days in a typical year (approximately 150 days, based on the last 10 financial years) would receive a net income of around £30,000 a year plus expenses for travel and overnight accommodation if applicable. As explained above, this would not be taxable until legislation is amended (when we should be asked to review the figure). We have arrived at this figure taking full account of our remit. As we explain below, we estimate that it can be afforded within the existing budget taking into account our recommendations elsewhere in this report. It is not intended to be a measure of the average value of the work done by Members of the House of Lords. Many Members are highly expert in their own areas and the advice they readily give to the House would be worth considerably more than the daily fee we propose if provided on a commercial basis. Rather the daily fee should be seen as some compensation for the time, effort, expense and foregone earnings opportunity involved in attending the House, in particular to assist those Members without other sources of income.

Recommendation 7: We recommend that the daily fee for attending the House be set at £200, subject to review by the SSRB once legislation is amended to bring Members into the tax system, or after three years, whichever is the sooner. Thereafter, it should be reviewed every three years by the SSRB.

Chapter 4

Accommodation

Introduction

- 4.1 There was a wide range of views on the current Overnight Subsistence allowance, from those who felt that £174 per night (the current maximum) was unnecessarily generous, to those who told us that they have to spend a good deal of time and effort searching for a hotel within this price limit. A number of Members noted that in practice there is an element of 'swings and roundabouts': on some days they will spend more than the maximum Overnight Subsistence allowance and on other days they will spend less than the maximum but claim the full amount. Overall, they feel that they have behaved honestly and fairly in taking such an approach but such an approach is open to public criticism.
- 4.2 However, as with many of the current allowances, the official guidance given to Members on what they can legitimately claim the Overnight Subsistence allowance for is vague. Members have found themselves vulnerable to accusations of abuse, against which they cannot defend themselves by reference to the rules. A strong theme to emerge from the evidence submitted to us is the need for clear rules, with transparent implementation, which enable all parties to know that they have behaved properly and can be seen to have done so.

Principles

- 4.3 The Members of the House of Lords come from all over the United Kingdom. Those Members who live more than a reasonable commuting distance away from Westminster need overnight accommodation in London in order to be able to attend the House. We recognise that the geographical diversity of Members is a strength of the House which any system of financial assistance should seek to preserve. We therefore believe that Members should be reimbursed for the cost of such overnight accommodation. No assistance with overnight accommodation should be provided for Members who live within a reasonable commuting distance of the House of Lords. Members who live beyond reasonable commuting distance but who maintain a second residence in London for different purposes, e.g. because of employment or professional activities, as well as attending the House of Lords, should, as a matter of personal honour, match their claims for overnight accommodation from the House to the proportion of their time spent on parliamentary activities.
- 4.4 Members are currently able to claim the Overnight Subsistence allowance in respect of nights spent in London before or after an attendance at the House. This enables Members to claim for accommodation on a Sunday night if they need to be at the House early on a Monday morning. We recommend that Members continue to be allowed to claim in respect of either the night immediately before or after a day on which they have attended the House, but that the total number of claims in a sitting week be limited to the number of qualifying attendances. The usual sitting times (see Annex 8) are such that most Members should not require more than five nights of overnight accommodation in order to attend for five days. However, we recognise that travelling to or from the House on the day of attendance may be very difficult for some Members living a very long distance from the House and for Members who have to attend both an early morning scheduled Committee meeting and an evening sitting on the same day. We recommend that in such exceptional circumstances those Members who incur additional hotel or club costs should be permitted to claim an additional night's accommodation before or after the qualifying attendance. (Members with rented

or owned accommodation will not have additional costs since the daily rate is calculated to meet annual costs if a Member attends all sitting days.) Members should give an explanation of the exceptional circumstances on the claim form.

Recommendation 8: We recommend that Members whose principal residence is not within a reasonable commuting distance from the House of Lords should be entitled to recover the cost of one night's overnight accommodation for each qualifying attendance at the House. In exceptional circumstances, Members may be permitted to claim for an additional night in hotel or club accommodation before or after a qualifying attendance.

- 4.5 We have considered many arguments about the type of support which is required for Peers' accommodation. We accept that the pattern of work is unique and that solutions cannot be imported directly from other institutions. However, we do believe that we should be consistent in our principles with the other institutions of the United Kingdom government. In particular, the types of accommodation for which Members can claim reimbursement should be in line with those allowed for Members of the House of Commons. The Committee on Standards in Public Life has taken the view that it is not acceptable for Members of the House of Commons to be in a position to make a financial gain by using public funds to pay the interest on mortgages. The Committee on Standards in Public Life has therefore recommended that no financial support be given to MPs in respect of mortgage interest, and we recommend that the same principle should apply to Members of the House of Lords. For unmortgaged properties, financial support is payable in support of the running costs but not in respect of the cost of owning the property. Recommendations to restrict reimbursable expenses to hotels and rent, and to end the payment of mortgage interest, have already been accepted for Members of the Scottish Parliament and the Welsh Assembly.
- 4.6 We recommend therefore that the expenses for which financial support should be given are:
- bed and breakfast in a hotel or club,
 - rent and running costs for rented accommodation,
 - running costs of owned accommodation.
- 4.7 We recommend that permissible categories of running costs for rented and owned accommodation are:
- council tax (less the local authority discount for a 'second property'),
 - water,
 - electricity,
 - gas (or other fuel),
 - ground rent,
 - contents and building insurance,
 - service charges,
 - approved security measures.

- 4.8 All claims for overnight accommodation expenses should be subject to an upper limit. We believe the current upper limit of £174 per night, although originally set by the SSRB and subsequently updated, is too high for most needs. We therefore recommend that the maximum sum be set at £140 per night, for all permissible types of accommodation expense. This figure should be reviewed every three years.
- 4.9 Our calculations indicate that this sum is sufficient to meet the cost of renting a one bedroom flat close to the House. Having spoken to estate agents and looked at a range of properties within a reasonable distance of Westminster, we believe that a Member attending for the full parliamentary session should be able to cover the full annual costs listed above for renting a one bedroom flat by claiming up to the maximum amount of overnight allowance for each day attended. The sum could meet the costs of a larger property further away from the House. Annex 9 shows three examples of how the system would be able to cover the costs of a selection of flats located within easy access of the House. Members who wish to rent a more expensive property may do so, but the House's contribution will be capped at the maximum per qualifying attendance.
- 4.10 We recommend that the same maximum amount of overnight allowance per qualifying day of attendance be applied to claims for staying in a hotel or club.
- 4.11 Members should be able to make their own accommodation arrangements and apply for reimbursement against receipts, up to the maximum of the overnight allowance; we also recommend, however, that the House of Lords retain a hotel booking agent and make its services available to Members who wish to use it, as do most government departments. Booking agents retained by government departments report that the average cost of bed and breakfast in a central London hotel falls well within the maximum cost which we have allowed. The retained booking agent should be given guidance from the House on the recommended standard and budget for accommodation to be booked for Members. If a Member is unable to find a hotel room within the maximum cost allowed, we recommend that he or she should nonetheless be allowed to recover the full cost provided that the room was booked through the retained booking agent who will be able to confirm that the room was the cheapest available at the specified standard on the day in question.

Recommendation 9: We recommend that financial assistance with overnight accommodation in London be payable in respect of rent, running costs on owned or rented accommodation, or bed and breakfast in a hotel or club, for those Members whose principal residence is not within a reasonable commuting distance of the House, up to a maximum of £140 per night. All claims must be accompanied by receipts, bills or other appropriate documentation.

- 4.12 As a matter of good practice, all claims for expenses must be supported by appropriate documentation. Members who use hotels or clubs in order to attend the House will have receipts which can establish their expenditure. Members who own or rent accommodation will have utility bills and, for rented accommodation, rental contracts which reflect the costs of their accommodation. Any contracts, bills or statements used to establish a claim must show that the property is rented or owned by the Peer (either singly or jointly) and that he or she is personally liable for the running costs. The same guidelines should apply to Members of the House of Lords as to MPs who rent property: Members must not rent property from themselves, a partner, a family member, a close business associate or an organisation in which they or a family member have an interest. As a matter of personal honour, Members of the House of Lords should ensure that any claims for financial support for accommodation in London are consistent with their declarations for Council Tax and Capital Gains Tax purposes. In other words, a Member

who claims for the costs of a second property in London should always declare that as not his or her principal residence for the purposes of Council Tax and Capital Gains Tax.

- 4.13 To calculate how much of the annual rental and running costs should be reimbursed for each overnight stay, the annual totals for rent (if any) and estimated permissible running costs should be divided by 150 (the approximate number of sitting days in a normal financial year, based on the last 10 years). The sum reimbursed for each overnight stay will be the lower of this figure and £140. This calculation should be performed at the beginning of each financial year by the Finance Department. A Member who, for example, attends for 75 sitting days should receive 50% of the annual costs of his or her rented accommodation or running costs, subject to the cap.
- 4.14 We recognise that running costs can be unpredictable. The amount paid in a year should therefore be subject to revision – upwards or downwards – at the end of the year in the light of actual costs. If necessary, adjustments can also be made to compensate for a lower than average number of sitting days in the financial year, which would otherwise leave Members facing a shortfall. We have suggested a formula for this end-of-year reckoning at Annex 10.

Transitional arrangements

- 4.15 We recognise that Members of the House may have bought property in London with the reasonable expectation that they could continue to defray the costs of any mortgage on that accommodation from the financial assistance provided by the House of Lords. In order to give Members time to adjust financially to the new system, under which only running costs will be payable, we recommend that there should be transitional arrangements for five years starting from 1 April 2010 or until there is a radical change in the structure of the House, whichever is sooner.
- 4.16 In the transitional period, we recommend that existing Members be allowed to claim for financial assistance with mortgage interest where that mortgage was taken out in the Member's name (either jointly or singly) before the date of publication of this report. To calculate how much should be reimbursed for each overnight stay, the annual mortgage costs (capped at £15,000 to mirror current arrangements in the House of Commons) and running costs should be added together and divided by 150. The sum reimbursed for each overnight stay will be the lower of this figure and £140, no more than £100 of which can be mortgage interest.
- 4.17 Because of the average age of the Members of the House, there is likely to be a large number of Peers who have paid off mortgages and own their second homes in London outright. The current allowances system has enabled them to offset the cost of keeping such homes, and we recognise that many Members will have organised their personal financial affairs on that basis. For some of these Members, our proposed changes to the allowances system would significantly reduce their annual income. Whilst we do not, in principle, endorse giving financial assistance with overnight accommodation where there is no documented expenditure, we recommend that for a period of five years Members who own a second home in London outright be allowed to claim a limited amount in addition to running costs in order to facilitate their transition to the new arrangements. We recommend setting this amount at £60 per qualifying day of attendance for the first year, and reducing it by £10 per day each year. Members wishing to claim this sum should sign a declaration that they are the owner, either singly or jointly, of the property in question.

Recommendation 10: We recommend that for a transitional period, financial assistance with overnight accommodation in addition to running costs be payable to Members who were Members of the House of Lords before the date of publication of this report and who own a second home in London which they use in order to attend the House of Lords. This should be payable for five years starting from the 1 April 2010 or until there is a radical change in the structure of the House, whichever is sooner.

Where the Member's second home is subject to a mortgage and the mortgage agreement was taken out in that Member's name (either jointly or singly) before the date of publication of this report, the Member should be entitled to claim for reimbursement of mortgage interest for up to five years. We recommend that the maximum total claim, including running costs, for each night should be set at £140, no more than £100 of which should be mortgage interest.

For other second homes owned jointly or singly by Members, a claim may be made in respect of the cost of ownership. The maximum total claim, including running costs, for each night should be £140, no more than £60 of which should be in respect of the cost of ownership in the first year. In each subsequent year until the end of the five year transitional period, the maximum daily amount claimable for the cost of ownership should be reduced by £10.

- 4.18 As variable rate mortgage costs and running costs can be unpredictable, we recommend that Members supply estimates at the beginning of the financial year in order to enable their overnight rate to be calculated, as described above. Members should then submit bills and statements at the end of the financial year to demonstrate that the actual amount spent over the year matches or exceeds the estimates. In the event of the Member's actual expenditure being lower or higher than the estimates, the Finance Department should apply the calculations outlined in Annex 10 and arrange for the Member to refund the House or receive a further contribution accordingly, in the same way as for other eligible expenditure.

Eligibility

- 4.19 Members' eligibility for financial assistance with overnight accommodation depends on the location of their principal residence. For Members with a residence in London and another outside London, the choice of which to designate as the principal residence is therefore important. It is fair to say that this is the area in which Members of the House of Lords have been most vulnerable to criticism in the media.
- 4.20 We believe that, for most Members, it will be clear which is their principal residence. However, there may be cases where Members' circumstances are less clear-cut. In such cases, guidance on the criteria for identifying one's principal residence will help Members to ensure that they are beyond reproach, and are seen to be so.
- 4.21 We have considered a number of criteria for identifying one's principal residence, but we have not found any that are wholly satisfactory. For example, it is possible to be registered on the electoral roll at two different addresses. Ultimately, we believe that using a range of criteria and introducing transparency to the process is the best approach. We therefore recommend that all Members seeking to claim financial assistance with overnight accommodation in London declare their principal residence annually, and those with two or more homes should indicate on what basis they consider the non-London home to be their principal residence. Members should be able to show that they have based their judgement on objective criteria, to be defined in the rules of the expenses scheme. We suggest some criteria in Annex 11 but we believe that as a minimum these should include:

1. Where the Member spends most of his or her time when the House is not sitting (including weekends), and in particular where he or she spends more nights.
2. If the Member lives with a spouse, partner or other family members, where they are based.
3. Where the Member keeps most of his or her possessions.

The form for claiming against the overnight allowance should ask the Member to declare the number of nights spent away from the principal residence during the period, in order to produce an audit trail at the end of the year.

- 4.22 For Members claiming financial assistance with overnight accommodation in London, the Member's signed declaration of principal residence and the criteria which they have used to identify it should be published on the Parliament website. The location, for example the first part of the postcode (the 'outward code'), but not the exact address, of such Members' principal residences should be published, subject to advice from the House of Lords' security advisors and Freedom of Information and data protection legislation as it applies to Parliament.
- 4.23 We have stated that Members who live more than a reasonable commuting distance from the House should be eligible for financial assistance with overnight accommodation. We have found the question of what constitutes 'reasonable commuting distance' to be a difficult one; the current limit of Greater London is arguably too small, as there are some fast routes into central London from outside this area. However, simple geographical distance is a poor indicator since the availability and speed of public transport connections vary significantly, particularly late at night.
- 4.24 We support the continuation of financial support for overnight stays where the principal residence is demonstrably beyond the boundary of Greater London and not within reasonable commuting distance. However before making claims, Members should satisfy themselves that, notwithstanding the general criteria of eligibility, the travelling distance and the time taken to commute from the principal residence are such that it is reasonable and defensible to public scrutiny to use separate overnight accommodation in London. Some Members who live outside Greater London may well be able to commute easily if they live close to good transport links (e.g. Sevenoaks, Reading, St. Albans, Guildford etc.) and it would be unreasonable for such people to claim for a second home in London, though they might be justified in claiming occasionally for a hotel, for example if they had been forced to stay later than usual by parliamentary business.
- 4.25 We have found it very difficult to give a strict definition of reasonable commuting distance, not least because of the high degree of diversity in the personal circumstances of Peers. However, we think it is reasonable to ask Members claiming the overnight allowance for the first time to declare that the location of their principal residence is outside Greater London and to support this declaration with a short statement outlining why it is not within reasonable commuting distance. For most Members who live outside the South-East of England, this will be clear – the length of journey is not reasonable for a daily commute. However, there may be Members who live in towns from which many people commute to London who are nonetheless justified in claiming for assistance with overnight accommodation in London because of their personal circumstances (such as age or disability) or on nights when the House sits late. This statement should be available to the House administration and auditors but not published alongside the declaration of principal residence; furthermore, a statement which contains personal data would be protected from disclosure by the Data Protection Act.

Recommendation 11: We recommend that all Members seeking to claim financial assistance with overnight accommodation in London sign a declaration stating the location of their principal residence, explaining the criteria by which they have identified their principal residence and giving confirmation that it is outside Greater London. They should also make a confidential statement of why, in their personal circumstances, it is not within reasonable commuting distance of the House of Lords.

- 4.26 The declaration of both the location of the Member's principal residence (including the fact that it is outside Greater London) and the criteria by which the Member judges it to be their principal residence should be open to independent audit, based on a random sampling of claims.

Members who share accommodation

- 4.27 Where Members share accommodation in London in order to attend the House, it should be possible to achieve some economies of scale; a double hotel room does not cost twice as much as a single room and a property suitable for two could be rented for less than double the single rate. The Committee on Standards in Public Life has taken the view that, for MPs, an allowance of $1\frac{1}{3}$ times the single person allowance is appropriate in cases where two Members share accommodation and we agree that the same approach is appropriate for Peers.
- 4.28 Therefore, for days on which two Members attend the House of Lords and have receipts for only one hotel room between them, the two Members are entitled to claim the costs of a hotel room up to $1\frac{1}{3} \times \text{£}140 = \text{£}186.50$ between the two of them. (In practice, half of the cost should be reimbursed to each Member.) On days when Members attend alone or take separate hotel rooms, the normal single person maximum will apply.
- 4.29 Members who wish to claim for rented or owned accommodation which is shared with another Member should register this intention at the beginning of the financial year so that the House authorities can calculate the appropriate rates for reimbursement. For nights when only one of the sharing Members has attended the House, the sum reimbursed for each overnight stay should be calculated as described above for a single person. For nights when both of the sharing Members have attended the House, the amount reimbursed to both Members together should be the lower of the single person rate plus a third ($1\frac{1}{3} \times \text{£}140 = \text{£}186.50$) and the annual total of rent or running costs divided by 150. (In practice, half of this sum should be paid to each of the sharing Members.)

Recommendation 12: We recommend that Members who claim for financial assistance with accommodation in London which is shared with another Member of the House of Lords should have a combined upper limit for claims of £186.50 (being $1\frac{1}{3} \times$ the standard rate of £140) for days on which both sharing Members make a claim.

- 4.30 In cases where an MP and a Peer are sharing accommodation, we recommend that the upper limit for the Peer's claim should be reduced by two-thirds and that there should be no 'double-claiming'. We recommend that the Independent Parliamentary Standards Authority and the House of Lords Finance Department draw up a Memorandum of Understanding to deal with the administration of such claims.

Accommodation away from Westminster

- 4.31 When Members are away from Westminster on authorised parliamentary business (as outlined in paragraph 3.17) and accommodation or reimbursement for accommodation is not otherwise available, necessary expenditure on overnight accommodation in a hotel should be reimbursed against receipts. Advance approval for the claim must be obtained from the Finance Department. The upper limit for claims should be the same as that for hotels in Westminster, unless the Member can demonstrate to the Finance Department that there were exceptional circumstances. For hotels away from Westminster, we also recommend that the House retain the services of a hotel booking agent and encourage Members to use it to ensure value for money.
- 4.32 Members who rent or own accommodation in London in order to attend the House forfeit a day's contribution towards the annual cost of maintaining or renting that accommodation if they spend a sitting day on parliamentary business away from the House. This acts as a disincentive for Members to undertake activities away from the House on sitting days. We recommend that Members should be able to claim the overnight allowance for all days of authorised parliamentary business if they have registered with the House authorities that they rent or own accommodation in London for the purposes of attending the House.

Recommendation 13: We recommend that Members who have registered rented or owned accommodation with the Finance Department be permitted to claim for financial assistance with their London accommodation when spending a sitting day on authorised parliamentary business away from Westminster.

Chapter 5

Travel

- 5.1 Travel was the one area of the Members' Reimbursement Scheme where there was a general consensus among Members; most Members told us that they were very happy with the current arrangements. The system is one of straight reimbursement for all receipted claims over £25, but with the added simplicity of Members having access to a travel credit card which enables costs to be met directly by the House. The importance of meeting travel costs was highlighted by a number of Members who travel long distances, including from Scotland and Northern Ireland, in order to attend the House. Without financial assistance for travel, just getting to the House every week would represent a significant cost for such Members.

Travel to and from London

- 5.2 Members who travel to the House from their principal residence outside London (but inside the United Kingdom) are entitled to reimbursement for their travel costs. However, this currently excludes incidental travel costs such as car parking and road tolls, which are to be paid for from the Day Subsistence.
- 5.3 During this and previous reviews, some Members have told us that such incidental costs can be considerable, for example, if a Member has to leave a car at an airport for several days. (However, in these circumstances it might be cheaper to use taxis and if so, that should – exceptionally – be permitted and reimbursed.) Travel costs such as car parking and tolls (but not the London Congestion Charge – see below) can be considered an integral part of the journey to and from Westminster and we recommend therefore that they should in future be recoverable as part of travel. As with other travel expenses, receipts would be required if the Member did not use the travel credit card provided and Members would be expected to use the most economical means of parking at, for example, airports.

Recommendation 14: We recommend that necessary car parking at stations and airports and road tolls should be treated as permissible travelling expenses. In incurring such costs, Members should have regard to value for money.

- 5.4 Members are encouraged to use a dedicated Member's travel credit card for travel purchases. Members not using that card are required to show receipts or vouchers as proof of expenditure for all journeys costing over £25. However, in keeping with the principle of requiring receipts for the reimbursement of all expenditure, we recommend extending this to all journeys.

Recommendation 15: We recommend that if the Member's travel credit card is not used to pay for travel, Members should supply receipts or vouchers as proof of expenditure for all claims.

- 5.5 Members should seek out best value for all journeys by making use of advance bookings where possible and using appropriate railcard schemes (such as Network and Senior Railcards). At present, Members are entitled to business class flights and first class train travel. We believe that the cost of first class train travel is justified if it is necessary to enable Members to work whilst travelling. However, we recommend that the considerable cost of business class flights only be reimbursed for long-distance flights, outside Europe.

Recommendation 16: We recommend that Members be allowed to claim for first class rail travel where this is justified by their need to work whilst travelling. Flights within Europe should be reimbursed at economy class, but flights outside Europe may continue to be reimbursed at business class.

- 5.6 We received no comments about mileage rates for road travel and as these are in line with the approved HM Revenue and Customs rates, we recommend that these are left unchanged until the next major review of parliamentary pay, pensions and allowances. It has been put to us that these rates are not sufficient to cover the costs of larger, less fuel-efficient cars. Moreover, the approved rates have not been adjusted for several years. Nevertheless, it seems to us that those rates, which are applied by the House of Commons and many public and private sector employers, are designed to discourage unnecessary car usage and to encourage a switch to less environmentally damaging vehicles. We therefore recommend no change to the current rates until they are changed by HM Revenue and Customs.
- 5.7 We understand that at present Members are not required to provide any substantiation of car, motorcycle or bicycle journeys claimed. We think that, in line with the general principle that all claims for expenses should be backed by receipts, all claims for mileage should list the dates of journeys, the start and end point and the mileage. Only one claim should be made per journey, regardless of how many Members are sharing the vehicle.

Recommendation 17: We recommend that all claims for vehicle mileage should be accompanied by details of individual journeys. Only one claim should be made per journey, per vehicle.

Travel within London

- 5.8 Travel within a five mile radius of Westminster is currently to be paid for out of the Member's Day Subsistence allowance of £86.50. Some Members have told us that they can spend a large proportion of this money on taxis within London. We recommend that Members who find it essential to use taxis instead of public transport because of disability make use of the provision for disabled Members to recover the additional expenses of attending the House. Each case is considered on its merits by the Finance Department and is subject to approval by the Clerk of the Parliaments.
- 5.9 Following the clear delineation between remuneration and reimbursement of actual expenses, we take the view that travel expenses should be paid up to the door of the House, rather than travel within a five-mile radius of Westminster being paid for from Day Subsistence. However, Members should use public transport (excluding taxis, subject to paragraph 5.3 above) wherever possible and, in particular, the Congestion Charge should not be reimbursed since to do so would defeat its purpose. Members wishing to reclaim fares incurred on an Oyster card should register the card online, enabling them to obtain a printout which documents the relevant journeys and costs for up to 8 weeks from the day of travel.

Recommendation 18: We recommend that travel expenses should be paid from a Member's residence to the door of the House of Lords, excluding taxis. Members choosing to use private cars within London should not have any Congestion Charge reimbursed.

- 5.10 In the 2007–2008 session, there were 18 occasions on which the House sat beyond 10:40 pm. Members of staff in the House of Lords are entitled to reimbursement of the cost of a taxi home (subject to a maximum distance) if the House sits beyond 10:40 pm, and we consider it reasonable in principle for this provision to be extended to Peers. We would encourage the House of Lords authorities to consider the introduction of similar late-working arrangements for Peers.

Travel on parliamentary business outside of London

- 5.11 Members who travel on authorised parliamentary business (see paragraph 3.17) outside of London should also be entitled to recover travel costs, either from their principal residence or from London if they have attended the House on the previous day, and to either their principal residence or to London if they attend the House on the following day.
- 5.12 Advance approval for the claim must be obtained from the Finance Department at least one week in advance of the visit, as now. In all other respects, the same conditions should apply to these travel claims as to travel to the House from the principal residence.

Travel for spouses and family members

- 5.13 Currently, all Members of the House of Lords are entitled to claim costs for up to six return journeys to the House each calendar year for their spouse or civil partner and for each of their dependants up to the age of 18 (and children over 18 but still in full time secondary education until the end of the academic year in which their 18th birthday falls). The travel conditions are, at present, the same as for Members – currently first class rail and business class air travel. The expense of first and business class travel is potentially justifiable for Members as it enables them to work on parliamentary business whilst travelling. Spouse and family travel should be by standard class rail (or economy air) since, unlike Members, family members do not need to work during the journey.
- 5.14 The allowance for travel by spouses etc. is stated to be in order to enable family members to attend a Parliamentary occasion¹⁷, although many Members explained to us that they use the allowance to be able to enjoy the company of their families while working in London. This is an unusual provision which few others enjoy, but we recognise the unusual nature of work in the House of Lords, particularly for those who live some distance away. We recommend that the reference to attending a Parliamentary occasion be removed, but that spouse and family travel should not be reimbursed during recess except in exceptional circumstances.
- 5.15 At present, the entitlement to six spouse/civil partner and family journeys a year is independent of the Member's own level of attendance. We propose that the entitlement of the spouse and family to travel be in some way dependent on the Member's own attendance. We recommend that the current entitlement to six journeys a year be kept for Members who attend for the whole year, but that it be reduced for Members who attend less frequently.

¹⁷ House of Lords: *Members' Reimbursement Scheme, general guide*, eighth edition, April 2009, p.14, paragraph 4.3.1.

Recommendation 19: We recommend that the spouse or civil partner and dependants of a Member be entitled to three return journeys per calendar year to the House of Lords from the Member's declared principal residence, plus a further return journey for each 45 days of attendance by the Member, up to a maximum of six return journeys in total. Neither the outward nor return portions of the journeys should fall within parliamentary recess other than in exceptional circumstances. Family members should travel by standard class rail or economy air.

- 5.16 Some backbench Members compared their spouse/civil partner and dependants' travel allowances unfavourably with those of Ministers, office holders and Members of the House of Commons, who are allowed 15 return journeys per year. We suggest that it would be appropriate to reconsider this matter when the House of Lords is reformed, and if and when it becomes a salaried House.

Expenses due to disability

- 5.17 The current expenses scheme enables Members who are disabled to recover the additional expenses of attending the House that they incur as a result of their disability and cannot recover within the normal daily limits. We recommend that this facility continue subject to provision of supporting receipts. Members seeking assistance under this facility should normally also provide medical evidence to substantiate their particular needs.

Chapter 6

Ministers

Current situation

- 6.1 The question of Ministerial allowances is one of the most difficult areas which we have encountered during our review. There is a great deal of confusion surrounding the allowances payable to Ministers in the House of Lords, both inside and outside the House. Since its inception, there has been inconsistency in the way that Section 5 of the Ministerial and Other Pensions and Salaries Act 1991 has been described, implemented and discussed. Section 5 provides for an allowance to be paid to Lords Ministers, certain office holders in the House of Lords (including government whips), the Leader of the Opposition, the Chief Opposition Whip, the Chairman of Committees and the Principal Deputy Chairman of Committees. It is paid with salary, and taxed.
- 6.2 The Section 5 allowance is calculated according to an Order in Council¹⁸ stating that, as of 1 August each year, it “shall be equal to 220 times the maximum daily amount which [.....] is recoverable in that year by a member of that House [.....] in respect of his expenses in staying overnight away from his main or only residence.” The effect of our changes proposed at paragraph 4.8 would therefore be to reduce the Section 5 allowance from £38,280 to £30,800, with effect from 1 August 2010.
- 6.3 We received no firm views on this allowance in response to our consultation, although some respondents did highlight the need for financial assistance to enable Members based outside London to take up London-based Ministerial positions.

Salaried Ministers

- 6.4 Salaried Ministers and office holders are not able to claim the Day Subsistence, Office Costs allowance or Overnight Subsistence allowances to which all other Members of the House of Lords are currently entitled. During the second reading of the Ministerial and other Pensions and Salaries Bill, the then Lord President of the Council and Leader of the House of Commons introduced Clause 5 by saying that the government had for several years had difficulty recruiting and retaining Ministers in the Lords. He noted that financial pressures were a main reason for Members’ unwillingness to accept office, and that the loss of the Overnight Subsistence allowance was part of this:

“Under current arrangements, Ministers and paid office holders from both sides of another place receive no assistance towards running a second home in London. This is a long-standing anomaly which we propose to remedy by the introduction of a night subsistence allowance for Lords Ministers and paid office holders. In all cases it will replace the current London supplement.”¹⁹

- 6.5 The exact wording of the Act and the comment that ‘In all cases it will replace the current London supplement’ imply that the Section 5 allowance is available to all Ministers and paid office holders, regardless of where they live. The fact that the Section 5 allowance is taxed and payable with salary also gives it the appearance of salary rather than an allowance for expenses. However, the justification presented to the House for Section 5 was based on providing assistance for running a second home. The calculation of the level of the Section 5 allowance is based on a multiple of the Overnight Subsistence allowance, which is payable only to Members whose principal residence is

¹⁸ The Lords Office-holders Allowance Order 1991.

¹⁹ *House of Commons Hansard*, 31 January 1991, Col. 1141.

outside Greater London. Furthermore, treating the allowance as a salary top-up which is payable to all leaves the anomaly that salaried Lords Ministers and office holders are the only group of parliamentarians for whom no additional financial assistance is available for overnight accommodation.

- 6.6 For Ministers, the Section 5 allowance is paid by their particular government department rather than by the House of Lords. We understand that practice has diverged over time, such that now some departments pay the Section 5 allowance automatically to all Lords Ministers, some do not pay it to Lords Ministers who are known to have their main home in London, and some expect Lords Ministers who have their principal residence in London to ask their Permanent Secretary to reduce the level of their Section 5 allowance to the level of the London supplement paid to Inner London MPs and to Outer London MPs who choose not to claim Personal Additional Accommodation Expenditure (the allowance available to MPs to cover accommodation costs in London).
- 6.7 This situation is clearly unsatisfactory. It has been the cause of confusion for the Cabinet Office and departments, and has left Ministers uncertain as to their true entitlements and open to accusations of abuse. Furthermore, as explained in paragraph 6.2 above, the way the Section 5 allowance is calculated means that our proposed changes to the overnight allowance for non-Ministerial Members of the House will affect the pay of Ministers who receive the allowance. We believe that the problems which have arisen with the Section 5 allowance underline the importance of clearly delineating what is pay and what are allowances. It is never politically expedient for a government to increase parliamentarians' salaries; however, experience has repeatedly shown that the short-term device of using allowances to provide disguised salary increases leads to greater problems in the longer term.
- 6.8 The inconsistencies in the package of salaries and allowances which are paid to Ministers and office holders in the Lords, in particular when they are compared with equivalent posts filled by Members of the House of Commons, should be resolved as a matter of priority. In principle we believe that Lords Ministers based outside London should receive reimbursement of actual expenses of overnight accommodation, in the same way as backbench Members of the Lords and MPs and Ministers in the Commons, while those who already live in London should receive only a London allowance. However, this would require changes in legislation. Moreover, the level of Lords Ministers' salaries would need to be reviewed if the Section 5 allowance were abolished. We therefore recommend that the Government ask the SSRB to review the salaries and allowances of all Ministers and parliamentary office holders. Under the House of Commons Resolution of 3 July 2008 the SSRB is due to review MPs' pay in the first year of each new Parliament. A review of Ministers' and office holders' salaries and allowances could take place at the same time.

Recommendation 20: The Government should give the SSRB a remit to review the salaries and allowances of Ministers and office holders when it reviews MPs' pay in the new Parliament.

Unsalaried Ministers

- 6.9 The Ministerial and Other Salaries Act 1975²⁰ places a limit on the number of salaried Ministers. There is also a limit on the overall number of Ministers in the House of Commons, but not in the House of Lords. Because the Government has chosen to have more Ministers than are allowed by these limits, there are a few Ministers and office holders in the House of Lords who are unsalaried, even though they hold posts in respect of which a salary may in principle be paid.

²⁰ The Ministerial and Other Salaries Act 1975 Schedule I, part V 1.

- 6.10 These unsalaried Lords Ministers and office holders are, according to a precise reading of the legislation, eligible for the Section 5 allowance (although we are told that none currently receives it) because they hold an office ‘in respect of which a salary is payable’, in accordance with either Schedule 1 or Schedule 2 to the Ministerial and Other Salaries Act 1975²¹. They are also eligible for the Day Subsistence, Office Costs and Overnight Subsistence allowances payable to backbenchers because they are not, in fact, in receipt of a salary.
- 6.11 We do not believe that unsalaried Lords Ministers should be able to receive both the Section 5 allowance as well as any financial assistance available to unsalaried Members of the House. In particular, as the Section 5 allowance has many features of a salary – being payable with salary by departments and being taxed – we do not think it is appropriate for it to be paid to officially unpaid Ministers.
- 6.12 However, we recognise that restricting unsalaried Ministers to the backbench allowances, for which attendance at the House is required, presents difficulties. Ministers have a heavy departmental workload and certain portfolios, such as trade, carry with them a heavy schedule of visits away from Westminster. In such circumstances, it is unreasonable to expect a Minister to have to attend the Chamber or a Committee in order to register a qualifying attendance.

Recommendation 21: We recommend that unsalaried Ministers should not claim the Section 5 allowance, but should be automatically paid the daily fee for every day that the House of Lords sits during the time in which they are a Minister. We recommend that those unsalaried Ministers who are eligible to claim financial assistance with overnight accommodation be allowed to claim the overnight allowance for every day that the House of Lords sits during the time in which they are in office.

‘Grace and favour’ homes

- 6.13 We understand that currently no Ministers or office holders in the Lords enjoy ‘grace and favour’ homes provided by the State. We believe that if any salaried Member of the Lords receives such accommodation, he or she should be limited to reclaiming from the relevant department actual, permitted expenses, e.g. Council tax, utilities, in respect of that property alone, and should not receive the Section 5 allowance. If an unsalaried Minister were given a ‘grace and favour’ home, he or she should be able to reclaim any actual permitted expenses in respect of that property from the House, in the same way as backbench Peers.

Ministerial and office holders’ secretarial allowance

- 6.14 At present, salaried Ministers and office holders who are not eligible for the daily Office Costs allowance may claim an annual maximum allowance of £5,658 for secretarial costs. Although receipts are not required, the claim form for this allowance requires signatures from both the Minister and the person to whom the Minister is paying the allowance. This allowance is to enable Ministers to have secretarial help in discharging their parliamentary duties, as distinct from their roles as government ministers.
- 6.15 We have recommended that ordinary Members of the House of Lords should no longer receive a separate allowance for office and secretarial costs; in principle, this should also apply to salaried Ministers and office holders. However, because of the need for a thorough review of the Ministerial package of pay and allowances, we recommend that no changes be made at present but that Ministers’ total pay and allowances package be reviewed together as a matter of priority.

²¹ The Ministerial and Other Pensions and Salaries Act 1991, Section 5 (1) (a) and (b).

Frontbench opposition spokesmen

- 6.16 Throughout our review, Members on all sides of the House have drawn our attention to the difficulties faced by opposition frontbench spokesmen who work more or less full-time in the House, often with little support. There are approximately 60 Peers who hold such positions. Unlike in the House of Commons, where all MPs have a basic salary, only two of the opposition receive any pay (the Leader of the Opposition and the Opposition Chief Whip). Whilst we recognise that there might be a case for extending the number of remunerated posts, we feel that it is outside the scope of our current review.
- 6.17 We are aware of the system of Cranborne money which provides the opposition parties (and the Convenor of Crossbench Peers) with money to support their parliamentary activities through, for example, the employment of researchers. If the House is minded to increase financial support to opposition frontbench spokesmen, we suggest that the House explore the possibility of creating a parallel but distinct system of providing money to the opposition parties for this purpose.

Chapter 7

Publication, audit and procedure

Publication

- 7.1** Currently, the House publishes the totals claimed by each Member in each category of expenses every year, along with the number of sitting days on which they attended. For some Members, the location of their principal residence is disclosed at the county level, but not for all.
- 7.2** Evidence received from the Information Commissioner suggests that quarterly publication may now be necessary. We have also recommended that declarations of principal residence – used to establish eligibility for financial assistance with overnight accommodation, see paragraph 4.21 – be published.
- 7.3** The Information Commissioner made the further point that publication schemes should strike a proportionate balance between the legitimate public interest in disclosure and the intrusions into the private lives of Members and their families. We would add to this the cost and administrative burden of the publication itself and of the editing which would be necessary to protect address and security details. We do not believe, on balance, that publication of Members' expenses claims should be at the receipt level. Rather it should give totals under the different headings of permitted claims, much as at present, but published quarterly.
- 7.4** Where information about the location of the principal residence is published, we have been advised by the Information Commissioner that publishing the first part of the postcode gives a sufficient level of disclosure. However, we would recommend that the House's security advisors be consulted on this point.

Recommendation 22: We recommend that a summary record of the fees and expenses paid to Members under each category of claim (daily fee, overnight expenses, travel) be published quarterly, and that Members' declarations concerning their principal residences be published annually, subject to advice from the House's security advisors.

Audit

- 7.5** The House of Lords Finance Department is subject to both internal and external audit. The current allowances system in the House of Lords is externally audited every year by the National Audit Office (NAO). As part of this process, the NAO checks a sample of claims, ensuring that the recorded attendances and declared main homes of Members are in accordance with the allowances that they have claimed. We recommend that the system of financial assistance continue to be rigorously audited by the NAO; under our recommended system, this would include checking claims against receipts.
- 7.6** We also feel that, in order to avoid problems such as those encountered in both Houses, regular auditing should examine the self-certified parts of the expenses system. In particular, we recommend that auditing be extended to check a sample of the declarations of principal residence. Members should be aware of the possibility of such an audit at the time of making their declarations.

Recommendation 23: We recommend that the fees and expenses paid to Members of the House of Lords continue to be externally audited by the National Audit Office. We recommend that the audit process should also check Members' eligibility for financial assistance with overnight accommodation.

7.7 As we have explained above, the present system of expenses relies to a considerable extent on Members self-certifying their claims. Hitherto the Administration of the House, specifically the Finance Department, has therefore had little in the way of a mandate to question or go behind claims for expenses, although the checking processes which they do carry out have been found to be entirely satisfactory by internal and external audit. Our proposals will involve a much greater degree of intervention and regulation by the Finance Department, with rigorous management to ensure full compliance with the rules and required declarations by Members. This will inevitably involve something of a culture change both by Members of the House and the staff concerned. It is vital, therefore, for the Finance Department to have the full backing of the House committee and the Audit Committee.

Procedures and Code of Conduct

7.8 We expect the House of Lords Finance Department will be in charge of administering the system of financial assistance that we have recommended. Introducing a single daily fee to replace Day Subsistence and Office Costs should simplify the administration somewhat, but there will be an increase in the administration required for financial assistance with overnight accommodation. The Finance Department will need to check and process receipts for expenditure on overnight accommodation, and it will also need to check and process any declarations made by Members regarding their principal residence. Initially, there will also be a substantial amount of work required to implement changes to the system, including the creation of new claim forms and guidance. In particular, we think it is important that a new guide to financial assistance be produced for Members which gives a clear statement of the rules and procedures. We recommend that the House authorities consider what additional resources will be required for these tasks and strengthen the Finance Department accordingly.

Recommendation 24: We recommend that once a new system for financial assistance is in place, the Finance Department write and publish a clear guide to the rules of the system and the procedures which Members should follow, in conjunction with a new set of claim forms.

7.9 Members of the House of Lords are subject to a Code of Conduct. As noted above, in May 2009, the Leader of the House set up a group, chaired by Lord Eames, to consider the Code of Conduct and the rules relating to Members' interests and to make recommendations. This Leader's group has published recommendations for a revised Code²². The recommended revised Code includes the general principle that Members should 'act always on their personal honour' and states that Members shall 'act in accordance with any rules agreed by the House in respect of financial support for Members.'

7.10 As well as recommending a revised Code, the Leader's group's report proposes that a House of Lords Commissioner for Standards be appointed to investigate alleged breaches of the Code, including alleged breaches of the House rules for financial support. This Commissioner would be functionally independent of, but appointed by, the House. We welcome all moves to improve the governance of financial support for Members and to strengthen the investigation of cases of alleged misconduct.

²² Leader's Group on the Code of Conduct: *Report*, House of Lords, October 2009, available at <http://www.publications.parliament.uk/pa/ld200809/ldselect/ldlead/171/171.pdf>

Recommendation 25: We recommend that misuse or abuse of the system of fees and expenses paid to Members of the House of Lords be dealt with as a breach of the Code of Conduct. Complaints should be investigated by the House of Lords Commissioner for Standards.

Relations with the Independent Parliamentary Standards Authority

7.11 The Independent Parliamentary Standards Authority (IPSA) is a new body created by the Parliamentary Standards Act 2009 and has responsibility for administering the payroll and allowances for MPs and setting and reviewing the MPs' allowances scheme under which such payments are made. IPSA is currently being set up, and is in the process of recruiting board members.

7.12 In principle, there could be advantages and economies of scale if the allowances and expenses for Members of the House of Commons and the House of Lords were administered by a single body. However, IPSA is not yet operational and it would be premature to add to its responsibilities at this stage. It would also require a change to primary legislation to extend its scope to the House of Lords. Currently, the fees and expenses are administered by the House of Lords Finance Department, and set by resolutions of the House. These resolutions are usually based upon recommendations made by the SSRB.

Recommendation 26: We recommend that the next full review of financial assistance to Members of the House of Lords should consider whether there would be advantage in using the Independent Parliamentary Standards Authority for the administration of fees and expenses paid to Members of the House of Lords. In the interim, we recommend that the House of Lords Finance Department continue to be responsible for this process.

Independent determination of financial support for the House of Lords

7.13 One of the principles followed by the Committee on Standards in Public Life is that the details of the expenses scheme for Members of Parliament should be determined independently of Parliament. The Parliamentary Standards Act 2009 provides for IPSA to draw up the expenses scheme for the House of Commons (drawing on the advice of the Committee) but there is no parallel arrangement for the House of Lords. The House itself will decide whether to adopt our recommendations. In the longer term, in particular after reform of the second chamber, we believe that pay and expenses (and pensions in due course) should be set independently, as for the Commons. In the meantime, we urge the House to consider these proposals as a balanced package and to resist the temptation either to implement only selected recommendations or to amend certain recommendations because they are unpopular in the House. To do so would be to undermine the objective of establishing an expenses scheme which conforms with best practice and which offers value to the taxpayer.

Chapter 8

Financial implications

Financial context

- 8.1** We have outlined the current costs of the Members' Reimbursement system in paragraph 1.11 above. Our remit directed us to 'pay particular attention to ... the need to obtain value for money and the desirability of reducing costs to the taxpayer.' In accordance with the terms of our remit, we are also required to put in place a system which is able to give all Members adequate financial support to play a full part in the work of the House. In particular, we have sought to create a system which can support the full diversity of the membership of the House, including those with little or no other sources of income. Our guiding approach has been to focus on redistributing the total amount of money in the system rather than increasing or reducing the total bill.
- 8.2** A number of responses to our consultation commented on the overall cost of the House of Lords. A number of Members made the point that the House as it currently operates represents very good value, especially considering the high level of expertise and professional experience which Members bring to the House. One Member noted that this good value is not a virtue, however, if it derives from exploiting the goodwill of Members of the House. With the introduction of a daily fee alongside a system for the reimbursement of expenses, we believe that we have gone some way to addressing this concern.
- 8.3** To set the House of Lords in context, our remit directed us to have regard to 'schemes operated in comparable circumstances by other institutions.' We have received evidence about the costs of second chambers in a number of foreign legislatures, included at Annex 5. However, the second chambers are all constituted differently, so we do not feel that there are direct parallels to be drawn at the level of cost. We also asked people directly via our consultation to suggest comparable institutions whose systems of financial support should be considered by our review. The suggestions received ranged from NHS trusts to the boards of institutions like the British Museum and other non-departmental public bodies. As outlined at paragraphs 3.25–3.26 we believe that the package of financial support that we have recommended stands comparison with those offered by these institutions.

Financial implications of our recommendations

- 8.4** We have produced a balanced package of recommendations, some of which will lead to cost savings and some which are likely to lead to increases in costs. The exact size of these cost increases and savings will, of course, be dependent on the behaviours of Members.
- 8.5** The areas where our recommendations will lead to cost savings are:
- reducing the maximum claim for overnight accommodation from £174 to £140;
 - restricting the number of nights for which claims can be made to one for every qualifying attendance, rather than allowing claims for nights before and after each attendance;
 - limiting the amount that can be claimed for mortgage interest, and removing support for mortgage interest completely after five years;

- limiting the amount of financial support for owners of non-mortgaged second homes and removing this support completely after five years;
- clarifying and tightening the procedure for establishing the need for financial assistance with overnight accommodation in London;
- requiring receipts for all claims for overnight accommodation expenses.

- 8.6 We expect there to be minor cost-savings from making the entitlement to family and spouse travel partially dependent on the Members' attendance and restricting it to standard class. Further minor cost savings may be achieved through abating the claims for Members sharing accommodation by 33% and requiring receipts for all travel.
- 8.7 The introduction of a daily fee, however, is likely to add to costs. Currently, the maximum which a London-based Member can claim in a year is the Day Subsistence allowance of £86.50 and the Office Costs allowance of £75 for each day of attendance, plus 40 additional days' of Office Costs allowance. However, many Members do not claim the maximum, as these allowances are in principle only to reimburse actual out-of-pocket expenditure. We have recommended replacing both of these allowances with a daily fee that is a contribution to a Member's cost of living but not related to actual expenditure in any way. We expect that most Members will claim the daily fee in full but also that a significant minority will not.
- 8.8 Other, small sources of additional costs include the recommendations to pay travel costs within London, to pay parking charges and road tolls and to pay full overnight accommodation expenses for rented or owned London properties when Peers are away from Westminster on authorised parliamentary business.

Assumptions

- 8.9 As noted above, the overall cost of implementing our recommendations will be determined by what Members claim for in future. We have had to make assumptions in a number of areas in order to judge whether our recommendations meet our remit.
- 8.10 It is not clear, for example, whether all those who are eligible for the daily fee will now claim it in full for every day that they attend. It has been put to us that those who do not currently claim anything will not begin to claim now; however, responses to our consultation have suggested that at least some Members who have not been claiming have not done so because they have misgivings about the ambiguity of the current system. Those misgivings are likely to disappear once the scheme is clarified.
- 8.11 It has also been put to us that there would be a substantial reduction in the level of claims for overnight allowances as a result of the recommendations we have made for more rigorous criteria and the requirement for receipts. During the transition period, we would expect claims by Members who own a second home in London outright to decline, in line with the phasing out of financial support. After the end of the transition period, we would expect the level of claims to fall further as the support for mortgage interest ends. However, because of the way the current system operates, we do not have any information about how many Members have been claiming Overnight Subsistence in respect of properties which they own, or about what Members' actual, receipted expenses are. Anecdotally, we have been told that implementing our recommendations would be likely to cause a large drop in the level of claims during the transition period.

- 8.12 In the longer term, we might expect Members to change their behaviour to fit any new expenses regime. After the five year transitional period, those who currently use the Overnight Subsistence allowance to meet mortgage commitments could decide to meet the mortgage payments from their own funds or they could sell their property and begin claiming expenses on a rented property. Similarly, Members who own a second home in London outright may decide to switch to renting in London if they can no longer offset the cost of their second home through the allowances system.
- 8.13 Notwithstanding the uncertainties described above, we believe that our recommendations will be broadly cost-neutral.

Impact on individuals

- 8.14 In respecting our remit and keeping costs within the overall envelope of the current system, it has not been possible to make changes without some Members being disadvantaged. The main structural change which we have recommended is the introduction of a daily payment which is not linked to actual expenditure. Such a payment inevitably transfers money to those Members who, for whatever reason, did not claim the maximum allowances under the old system but who will now be entitled to do so. Those Members who made a large volume of claims for the maximum amount of Overnight Subsistence are those who will suffer the greatest financial impact as a result of our recommendations.
- 8.15 We would argue, however, that all Members stand to benefit from a straightforward system of a daily fee and defined expenses. The strongest request that we received from Members was for a system with clear rules and transparent implementation which left them confident that their claims were correct. We believe that implementing our recommendations would create such a system. However, in the final analysis, any system of expenses depends on the integrity of the claimants and the effectiveness of the administrative arrangements. Our recommendations, if followed diligently, remove the scope for misunderstanding and provide the greater clarity and transparency requested by the House committee, the Prime Minister and Members.

Annex 1

Remit for the review



10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

9 June 2009

Dear Bill

I understand that the cross-party House Committee in the House of Lords has today agreed to seek an SSRB review into financial assistance available to Members of the House. House officials have been in discussion with your Secretariat and I understand that you have agreed to undertake such a review if asked.

I am therefore writing formally to ask you to undertake the review. The Terms of Reference for the review proposed by the House Committee are:

"To review options for the system of financial support for Members of the House of Lords, given its current role and composition; and to make recommendations.

In conducting the review, SSRB should have regard to:

- clarity and transparency;
- accountability and public acceptability;
- value for money;
- differing attendance patterns of Members;
- the geographical spread of the membership of the House;
- the financial consequences for Members in participating in the work of the House; and
- schemes operated in comparable circumstances by other institutions."

In undertaking the review, I would ask that you pay particular attention to the need for transparency and accountability, the need to obtain value for money and the desirability of reducing costs to the taxpayer. I would also ask that you work closely with Sir Christopher Kelly in producing recommendations.

As for timing of the review, I should be grateful if you would report your findings and recommendations to me, as well as to the Lord Speaker, as Chairman of the House Committee, by the end of October.

Yours sincerely

A handwritten signature in black ink, appearing to be 'G. M. H.' with a stylized flourish at the end.

Mr Bill Cockburn CBE

Annex 2

Allowances available to Members of the House of Lords

(taken from House of Lords: *Members' Reimbursement Scheme, general guide*, eighth edition, April 2009, p.6, excluding footnotes)

Member Category	Types of Claim	Overnight Subsidence	Day Subsidence	Travel	Office/Secretarial Costs	Accommodation Allowance for a Second Home ²³	Additional Office Costs	Spouse/Civil Partner's Travel	Insurance cover provided
Members	Sittings of the House and Select Committee Meetings at Westminster	max £174 per night	max £86.50 per day	Yes	max £75 per day	No			
	Select Committee Visits	met directly	met directly	Yes/met directly	max £75 per day	max £116 per night			
	Members of parliamentary delegations	Foreign & Commonwealth Office rates	Foreign & Commonwealth Office rates	Yes	max £75 per day	max £116 per night			
	UK travel on parliamentary business	No	No	Yes	No	No			
	UK travel on armed forces and police service parliamentary scheme business	No	No	Yes	max £75 per day	max £116 per night			
	Lords outreach programme	No	No	Yes	max £75 per day	max £116 per night		6 return journeys each per year	Yes
	Travel to Scottish parliaments and devolved assemblies	max £174 per night	max £86.50 per day	Yes	No	No			
	European Travel on parliamentary business	Foreign & Commonwealth Office rates	Foreign & Commonwealth Office rates	Yes	No	No			
	Other visits as specified in section 13 ²⁴	No	No	No	max £75 per day	max £116 per night			
	Travel as a Representative of the House	met directly	met directly	met directly	max £75 per day	max £116 per night			
	Law Lord	No	No	Yes	No	No		No	No
	Minister	payable with salary by departments	No	No	max £5,658 pa	No		No	15 return journeys each per year
	Office Holder	payable with salary		Yes		No		No	

²³ This is to cover 'continuing accommodation costs incurred whilst on a visit away from Westminster, on the same basis as Night subsistence'. (House of Lords: *Members' Reimbursement Scheme, general guide*, eighth edition, April 2009, paragraph 6.4.1).

²⁴ Section 13 deals with 'Other meetings and visits mandated by the House' and covers meetings of groups such as the British American Parliamentary Group and the Parliamentary Contributory Pension Fund.

Annex 3

Respondents making non-confidential responses to the consultation

Lord Ahmed
Lord Alderdice
Lord Archer of Sandwell
Earl Baldwin of Bewdley
Lords Barnett and Peston
Lord Berkeley
Lord Best
Lord Blackwell
Lord Bradshaw
Lord Bridges
Lord Cobbold
Lord Cope of Berkeley
Lord Crickhowell
Baroness Deech
Lord Donoghue
Lord Eden of Winton
Viscount Falkland
Lord Fellowes
Baroness Flather
Baroness Fookes
Lord Foulkes of Cumnock
Lord Fowler
Baroness Gardner of Parkes
Lord Gordon of Strathblane
Baroness Goudie
Reverend Lord Griffiths
Lord Guthrie of Craigiebank
Lord Hameed
Baroness Hamwee
Lord Hannay of Chiswick
Lord Harries of Pentregarth
Lord Haskins
Lord Hodgson of Astley Abbots
Baroness Hollis of Heigham
Baroness Howe of Idlicote
Lord Howe of Aberavon
Lord Hunt of Kings Heath
Lord Imbert
Lord Jenkin of Roding
Lord Kerr of Kinlochard

Lord Kingsdown
Lord Lawson of Blaby
Lord Lipsey
Lord Low of Dalston
Lord Lucas of Crudwell
Lord Luce
Lord Lyell
Lord MacGregor of Pulham Market
Lord Mackay of Clashfern
Lord Mayhew of Twysden
Baroness McIntosh of Hudnall
Lord Methuen
Baroness Miller of Chilthorne Domer
Lord Monson
Lord Montagu of Beaulieu
Lord Morgan
Baroness Murphy
Baroness Nicholson of Winterbourne
Lord Nickson
Baroness Northover
Lord Patel of Blackburn
Lord Pendry
Lord Phillips of Sudbury
Lord Prior
Lord Ramsbotham
Lord Rea
Lord Rees-Mogg
Lord Rix
Lord Rodgers of Quarry Bank
Lord Rooker
Lord Sanderson of Bowden
Baroness Scott of Needham Market
Lord Smith of Clifton
Lord Soley
Lord Steinberg
Lord Stern of Brentford
Lord Stoddart of Swindon
Lord Strathclyde & Baroness Anelay of St. Johns
Lord Taverne
Lord Tebbit
Lord Turnberg
Baroness Turner of Camden
Lord Tyler
Lord Walton of Detchant
Lord Warner
Lord Williams of Elvel

Annex 3: Respondents making non-confidential responses to the consultation

Lord Woolf
Lord Wright of Richmond
Member of the House of Lords

The Bishop of Bath and Wells
The Bishop of Wakefield
The Bishop of Chelmsford
The Bishop of Winchester

The Clerk of the Parliaments
The House of Lords Appointments Committee
The Information Commissioner
The Leader of the House
The Liberal Democrat Peers group
The TaxPayers' Alliance

Annex 4

The Committee on Standards in Public Life's 'Principles underlying the system for MPs' expenses'²⁵

- 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.
- 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 duties, but not otherwise.
- Members of Parliament should not exploit the system for personal financial advantage, nor to confer an undue advantage on a political organisation.
- The system should be open and transparent, and should be subject to independent audit and assurance.
- The details of the expenses scheme for Members of Parliament should be determined independently of Parliament.
- There should be clear, effective and proportionate sanctions for breaches of the rules, robustly enforced.
- 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.
- The scheme should provide value for the taxpayer. Value for money should not necessarily be judged by reference to financial costs alone.

²⁵ Committee on Standards in Public Life: *MPs' expenses and allowances*, available at http://www.public-standards.org.uk/Library/MP_expenses_main_report.pdf, November 2009, paragraph 3.3, p.33.

52 Annex 5

Size and cost of upper chambers in a sample of other countries²⁶

Note: In the majority of cases this table has been drawn up from individual returns by each of the countries listed. It is, therefore, indicative rather than strictly comparative, and is intended to show a context for second chamber remuneration costs.

	Method of Election	Total Membership	Term Served	System for Remuneration/Allowances	Cost of Remuneration ²⁸
Australia ²⁷	Direct election	76	Six years	Annual allowance plus expenses	AUS\$15.2m (£8.4m)
Austria	Indirect election	62	Term of provincial diet	Salary plus expenses.	€6.7m (£6 m)
Belgium	Directly elected: 40 Other: 31	71	Term of each parliament	Remuneration, expenses and other allowances	€9.5m (£8.5m)
Canada ²⁹	Appointed	105	No set term; retirement at 75	Salary plus allowances and expenses.	CAN\$37m (£20.9m)
France ³⁰	Indirectly elected	343 (rising to 348 in 2011)	Six years	Salary plus housing and costs allowances	€41.6m (£37.5m)
Germany	Indirect appointment	69 full and 69 deputy members	No set term	Daily allowance and travel	€1.3m (£1.2m)

²⁶ Unless otherwise indicated, country information is based on returns made to the European Centre for Parliamentary Research and Documentation, summary no. 1248.

²⁷ *Senate Annual Report*, available at www.aph.gov.au. Budget figures given are 2009-10 estimates.

²⁸ Sterling equivalents are indicative, based on exchange rates on 3 November 2009.

²⁹ *Senate Report on Activities 2007*, available at www.parl.gc.ca.

³⁰ <http://www.senat.fr>.

	Method of Election	Total Membership	Term Served	System for Remuneration/Allowances	Cost of Remuneration ²⁸
Ireland	Indirect election and appointment	60 (43 elected by vocational panels, 6 elected by university graduates, 11 appointed by Taoiseach)	Term of parliament	Salary plus allowances	€10.3m (£9.3m)
Italy	Directly elected and appointed	322 total (315 elected & 4 appointed & 3 <i>ex officio</i>)	Term of parliament	Salary plus allowances & expenses	€48.9m (£44m)
Netherlands	Indirectly elected	75 (members are part-time politicians)	4 years	Annual compensation (paid per month), including travel, accommodation & expense allowances plus secondary allowances for retirement, sickness & disability	€3.9m (£3.5m)
Poland	Directly elected	100	4 years	Salary plus monthly allowance, function allowance, office, expertise, accommodation allowances & travel costs	PLN 34.5m (£7.2m)
United States	Directly elected	100 (2 for each of the 50 States)	6 year term (1/3 of the chamber elected every 2 years)	Salary plus allowances, as well as retirement and health insurance benefits. The 2009 salary for most Senators is U.S. \$174,000. The salary for the President Pro Tempore and the Majority and Minority Leaders is US \$193,400. Office allowances vary according to the population of the state the Senator represents.	\$423m (£258m)

Annex 6

Allowances of Members of the House of Lords Government Evidence to the SSRB

Principles that should govern the new system

The Government is grateful to the Senior Salaries Review Body (SSRB) for undertaking this inquiry. There needs to be confidence in the Parliamentary system and confidence will not be restored unless and until the system of allowances is above reproach, is transparent, accountable and reduces the cost to the taxpayer.

The Government believes that the recommendations of the SSRB review of Lords' Allowances should support the following principles.

1. The system of allowances should command public confidence
2. The system should be comprehensible to the public. It should not be so complex that only Members and officials understand it and that people are not able to understand either how it is intended to work or how it is in fact working.
3. The allowance system should be transparent – so that people can see it is working in the way intended, can see what each member is claiming for and how that changes year on year.
4. The use of the system should be subject to regular audit by an outside body in order to support the process of rebuilding public confidence in the Parliamentary system.
5. It would clearly be desirable if the new system reduced the overall cost to the taxpayer, even if the present size of the House were maintained. The Government offers no steer as to whether reduced cost should be achieved by discontinuing certain allowances, by reducing rates or by changes to the rules for claiming such that the volume of claims fell. But any changes designed to achieve a reduction should be consistent with other principles.
6. The system should provide Members with adequate resources to carry out their work in the House, including staff, office accommodation and equipment, office supplies, telecommunications facilities and web space, ensuring that these resources are procured as cost-effectively as possible. It should also recognise the costs necessarily incurred by Members normally resident outside London.
7. The system should recognise and underpin the importance of a diverse membership of the House of Lords including those who specialise in particular areas of interests or expertise as well as those who cover a wide range of business.
8. The system should be accountable – it should be linked to Members' duties and any expenses for staying away from home should be directly linked to attendance in Westminster or other travel necessary for the performance of official Parliamentary duties.
9. No member should be precluded from serving in Parliament because of their income. Accordingly a system of allowances should be such as to enable members to carry out their Parliamentary duties without having to meet costs from their own pocket that other public servants would reasonably expect to be met by their employer.

10. The system should support the inclusion of people with disabilities, both as a matter of principle, because they should not be excluded from the parliamentary process, but also because this brings the voice of disabled people into the decision-making of Parliament, making it more representative of the people it serves.
11. The system should not usurp the right of Members to themselves decide how they do their work. Members adopt a wide range of different approaches to their work and should be flexible enough to cope with this.
12. The system should not allow anyone to enrich themselves from their playing a role in the House of Lords. Members should not change their affairs to maximise their allowances.
13. The system for members' allowance declarations should be consistent with their tax declarations.
14. The system of financial support should be designed so as to avoid effective membership of the House being concentrated among only certain strands of the population (for example, the financially-independent; those living primarily in the south-east; those whose external employment fits most easily with membership of the house).

Annex 7

Sample of daily fees for part-time public sector posts

Post	Daily fee (before tax and NICs) £
Member of pay review body	300
Chairman of pay review body	350
Board member, Office of Qualifications and Examinations Regulation	300 ³¹
Independent chair of NHS Community Services body	115 ³¹
Board Advisor to Primary Care Trust	263 ³¹
Non-executive director, Hospital Trust	203 ³¹
Chair of Primary Care Trust	245 ³¹
Member, British Pharmacopoeia Commission	275
Member, Independent Parliamentary Standards Authority	400
Member, Commission on Standards in Public Life	240 ³²

Sources: Organisations' websites and posts advertised by the Appointments Commission

³¹ Daily equivalent, based on minimum number of days worked in a year

³² Not paid if member is in receipt of a salary from public funds

Annex 8

Sitting times

(extract from *Handbook on facilities and services for Members*, 2008, p.81)

This table shows the usual start time on each sitting day, and the guideline rising times agreed by the House. It is emphasised that the House may sit beyond the guideline rising times shown. The start times may also vary, for example on the last sitting day before a recess when the House usually sits at 11.00 am, beginning with oral questions.

	Usual start of sitting	Guideline rising time
Monday	2.30 pm	By 10.00 pm
Tuesday	2.30 pm	By 10.00 pm
Wednesday	3.00 pm	By 10.00 pm
Thursday	11.00 am	By 7.00 pm
Friday	10.00 am	By 3.00 pm

Annex 9

Accommodation available through the allowance

The following calculations illustrate how the allowance could cover the costs for the following accommodation options:

a) a one-bedroom flat in Pimlico;

		Annual cost (£)
Rent	305.00 pw ³⁰	15,860.00
Band D Council tax in Westminster (reduced by 10% as a second home)	618.86 pa	618.86
Utilities	100.00 pcm ³¹	1,200.00
Contents insurance & security	200.00 pa	200.00
	Total	17,878.86
	÷150 for daily rate	£119.19

b) a one-bedroom flat in a portered block on the South Bank, close to Westminster;

		Annual cost (£)
Rent	340.00 pw	17,680.00
Band D Council tax in Lambeth (reduced by 10% as a second home)	1,111.60 pa	1,111.60
Utilities	100.00 pcm	1,200.00
Contents insurance & security	200.00 pa	200.00
	Total	20,191.60
	÷150 for daily rate	£134.61

c) a two-bedroom flat in a portered block in Kennington/Oval.

		Annual cost (£)
Rent	345.00 pw	17,940.00
Band F Council tax in Lambeth (reduced by 10% as a second home)	1,605.65 pa	1,605.65
Utilities	100.00 pcm	1,200.00
Contents insurance & security	200.00 pa	200.00
	Total	20,945.65
	÷150 for daily rate	£139.64

³³ All rents taken from www.rightmove.co.uk, October 2009

³⁴ Estimate based on tenants' experience

Annex 10

End-of-year reckoning

At the end of the financial year, Members should submit bills and statements to demonstrate the actual amount spent over the year. This figure is defined as the Total Annual Actual Eligible Expenditure. The Member should be reimbursed (or asked to pay back) the difference between what was actually received during the year and the lowest of:

- Total Annual Actual Eligible Expenditure x (number of days attended / 150);
- Total Annual Actual Eligible Expenditure; and
- the number of days attended x £140.

Refunds to the House might be deducted from future payments.

In the event of there being fewer than 150 sitting days in the year, we recommend that the Member be reimbursed (or asked to pay back) the difference between what was actually received during the year and the lowest of:

- Total Annual Actual Eligible Expenditure x (number of days attended / number of sitting days);
- Total Annual Actual Eligible Expenditure; and
- 150 x £140.

For example:

Baroness X is living in a Pimlico flat and estimates her costs at the beginning of the financial year as at Annex 9a) above.

Baroness X attends for 135 days in the financial year, and claims $135 \times 119.19 = £16,090.65$.

At the end of the financial year, the utility bills for the year amount to £1600 instead of £1200 as foreseen, making her Total Annual Actual Eligible Expenditure £18,278.86 instead of £17,878.86.

The financial year had 152 sitting days.

Her revised entitlement (based on 135 days' attendance) is calculated as the lowest of:

- Total Annual Actual Eligible Expenditure x (number of days attended / 150)
→ $18,278.86 \times (135/150) = 16,450.97$;
- Total Annual Actual Eligible Expenditure
→ =18,278.86;
- and the number of days attended x £140
→ $135 \times 140 = 18,900.00$.

Her revised entitlement is therefore £16,450.97, so Baroness X is reimbursed a further $16,450.97 - 16,090.65 = £360.32$.

Annex 11

Criteria by which Members should identify their principal residence

1. Where do you spend most of your time when the House is not sitting (including weekends), in particular where do you spend more nights?
2. If you live with a spouse, partner or other family members, where are they based?
3. Where are most of your possessions?
4. Which address do you normally use for correspondence?
5. If you were prevented from attending the House, by illness or injury, for more than a week, where would you expect to stay?

The House may wish to consider further criteria, but we would recommend the first three are included as a minimum.



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