Review Body on Senior Salaries

REPORT No. 64

Review of parliamentary pay, pensions and allowances 2007

Chairman: Sir John Baker, CBE

Volume 1: Report

Cm 7270-1

£33.45 net

Review Body on Senior Salaries

REPORT No. 64

Review of parliamentary pay, pensions and allowances 2007

Chairman: Sir John Baker, CBE

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

January 2008

Volume 1: Report

Cm 7270-1 £33.45 net
Two volumes not to be sold separately

Foreword

Review Body on Senior Salaries

The Review Body on Top Salaries (TSRB) 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 and in 2001 to allow the devolved bodies direct access to the Review Body's advice.

The terms of reference are:

> *The Review Body on Senior Salaries provides independent advice to the Prime Minister, the Lord Chancellor and the Secretary of State for Defence on the remuneration of holders of judicial office; senior civil servants; senior officers of the armed forces; 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;*
>>
>> *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.

Members of the Review Body are:

Sir John Baker, CBE *Chairman*
Mark Baker, CBE
Mary Galbraith[1]
Professor David Greenaway
Mei Sim Lai, OBE, DL[1]
Mike Langley
Jim McKenna
Sir Peter North, CBE, QC
Richard Pearson[1]
Paul Williams[1]

The secretariat is provided by the Office of Manpower Economics.

24 July 2007

---

[1] Members of the Parliamentary Sub-committee, chaired by Sir John Baker

Contents

Summary and Recommendations

Introduction

1. We received a remit from the then Prime Minister in July 2006 asking us to review the pay, annual uprating mechanism and aspects of pensions and allowances of members of the House of Commons (MPs), Ministers and office holders in both the House of Commons and the House of Lords. We were also asked to review the allowances of the members of the House of Lords who do not receive a salary or pension. We submitted our report to the Prime Minister in July 2007.

2. Our last review of parliamentary pay, pensions and allowances was completed in 2004. Most of our recommendations then were accepted, but the House of Commons rejected certain proposals aimed at recognising the differing costs of employing staff in London and elsewhere, and at ensuring that there was no financial advantage or disadvantage from MPs' choice of whether to base their staff on the parliamentary estate or in their constituencies.

Our approach

3. MPs are a very diverse group with widely differing circumstances and backgrounds and they interpret their role in different ways. Their expenses on staff, offices, accommodation, travel etc. will differ depending on the location and characteristics of the constituencies they represent and how they undertake their role. We have to strike a balance between many different interests, such as flexibility of organisation for MPs, economy for the taxpayer, transparency and administrative simplicity. Our recommendations will inevitably not suit every MP – in a balanced package there will be positives and negatives.

4. We repeat and develop the principles we have applied in previous reports. In essence, we believe that pay should reflect responsibility and should be neither so low as to deter suitable candidates, nor so high as to be the primary attraction of the job. Basic pay should be the same for all MPs. The value of MPs' pensions must be taken into account in setting their pay. There should be a clear distinction between pay and expenses. MPs need to spend money to do their jobs and justified expenditure should be reimbursed subject to proper validation.

Evidence

5. We received evidence from the Commons Advisory Panel on Members' Allowances, from 94 individual MPs – about 15 per cent of the total – and from other bodies representing MPs, former MPs and MPs' staff. The issue raised most frequently by MPs who gave evidence was pay, which most argued was inadequate. However, we also received comments on many aspects of expenses and pensions. Nineteen members of the House of Lords provided written evidence. The Government sent us a memorandum with more detail on the questions it wished us to address, and background information for the review. We also received 10 submissions from members of the public.

The salaries and pensions of Members of Parliament and committee chairmen

6. We believe MPs' pay should not be set mechanistically but by a judgement based on a wide range of factors, not all of which can be readily quantified. We are not convinced that MPs' pay has fallen behind average earnings or other indicators, though this calculation depends on the base year chosen. We have looked at international pay comparisons and our findings suggest that British MPs are at least on a par with their European counterparts, though parliamentarians in the USA and some other English-speaking countries appear to earn more. However, direct comparison is difficult given the differing roles of Parliamentarians in different countries.

7. We asked consultants to compare MPs' pay with that of similarly weighted jobs in the public and private sectors. At senior levels, pay in the private sector continues to increase faster than public sector pay. The nature of MPs' work suggests that their most appropriate comparators are in the public sector. We found that MPs' total reward (including pension) is around a tenth less than the average of public sector comparators. There are factors such as job interest and status which go some way to compensating for that difference, but we believe the difference should be narrowed over the next four years in order to put MPs' pay on a sustainable basis and to address concerns that well qualified people may be deterred from a career in politics.

8. The existing mechanism for uprating MPs', Ministers' and other office holders' pay by reference to movement in the senior civil service (SCS) pay structure is no longer working because of changes in the approach to SCS pay. The Government asked us to propose a new mechanism. We suggest that MPs should henceforth receive the same increase as the average increase in SCS base pay. We therefore make three, linked recommendations on MPs' pay for the next four years:

   Recommendation 1: We recommend that for 2007 the salaries of MPs be increased by a further 1.9 per cent of the salary payable from 1 November 2006, taking the new salary to £61,820, and that this increase be backdated to 1 April 2007.

   Recommendation 2: We recommend that, instead of the existing annual uprating mechanism, the pay of MPs be uprated on 1 April each year, beginning in April 2008, by the average percentage increase in base salary of the senior civil service (SCS), or of Pay Band 1 of the SCS if that figure is identified separately.

   Recommendation 3: We recommend that for three years, beginning in April 2008, MPs' salaries be increased by £650 a year, in addition to the increase resulting from the proposed uprating mechanism, in order to achieve a more sustainable relationship between the remuneration of MPs and relevant public sector comparators.

9. In the light of these proposals we think the interval between reviews of parliamentary pay, pensions and expenses could in future be extended to four years.

   Recommendation 4: We recommend that, subject to the adoption of Recommendations 1 to 3 above, future reviews of parliamentary pay, pensions and expenditure should henceforth normally take place at four-yearly intervals (rather than every three years as at present).

10. We considered, but do not support, the suggestion that members of Select and Public Bill committees should be paid a supplement. We regard this as part of the core job of an MP. We received no evidence to support a change in the arrangements for paying committee chairmen and we recommend that their supplements be uprated in the same way as MPs' salaries.

Recommendation 5: We recommend that with effect from 1 April 2007 the salary supplements paid to chairmen of Select and Public Bill committees should be increased in April each year by the same percentage as the overall increase in the MP's salary resulting from our recommendations on MPs' pay.

11. Some MPs suggested that they should not set their own pay and there are obvious merits in this idea. It would be possible for the Commons to decide to accept without amendment the recommendations of an independent body such as the Senior Salaries Review Body. As Parliament is sovereign, it could revoke such a decision at any time subsequently. Alternatively MPs could continue to vote on their pay and expenses but with the decision taking effect only after the subsequent election, so MPs would be voting on their successors' remuneration rather than their own, and incoming MPs would know what their remuneration would be (subject to uprating) for the whole of the forthcoming parliament. We make no firm recommendation on these ideas but offer them for consideration and debate.

MPs' pensions

12. The accrual rate for MPs' pensions was increased to 1/40th of salary in 2002. MPs' contributions were increased in stages to cover the cost of the enhanced benefit. The normal contribution rate is now 10 per cent of salary and the expectation was that a further 1 per cent increase in contributions would be necessary to meet the full cost of the 1/40th accrual. However, the latest report from the Government Actuary's Department shows that no further increase is now necessary.

13. MPs who have retained pension benefits, accrued before they became MPs, may have their pensions reduced because of those benefits. The effect of this rule, no longer required by legislation, is that some MPs will receive a parliamentary pension below the level for which they are paying contributions. The cost of removing the restriction is estimated at between 3.5 and 5 per cent of payroll. The Government understandably does not wish to bear that cost, but there is no fair way of allocating it between scheme members. We therefore recommend no change to the retained benefits rule but that MPs with retained benefits should be allowed to opt for a 1/60th accrual rate with a correspondingly lower contribution rate, and that the residual cost of this option should be borne by the Exchequer.

Recommendation 6: We recommend that Parliamentary Contributory Pension Fund members with retained benefits should be allowed to opt for a 1/60th accrual rate in return for reduced contributions to be calculated by the Government Actuary's Department, with any additional costs being met by the Exchequer.

14. The Government also asked us to look at sustainable funding of the Parliamentary Contributory Pension Fund (PCPF). The PCPF is a final salary scheme with a high accrual rate and other features tailored to the particular circumstances of MPs. It is an important part of their total reward: the net value of a pension to the typical MP, after allowing for employee contributions, is some 22 per cent of salary – more than most other public sector schemes. Other public sector schemes have been renegotiated, often with a cap on employer contributions. The current underlying Government contribution to the scheme (excluding payments to amortise the accumulated deficit) is 18.1 per cent of payroll. We make two linked recommendations to ensure that the Exchequer contribution does not increase unreasonably.

Recommendation 7: We recommend that any increase or decrease in the cost of accrual for MPs in service in the PCPF should be shared equally between the Exchequer and members. We consider the following to be some of the elements excluded from the cost of accrual:

- payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund;
- changes to allow members with retained benefits to opt for a 1/60th accrual rate (i.e. the consequence of Recommendation 6); and
- changes to the assumptions about the investment return on assets.

Recommendation 8: We recommend that the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) should in principle be limited to 20 per cent of the payroll of scheme members.

15. The PCPF may not provide the best balance of contributions and benefits for MPs of different ages and patterns of service. If in future the cost of the PCPF appears likely to rise significantly, we believe there should be a major review of the scheme.

Recommendation 9: We recommend that if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual of benefits for MPs in service in the PCPF (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) would rise above 20 per cent of payroll, then there should be a major review of the Fund.

Pay and pensions of Ministers, Speakers and certain other office holders

16. The Prime Minister and Cabinet Ministers are paid substantially less than the most senior officials who report to them and well below market rates. We believe their pay fails to reflect their levels of responsibility and also limits the headroom for the pay of more junior political posts. We therefore propose a series of modest increases for Ministers staged, as for MPs, over four years. We believe the best way to achieve this, and to set relativities at the different levels, is to express total ministerial salaries by reference to the MPs' base salary.

Recommendation 10: We recommend that the salaries for the Prime Minister, Ministers and other office holders (excluding Select and Public Bill committee chairmen) in the Commons be set as ratios of the MP's salary, and that the ratios be increased in stages as set out in the table below:

Staged increases for the Prime Minister, Ministers and other office holders in the House of Commons

Post	Current Salary £	Current ratio to MP's salary	Ratio from 1 April 2007	Ratio from 1 April 2008	Ratio from 1 April 2009	Ratio from 1 April 2010
Prime Minister	188,848	3.11	3.20	3.30	3.40	3.50
Speaker, Cabinet Minister, Government Chief Whip	137,579	2.27	2.30	2.40	2.50	2.60
Leader of the Opposition	131,172	2.16	2.20	2.25	2.30	2.35
Solicitor General	127,683	2.10	2.15	2.20	2.23	2.25
Minister of State, Government Deputy Chief Whip, Opposition Chief Whip, Chairman of Ways and Means (Deputy Speaker)	100,567	1.66	1.70	1.75	1.80	1.90
First Deputy Chairman of Ways and Means (Deputy Speaker), Second Deputy Chairman of Ways and Means (Deputy Speaker)	95,736	1.58	1.62	1.66	1.70	1.75
Parliamentary Under Secretary of State	90,954	1.50	1.53	1.57	1.60	1.65
Government Whip, Assistant Government Whip, Deputy Opposition Chief Whip	86,348	1.42	1.44	1.46	1.48	1.50

Lord Speaker

17. In 2006 we recommended as an interim measure that the salary for the new post of Lord Speaker be set at the same level as that of a Cabinet Minister in the House of Lords. As part of this review, we asked our consultants to evaluate the post. They found that the role is still evolving and it is therefore difficult to assess, particularly given the possible reform of the second chamber. We conclude that the salary should remain at its current level for the time being.

    Recommendation 11: We recommend that the salary of Lord Speaker be pegged at its current rate on a 'mark time' basis until the next review of parliamentary pay and allowances or until reform of the House of Lords.

Lord Chancellor

18. Until recently the Lord Chancellor was head of the judiciary as well as Speaker of the House of Lords, and is entitled in legislation to a salary £2,500 higher than that of the Lord Chief Justice. Given that the post no longer has those functions and is now exercised by a Cabinet Minister in the House of Commons, we see no need for it to have a higher salary.

    Recommendation 12: We recommend that where the post of Lord Chancellor is held by someone who also holds another ministerial post, that person should receive only the salary for that ministerial post.

Ministers in the House of Lords

19. Ministers in the House of Lords are paid less than those in the Commons because they do not have the representative responsibilities of MPs. The salaries of Ministers in the House of Lords are likely to need overhaul following reform of the upper House, but for the time being we recommend that Ministers in the Lords receive the same percentage increases as corresponding Ministers in the Commons.

    Recommendation 13: We recommend that with effect from 1 April 2007 Ministers in the House of Lords receive the same **percentage** increase in their salaries as Ministers of the same rank in the Commons.

    Recommendation 14: We recommend that the Leader of the Opposition, Opposition Chief Whip and Chairman of Committees in the House of Lords continue to be paid the same as, respectively, a Parliamentary Under Secretary, Government Whip and Minister of State, all in the Lords. The Principal Deputy Chairman of Committees should receive the same percentage increase in salary as the Chairman of Committees.

Ministerial severance payments

20. The Government asked us to review whether there should be some provision for repayment of severance payments for Ministers when someone is reappointed to office and whether the age limit on severance payments remains appropriate.

    Recommendation 15: We recommend that:

    - where a Minister or other office holder is reappointed to a salaried government or parliamentary post within three months of leaving office, the severance payment should be reduced pro rata and the balance repaid;
    - the age restriction on ministerial severance payments should be abolished; and
    - the Prime Minister, Lord Chancellor and Speaker should be covered by the scheme if and when they cease to be entitled to their special pension arrangements.

Pensions for the Prime Minister, Speaker and Lord Chancellor

21. The Prime Minister, Speaker of the House of Commons and Lord Chancellor have special, statutory pension arrangements which entitle them to receive pensions equivalent to half of salary immediately on leaving office, regardless of age and length of service. These arrangements were intended to ensure that former holders of these offices should not need to seek further employment, and that the Lord Chancellor should not have to return to legal practice. We have examined each post separately and concluded that, for several reasons, the special arrangements are no longer justified for future incumbents of these posts.

    Recommendation 16: We recommend that the special pension arrangements in place for the Prime Minister, the Speaker of the House of Commons and the Lord Chancellor not be extended to new incumbents of these offices after the passing of the necessary legislation to end the existing arrangements. Instead those three office holders should be covered by the PCPF and arrangements for ministerial severance payments.

House of Commons expenses

22. Most of what are known as allowances for MPs are in fact mechanisms for reimbursing expenditure actually and necessarily incurred by MPs in order to do their jobs. They need to employ staff, often to provide those staff with an office, to travel, spend time in their constituencies and at Westminster, communicate with constituents etc. We believe allowances should be renamed to make as clear as possible that this is not money which augments MPs' salaries, but is expenditure necessarily incurred to do the job their constituents and the nation expect of them.

23. There is good, publicly available guidance for MPs on the propriety of expenditure ('the Green Book') and we have received no substantive evidence to suggest that MPs are abusing the system for reimbursing expenditure. However, we believe it is in MPs' own interest to continue to make the system more transparent and we put forward two recommendations aimed at aligning Commons systems with good practice elsewhere.

    Recommendation 17: We recommend that the House agree that the ceiling for reimbursement of unreceipted expenditure be set at £50 per member per month.

    Recommendation 18: We recommend that the House of Commons request the National Audit Office to audit the expenses of a representative sample of MPs each year.

Staffing

24. In line with our desire to clarify the purpose of allowances, we propose that the staffing allowances should be renamed.

    Recommendation 19: We recommend that the Staffing Allowance be renamed Staffing Expenditure, and Temporary Secretarial Allowance be renamed Temporary Secretarial Expenditure.

25. We recognise that the amount of casework has increased for many MPs and recommend that MPs should be able, if necessary, to employ the equivalent of an additional half-time caseworker.

    Recommendation 20: We recommend that the Staffing Expenditure ceiling should increase to allow MPs to employ up to 3.5 full-time (or equivalent) members of staff.

26. Most organisations pay London-based staff more than those working elsewhere, so we recommend a higher ceiling on staffing expenditure where staff are based in London.

    Recommendation 21: We recommend that the ceiling on Staffing Expenditure for the equivalent of 3.5 full-time staff where all those staff are based **outside London** should be £96,630.

    Recommendation 22: We recommend that the ceiling on Staffing Expenditure for the equivalent of 3.5 full-time staff should be increased by £1,720 for each full-time equivalent member of staff based **in London**, up to a maximum of £102,650 where all staff are based in London.

Expenditure on offices

27. The cost of renting office space varies widely across the country. The current limit on Incidental Expenses Provision in practice makes it difficult or impossible for MPs in high cost areas to afford offices in their constituencies. We therefore recommend a completely new approach to funding office rents and a consequent restructuring of other expenditure.

Recommendation 23: We recommend that office and 'surgery' lease or rental costs should be met in full up to a maximum area of 800 square feet, this area to be reduced by 100 square feet for each member of an MP's staff who is based on the parliamentary estate. Before renting or leasing premises an MP must obtain a certificate from an independent chartered surveyor stating that the premises are suitable for the purpose and that the cost is reasonable in relation to typical office premises in the constituency.

28. Some MPs choose to base some or all of their staff on the parliamentary estate rather than in their constituencies. Those MPs incur lower or no expenditure for constituency offices and we propose that their expenditure ceilings should be reduced accordingly.

Recommendation 24: We recommend that Incidental Expenses Provision should be renamed Other Office Expenditure and that the ceiling be reduced by £2,500 for each member of an MP's staff with a workstation on the parliamentary estate.

29. We propose a reduction in the level of the replacement for Incidental Expenses Provision (IEP) to take account of our proposal that office rents should now be paid in full, and of the new provision for expenditure on communications, which could previously be funded, at a lower level, from IEP.

Recommendation 25: We recommend that the ceiling for Other Office Expenditure (before any reduction for staff based on the parliamentary estate) should be £13,839.

Communications Expenditure

30. We have examined the new Communications Allowance and we believe it is broadly sound.

Recommendation 26: We recommend that the Communications Allowance be renamed Communications Expenditure and be confirmed at £10,000 a year. It should be uprated in April each year in line with movement in RPIX.

Expenditure on travel and accommodation

31. We received a number of representations from MPs on the car mileage allowance, mostly to the effect that it left them out of pocket, and we considered this with assistance from our consultants. We found that the HM Revenue and Customs mileage rates which are applied to MPs are widely used in the public and private sectors. On balance, and bearing in mind that the cost of MPs' travel between home and work is reimbursed and normally not taxed, we recommend no change to the current rates.

32. The one aspect of travel expenses where we think change is justified is reimbursement of journeys for spouses and civil partners. We think these rules should be aligned with the pension rules.

Recommendation 27: We recommend that partners of MPs who are named in the PCPF as sole beneficiaries should be entitled to the same travel arrangements available to spouses and civil partners.

Accommodation costs

33. Because of their pattern of work, most MPs need regular accommodation in two places – in their constituency and near Westminster – and many choose to meet this need by owning two homes. Others rent accommodation or stay in hotels. The Additional Costs Allowance (ACA) reimburses MPs for expenditure wholly, exclusively and necessarily incurred when staying overnight away from their main home for the purpose of performing parliamentary duties. We are satisfied that ACA is necessary and set at an

appropriate level, but believe it should be renamed in line with our recommendations on all expenses and be subject to the limit on reimbursement of unreceipted expenditure set out in Recommendation 17 above.

Recommendation 28: We recommend that Additional Costs Allowance should remain at its current rate and should be renamed Personal Accommodation Expenditure.

34. However, we are also aware that at times the ACA may have been seen by MPs as a means of supplementing their pay, and although it is now properly treated as a reimbursement of costs, it is still regarded by some as ambiguous. We therefore believe a fuller review of ACA might be appropriate.

London Supplement

35. MPs representing specified inner London constituencies are not eligible for ACA but receive a London supplement, currently £2,812. MPs for outer London constituencies may choose to receive the supplement or to claim ACA. Evidence suggests that the typical supplement paid by London employers is between £3,000 and £4,000 and we recommend that the supplement for London MPs be increased to £3,500.

Recommendation 29: We recommend that the London Supplement be increased to £3,500 and henceforth adjusted in line with the Public Sector Average Earnings Index in April each year.

36. However, the division of London constituencies into inner and outer zones appears somewhat outdated and may not take account of improved public transport in London, nor of the modernisation of the Commons' sitting hours. We recommend that the House review whether some constituencies currently in the outer zone should be reclassified to the inner zone and attract only the London Supplement. This is an additional reason for believing that a review of ACA may be indicated.

Compensation on leaving office

37. MPs leaving the Commons at a general election are entitled to a Resettlement Grant equivalent to between 50 and 100 per cent of annual salary, depending on age and length of service. We were asked to consider whether the current rules are consistent with the spirit of legislation on age discrimination. We consider the purpose of the grant is analogous to redundancy payments and we recommend that it should no longer be paid to MPs who retire or resign. We also recommend removing age as an element in the calculation of the grant.

Recommendation 30: We recommend that, with effect from the general election after next, Resettlement Grant should be paid at a rate of one month's salary for each year of service as an MP, up to a maximum of nine months' salary, to MPs who lose their seats at a general election or whose seats disappear as a result of boundary changes.

38. The Winding Up Allowance is available for six months following an MP's departure from the House after a general election, to meet any outstanding staff, office and travel costs such as staff redundancy payments and termination of office leases. The allowance should be renamed and the method of calculation needs revision because of the changes we recommend to other catalogues of expenditure.

Recommendation 31: We recommend that the Winding Up Allowance be renamed Winding Up Expenditure and that, after the next general election, the ceiling be calculated as one third of the relevant annual Staffing Expenditure, plus one third of the limit on Other Office Expenditure and one third of the actual annual office rent or lease claimed by each MP concerned.

House of Lords allowances

39. The Government published a white paper in February 2007 on reform of the House of Lords and the Commons subsequently voted in principle in favour of a fully-elected second chamber. The white paper states that, once the principles of reform have been settled, we shall be called upon to consider and recommend on salaries, pensions and allowances. In this review, therefore, we essentially continue to mark time.

40. We heard complaints that members of the House of Lords are not able to claim the daily attendance allowance when they are away from Westminster on parliamentary business or as part of an official delegation.

    Recommendation 32: We recommend that the House of Lords consider whether the current definition of parliamentary business for the purpose of subsistence allowances covers all activities which are carried out wholly, necessarily and exclusively in the course of parliamentary duties.

41. The issue of journey entitlements for long-term partners who are not spouses or civil partners arises in the Lords as it does in the Commons, and we recommend an analogous response although the Lords do not have a pension scheme on which to base the identification of partners.

    Recommendation 33: We recommend that Spouses', Civil Partners' and Children's Travel entitlement be extended to include a named partner where a member does not have a spouse or civil partner.

42. We found dissatisfaction with the level and quality of IT support for members of the House of Lords.

    Recommendation 34: We recommend that the House authorities review the IT support that is provided to members.

The costs of our recommendations

43. We have considered the affordability of our proposals, as we are required to do. Our proposals in this report are designed as a package with some increases in expenditure ceilings – e.g. for staffing, offset by reductions elsewhere – for example to take account of the new funding for communications. The pay bill for MPs in 2006-07 was approximately £54 million, including ERNIC and employer's pension contributions. We estimate that our proposals on MPs' pay will add £1.04 million to that figure in 2007-08.

44. Only one of our proposals on MPs' pensions has any direct effect on costs: allowing MPs with retained benefits, whose pensions will consequently be reduced by the value of those benefits, to contribute at a 1/60th accrual rate. We estimate that this is likely to cost just under £0.6 million or about 1.1 per cent of the total pay bill (including employer's contributions).

45. We estimate that the current total paybill for Ministers and other office holders (excluding the MPs' salaries where relevant) is currently some £8.25 million. Our proposals would add some £0.49 million in 2007-08.

46. The cost of our recommendations on MPs' expenditure will depend on a variety of factors, such as how many MPs increase the number of staff they employ up to the proposed new maximum of 3.5 full-time equivalents. Currently 87 per cent of MPs

employ three or more staff and the average MP employs the equivalent of 2.9 full-time staff. We estimate that 200 MPs will employ the equivalent of an extra half-time case worker. In a full year this could cost the equivalent of £2.63 million after allowing for ERNIC and pension contributions.

47. Our recommendation on the funding of offices is designed to enable some MPs to rent offices in their constituencies who currently cannot afford to do so because of the ceiling on Incidental Expenses Provision. We estimate that in consequence the average rental paid by an MP may rise from £5,000 to £6,000. On this basis, the additional cost in a full year would be £0.65 million.

48. Some of our recommendations will result in reductions in costs, for example removing the £2,500 currently in the Incidental Expenses Provision for communications should reduce expenditure by £1.62 million assuming all MPs use the current provision. We also recommend reducing Other Office Expenditure (the replacement for IEP) and the maximum size of constituency office where an MP has staff based on the parliamentary estate. We estimate these recommendations could result in a reduction of over £2 million a year in expenditure on the assumption that the average MP has 1.33 staff based on the parliamentary estate.

49. Taking all these changes to expenditure together, and allowing for an additional £0.06 million of expenditure as a result of the recommendation to extend travel entitlements to long-term partners, we estimate that the effect of our recommendations on the total amount of MPs' expenditure will be broadly neutral.

50. We believe this is an affordable package of adjustments to pay, pensions and allowable expenditure, justified by all the evidence we have considered. We judge it strikes a fair balance between the interests of MPs, Ministers, other office holders, the Government and the taxpayer. We invite all the relevant parties to remember that, for the fair balance to be maintained, our recommendations are intended to be taken as a package, rather than as a menu for selection.

Chapter 1

Introduction

Introduction

1.1 This is our twenty-first report covering aspects of pay, pensions and allowances of Ministers of the Crown and members of the House of Commons and the House of Lords. In our 1996 report we recommended that a mechanism should be introduced for adjusting the salaries of MPs, Ministers and other paid office holders annually, in line with the movement of the mid-points of senior civil service pay bands. We also recommended that there should be an automatic review of parliamentary pay levels every three years, starting in 2000. This is the third such review.

The remit for this review

1.2 The Prime Minister wrote to the chairman of the Review Body on Senior Salaries (SSRB) on 24 July 2006 to ask us to carry out this latest review. A copy of his letter is at Appendix A. The Prime Minister specifically asked us to consider the following points:

- the salaries of Members of the House of Commons taking into account the benefits of the Parliamentary Pension Scheme;
- the salaries of Ministers and other office holders, including those with additional responsibilities in Parliament, and the operation of severance pay;
- aspects of the benefits and funding of the Parliamentary Contributory Pension Fund;
- an appropriate approach to the annual increase to parliamentary salaries between triennial reviews to replace the automatic link to the senior civil service given the changing recruitment and retention strategy for senior staff;
- the rate of allowances for Members of the House of Commons, including eligibility for the Additional Costs Allowance and the London Supplement, and the operation of the Resettlement Grant in the light of forthcoming age discrimination legislation;
- the rate of Peers' expense allowances;
- the extension to unmarried partners of eligibility to spouses' travel costs, and to cover travel to devolved assemblies for Scottish, Welsh and Northern Ireland MPs; and
- the adequacy of the current provision of IT equipment for Members both in the House of Commons and in their constituencies.

Our last report

1.3 Our last report on parliamentary pay and allowances was published in 2004[1]. The main recommendations in that report were:

- there should be no increase in the salaries of MPs, Ministers and other office-holders in 2004-5 beyond the 2 per cent increase from 1 April 2004 that had already been awarded;

---

1 Review of Parliamentary Pay and Allowances, Cm 6354, October 2004

- the contribution rate for those MPs who had opted for the 1/40th accrual rate should be increased by 1 per cent, to 10 per cent, and the Trustees of the Parliamentary Contributory Pension Fund should decide what action to take on the recommendations outstanding from our 2001 report[2];
- the Staffing Allowance should be increased to a base level of £72,000, rising to a maximum of £80,460, according to the number of full-time equivalent members of staff based in London. The base level and maximum should be increased annually in line with the Average Earnings Index starting on 1 April 2005 and the higher pay for London-based staff should be reflected in their pay ranges;
- the Incidental Expenses Provision (IEP) should be increased to a maximum of £27,500 but the amount that may be claimed by MPs should be abated by £7,500 for each permanent workstation occupied by their staff on the Parliamentary Estate. The maximum amount of IEP should be increased annually in line with the Retail Prices Index starting on 1 April 2005. The House authorities should draw up detailed headings for recording expenditure reimbursed under IEP;
- the level of IT provision should be increased so that each MP has access to one fixed workstation and one laptop plus up to three further workstations for staff and a heavy-duty printer in both Westminster and the constituency. The level of IT support in constituencies should be improved to that offered on the parliamentary estate;
- the London Supplement should be increased to £2,500 and thereafter annually in line with the Average Earnings Index from 1 April 2005. In future Ministers should be allowed to claim the London Supplement only if they do not claim the Additional Costs Allowance;
- the car mileage allowance for members of both Houses should be brought into line with the approved Inland Revenue (now HM Revenue and Customs) rates of 40p per mile up to 10,000 miles and 25p per mile thereafter, and should be maintained in line with the approved rates;
- the Resettlement Grant should be reviewed after the next General Election (which took place in 2005);
- members of the House of Lords who are away on mandated parliamentary business should be entitled to claim up to two-thirds of the night subsistence allowance, plus reimbursement of actual travel and hotel costs, for each day of absence from the House;
- for members of the House of Lords the day subsistence allowance should be increased to a maximum of £75 per day; the night subsistence allowance be increased to a maximum of £150 and the office costs allowance should be increased to a maximum of £65 per day. All three should then be increased annually in line with the Retail Prices Index from 1 August 2005;
- members of the House of Lords should be entitled to claim reimbursement of six validated return journeys per year between home and London by their spouse and each of the children up to the age of 18.

All of the above points were accepted with the exception of:

- the third, where MPs voted to set the ceiling for the Staffing Allowance for **all** their staff, wherever they work, at the higher rate which we had calculated to be justified only for staff employed in London; and

---

[2] Review of the Parliamentary Pension Scheme, Cm 4996, March 2001

- the fourth, where MPs rejected a higher increase to IEP subject to abatements for staff based on the parliamentary estate.

The structure of this report

1.4 We have divided this report into seven chapters. This introduction sets the overall context. Chapter 2 outlines the evidence we have considered. Chapter 3 deals with pay and pensions for MPs. Chapter 4 is concerned with pay and pensions of Ministers and some other office holders. Chapter 5 is about MPs' allowances and expenses and Chapter 6 discusses allowances for members of the House of Lords. Finally, Chapter 7 gives a summary of the costs of our proposals in the light of the overall balance we have sought to achieve between the interests of parliamentarians and of the taxpayer.

Our approach for members of the House of Commons

1.5 The 646 members of the House of Commons (MPs) are all entitled to the same basic salary of £60,675 (as of 1 April 2007) once they have taken the oath. Ministers (including whips), the Leader of the Opposition and two Opposition whips, the Speaker, certain other parliamentary office holders, Select committee chairmen and members of the Chairmen's Panel (Public Bill committee chairmen) all receive additions to their salaries. We estimate there are now 166 such posts (the number may vary, e.g. depending on the number of Ministers in the House of Lords) each of which is awarded a salary consisting of the basic MP's pay plus a supplementary amount for the additional responsibility. The precise amounts for each post are set out in Appendix B. This leaves 475 MPs who receive the basic salary alone. (Five Sinn Fein MPs have not taken the oath and therefore do not receive the salary although they are able to claim expenses.) Of course some MPs are able to earn additional amounts through activities outside the House and those earnings are declared in the Register of Members' Interests, but we have not sought to take them into account. We recognise that many MPs do not have any significant additional earnings and in any case it is one of our long-standing principles (see paragraph 1.20 below) that those who choose to make Parliament a full-time career should be adequately rewarded to reflect their responsibilities and not their personal circumstances.

1.6 MPs may also claim various allowances and reimbursement of expenditure to cover costs incurred in the course of their official duties and activities. These allowances cover, for example, travel within constituencies and between constituencies and Westminster, expenditure on maintaining an office in the constituency, the costs of employing staff and the additional costs of a second home either near the Palace of Westminster or in the constituency. Full details of current allowances are at Appendix B.

1.7 MPs are eligible to be members of the Parliamentary Contributory Pension Fund and all, with the exception of Sinn Fein MPs, currently are. The principal conditions and benefits of the scheme are set out in Chapter 3, with fuller details in volume 2 of this report.

The problem of variety

1.8 The task of reviewing and making recommendations on MPs' pay, pensions and allowances is complicated. MPs are not a homogeneous group. They are office holders, not employees, and, because Parliament is sovereign, they have the power to determine their own terms and conditions. They have an unusual pattern of work in that they are effectively required to be in central London for three or four nights a week during over 30 weeks of the year (more in the case of Ministers), although most MPs have homes in their constituencies. In addition, their circumstances differ widely (by geography, type of constituency, role in Parliament etc.) and they have – and insist on – an unusual degree of freedom in how they organise their work and priorities. No two will see or do the job in exactly the same way, and no two will have exactly the same pattern of expenditure when it comes to employing and deploying staff, travelling, occupying office space, and communicating with constituents. For example:

- Some MPs give greater weight to their work as legislators and others to their constituency casework.
- Many MPs see the job as full-time; others continue outside occupations alongside their role as MPs.
- The volume of MPs' casework varies widely – for example, constituencies with a large migrant population will tend to have a considerable load of immigration-related casework.
- For some MPs, those in northern Scotland, Northern Ireland or the far south west for example, travel to and from Westminster can be time-consuming and expensive. There is an obvious contrast with an MP for an inner-London constituency.
- MPs from outside London will often need a second home (whether owned or rented) or other accommodation in London. Some MPs may live in London and have second homes in their constituencies. Others make use of hotel accommodation.
- A widespread rural constituency will give rise to a different pattern of travel and costs from a compact urban one.
- Devolution means that some matters are now within the remit of members of the Scottish Parliament, the National Assembly for Wales or the Northern Ireland Assembly, whereas English MPs continue to deal with the full range of constituency issues.
- MPs vary by background, previous careers and time spent in the Commons. They have very different experience and skills. They accordingly have different expectations as to their remuneration, although this cannot be a principle for setting that remuneration.

1.9 One MP's expenditure is therefore bound to differ from another's. MPs who have to travel further either between their constituencies and Westminster or within their constituencies will inevitably spend more on travel than some other MPs. Similarly, MPs with offices in high cost areas such as central London will incur higher costs for office rents and employing staff. It is misleading to suggest, as some of the media do from time to time, that an MP who spends more than other colleagues automatically represents poor value for money. There are many perfectly legitimate and understandable reasons for expenses to vary substantially, and this complicates our task in setting reasonable ceilings on MPs' permitted expenditure.

1.10 In short, there is no such thing as a typical MP. But the House of Commons has in the past seen it as a matter of principle that all MPs should be paid the same, except for additional responsibilities such as holding ministerial office, certain Opposition posts or chairing a Select or Public Bill committee. Although we heard a few suggestions during the latest review that there might be some relaxation of this principle, for example by increasing pay for length of service, we received no concrete proposals as to how this might be done. Our perception from the oral and written evidence we have received is that a large majority of MPs remain of the view that the salary should continue to be the same for all MPs who are not office holders. We also recognise that it is not remotely practical to tailor separate pay and allowance packages for 646 MPs individually or even in various sub-groups.

1.11 We therefore make the simplifying assumption that there is such a thing as an average MP for pay purposes, and that MPs' reasonable, though differing, expenditure on staff, travel, accommodation and communications can be regulated under a common system of reimbursement. However, inevitably such a system will not give a perfect fit in all circumstances.

1.12 Some observers are quick to conclude that an MP is paid too much, particularly when looking at the headline total of salary plus expenses. Others feel that MPs' pay is not enough to recognise the burden of the job or attract the best people, particularly when compared with the salaries of, for example, business leaders. We have found in taking evidence that MPs themselves have widely differing views on this fundamental point. Some feel they are very well paid, have more than adequate allowances and could not justify any increase to their constituents who on average are paid only around a third as much. Others feel they deserve more for both the quality and quantity of their work. Some told us their allowances are inadequate and they have to meet some expenditure out of their own pockets.

Allowances

1.13 It is possible that the public perception of MPs' earnings is distorted by the use of the term 'allowances'. An allowance may, wrongly in this case, be thought to mean an amount that is allocated regardless of actual expenditure – indeed a few MPs appear to interpret the term 'allowances' in this way. We therefore take this opportunity to emphasise that MPs' allowances (for additional costs, i.e. second homes or other means of working in two places, for staff and for winding-up on leaving office), together with the provisions for other expenditure e.g. on travel and office accommodation, are designed to meet or reimburse actual expenditure necessarily incurred in the course of MPs' work. With the exception of the Resettlement Grant and London Supplement (which are more in the nature of salary), they are not automatic entitlements. They can be claimed only to the extent that money is spent for permitted purposes and in most cases are subject to an annual ceiling. Such ceilings are designed to accommodate the MPs with the greatest needs but many MPs are expected to spend less than the maximum, and the figures tend to show that this is indeed the case. For example, over 35 per cent of MPs claim less than 81 per cent of the maximum Additional Cost Allowance. The rules governing expenditure are for the most part strict and designed to ensure that the money is properly spent. We return to this point in Chapter 5 below.

1.14 Some MPs strongly prefer the term 'allowances' to 'expenses' because they consider the latter has acquired connotations of waste or abuse. It is not for us to impose terminology but, as noted above, we think the public may misconstrue 'allowance' and our preference is to talk of expenses. Whatever the name, it is in MPs' own interest to make clear that the system is one for the reimbursement of necessary and verified expenditure, without which MPs could not do what their constituents or the nation expect of them.

1.15 We have observed that the nomenclature for different categories of expenditure has evolved over many decades. The result is inconsistent terms, such as "Additional Costs Allowance" and "Incidental Expenses Provision", that do not immediately and clearly reveal the purpose and scope of a particular category of reimbursement. Therefore in subsequent chapters we propose renaming the various allowances and provisions to try to underline both the nature of the expenditure concerned and the fact that the system is one of reimbursement of necessary costs.

Dealing with the evidence

1.16 The SSRB's approach is evidential, taking each aspect separately. As regards pay, we can home in on the mythical average MP by looking not at how hard individual MPs work – their hours diverge widely and, as already said, so do casework volumes – but by focusing on their **responsibilities**. There are well established methods for evaluating and comparing jobs by reference to the responsibilities of the post, the skills needed, the authority exercised etc. The job weights of a representative sample of MPs – chosen to give a cross section of parties, regions etc. – can be compared with job weights in other professions in both public and private sectors. We have used consultants – in this case PricewaterhouseCoopers (PwC) – to evaluate MPs' job weights, identify similarly weighted jobs elsewhere and advise us on the pay range for comparable jobs. This indicates the broad range within which an MP's pay could be expected to lie, not a single answer. PwC's advice to us is included in volume 2 of this report.

1.17 We have then looked at other relevant information:

- MPs' pensions and how their contributions and benefits compare in value with other pension schemes (we used pension specialists Watson Wyatt to advise us on this and their contribution is also in Volume 2);
- evidence provided by the Government on specific aspects of the review, the importance of total reward and on the economic and fiscal context, including inflation and recent movements in pay levels;
- written and oral evidence provided by MPs themselves, including the Leader of the House, and by representatives of their staff;
- written evidence from members of the public;
- evidence from representatives of some political parties about the recruitment and retention of MPs; and
- what Parliamentarians are paid in other countries.

1.18 We have weighed all this evidence, not all of which pointed in the same direction, in reaching our pay recommendations. But MPs' pay should not be determined mechanistically. Historically, MPs have been paid less than those in similarly weighted positions. In 2004 when we last looked at MPs' basic pay, the gap between private and public sector comparators was, broadly, 15 per cent. There are many possible explanations for this gap. Most obviously, there is no shortage of people willing to become MPs, which in itself would normally suggest that the pay is at least adequate. There are many non-financial attractions of the job, such as the opportunity to serve the public, influence, the prospect of higher political office and the status and cachet of being one of an exclusive group of elected representatives. Even when there has been recognition, by the SSRB or by MPs themselves, that their pay was falling behind, there were often timing or political considerations which precluded catching up, for example with MPs reluctant to contemplate a significant pay increase in the approach to a general election. Governments have often sought to hold down increases, including those recommended by the SSRB, for various reasons but especially to send signals to other pay negotiators. Nevertheless, the ultimate decision on MPs' pay is taken by MPs themselves.

1.19 As regards MPs' expenditure, we have already noted the inevitably wide ranges of costs MPs may legitimately incur. Our job is to evaluate what the hypothetical average MP needs by way of support staff, office space, travel, IT equipment, security and so on to do a proper job, and then to price those needs to take account of often widely differing circumstances. We have taken evidence, mainly from MPs themselves, on the needs and then reviewed evidence including research by our consultants on staff costs, office costs etc. across the nation to calculate the maximum expenditures that we consider an MP might reasonably incur to carry out his or her functions. These maxima are also defined and designed so as to protect the taxpayer. We recognise, however, and continue to point out, that no MP is obliged to spend up to the maximum of each allowance. The ultimate protection for the taxpayer is first that most claims for reimbursement are paid by the House authorities only on the provision of evidence by the MP that expenditure has been properly incurred within the detailed rules that apply, and then, secondly, that information on that expenditure is published in sufficient detail for the public to see what costs each MP has incurred. We welcome and encourage increasing openness about MPs' actual expenditure because we believe that is the best way of countering misconceptions and misrepresentation.

Principles

1.20 In our last report on the review of Parliamentary Pay and Allowances[3] we set out the following principles at paragraphs 2.6 and 2.7:

"2.6 The 1996 Report set out the general principles applied by the Review Body in determining pay levels. In its evidence to us the Government commented that these principles remained a good basis for determining parliamentary pay and allowances. We consider they remain relevant, and have applied them again in this review. They are:

- *Pay should not be so low as to deter suitable candidates, or so high as to make pay the primary attraction of the job;*
- *Pay should reflect levels of responsibility rather than workload;*
- *Whereas those with outside interests should not be deterred from entering Parliament, those who choose to make Parliament a full-time career should be adequately rewarded to reflect their responsibilities;*
- *Pay should not be augmented in an attempt to compensate MPs for job insecurity, which is not unique to MPs;*
- *The basic parliamentary salary should continue to be the same for all MPs;*
- *There should be no pay progression linked to length of service; and*
- *A clear distinction must be made between salary and reimbursement of expenses.*

2.7 To this list we would add one further principle, to which the new disclosure rules, to be implemented from October 2004, will help give effect:

- *Claims for expenses should be appropriately validated, and their reimbursement should be transparent."*

1.21 The principles on **pay** seem fundamentally sound and we see no need to change them although we should make clear that we take account of the value of MPs' pensions in comparing the remuneration of MPs with that of other workers. This is good and normal practice in assessing remuneration and we already do it for our other remit groups (senior civil servants, the judiciary and senior military officers).

[3] Review of Parliamentary Pay and Allowances, Cm 6354, October 2004

1.22 On reflection we believe the principles on **expenditure** should be expanded and clarified as follows:

- expenditure incurred wholly, necessarily and exclusively on parliamentary duties should be reimbursed subject to reasonable limits (ceilings, not entitlements); and
- claims for reimbursement of expenditure should be appropriately substantiated.

We seek to apply these principles in the following chapters.

1.23 We believe it is in MPs' own interests to be open about the amount claimed, in order to allay any suspicion of abuse of the system and to demonstrate to taxpayers that their money is spent properly. We take this opportunity to emphasise that we have received no direct evidence to suggest that there is currently abuse by MPs of the allowances system. We commend the clarity and rigour of the rules and guidance set by the House Department of Finance and Administration in the so-called Green Book. We are pleased to note that the text is available online[4] so that the public can see the conditions attaching to MPs' allowable expenditure.

Our approach for Ministers and paid Opposition office holders

1.24 We have noted repeatedly in previous reports that the salaries of Ministers and other paid office holders are lower than those of comparable workers in the public and especially the private sectors, and indeed significantly lower in the case of more senior roles. This is a pattern which appears to be common throughout the Western world. We looked at salaries of heads of government in a number of EU and English-speaking countries – see Appendix D – and found that all were surprisingly low. Only the US President (who is of course also head of state) is paid substantially more than the British Prime Minister, although precise comparisons are very difficult because of differing roles, tax, expenses and pensions regimes.

1.25 The pay of Cabinet Ministers has been held down over many years for political reasons. This not only leads to the pay of Cabinet Ministers not reflecting their level of responsibility by a substantial margin but also has the effect of limiting the headroom for the pay of more junior political posts. In Chapter 4 we make proposals to address this problem.

Allowances for members of the House of Lords

1.26 In our reports in 2001 and 2004 we concluded that it was too early to consider fundamental change to the structure of allowances in the House of Lords, pending reform of the second chamber. That remains the case. However, the Government published a white paper in February 2007[5] and the Commons subsequently voted in principle in favour of a fully-elected second chamber. The white paper states that, once the principles of reform have been settled, we shall be called upon to consider and recommend on salaries, pensions and allowances. In this review, therefore, we essentially continue to mark time and await a specific remit on the issue. At first sight, the current system of flat rate allowances that are neither salary nor reflective of actual costs incurred seems unlikely to be what is needed for an elected second chamber, but we cannot yet anticipate what might be an appropriate system of remuneration and reimbursement of expenses.

---

[4] http://www.parliament.uk/documents/upload/HofCpsap.pdf
[5] The House of Lords: Reform, Cm 7027, February 2007

Chapter 2

Evidence

Evidence

2.1 When the report of our last review of parliamentary pay and allowances was published and debated in the House of Commons, some MPs complained that they had not been sufficiently involved during the review process and that certain SSRB recommendations did not take account of their views. We were therefore determined that all MPs should be fully aware of this latest review and able to contribute to it.

2.2 For this review, following the suggestion of the Speaker, we have worked closely with the House of Commons Advisory Panel on Members' Allowances on the process of the Review. We consulted the Advisory Panel at the outset on the process we envisaged for the review and during and after the evidence-gathering stages. The Advisory Panel also submitted substantial written evidence and we understood this to reflect the views of many MPs, not simply the members of the Panel. We are also particularly grateful to the Chairman of the Trustees of the Parliamentary Contributory Pension Fund for his contribution on pension matters. In addition we wrote to all MPs (and Peers) to invite written evidence and 90 MPs (out of a total of 646) and 19 Peers (out of 731) responded. Some of the MPs who wrote to us also gave oral evidence and a few MPs chose to provide oral evidence only bringing the total of individual MPs giving evidence to 94 (15 per cent of the total). Included in the responses were submissions on behalf of some representative bodies such as the 1922 Committee and the London Group of Labour MPs in the House of Commons. Whilst the number of individual MPs who chose to give us their views was thus gratifyingly larger than three years ago, it remains a small percentage of the House and that has to be taken into account in terms of the weight to be given to those views. We believe that in part this reflects the willingness of some MPs to let others, e.g. the Advisory Panel, speak for them. Others, however, were reluctant to comment publicly on their own pay and allowances. The issues raised by those MPs who did respond are listed below:

Table 2.1: **Topics of oral and written evidence**

Topic	**Instances of MPs providing evidence**
Pay	72
Allowances:	
Incidental Expenses Provision	44
Travel Allowances	38
Staffing Allowance	36
Additional Costs Allowance	26
Resettlement Grant	8
London Supplement	6
Communications Allowance	5
Winding Up Allowance	3
Pensions	13
Other issues:	
Workload	38
IT provision	10
Misperception of allowances and expenses as additional elements of salary	6

2.3 As can be seen, the issue raised most frequently by individual MPs who responded was pay. Many of those MPs argued strongly in written and oral evidence that pay had not kept up with comparators in the public and private sectors and a total of 43 MPs believed that pay levels should increase. Several MPs voiced concern that, while there was no shortage yet of good candidates seeking election to the Commons, people in the professional middle income range (e.g. £60,000 to £100,000 a year) could be deterred from standing for Parliament by the salary and lack of pay progression. They argued that if this were the case, it could lead to MPs being drawn predominantly from occupations earning less than £60,000 a year and from those with substantial capital or savings from previous, highly paid employment who could afford to take a substantial cut in salary. This could have implications for the composition of the House.

2.4 Some MPs – more than we have found in earlier exercises – also felt that they should not vote on their own salary levels. Although Parliament is sovereign, this could be achieved by the Commons passing a resolution to accept automatically our recommendations on MPs' pay, pensions and allowances. The Commons could of course amend or repeal such a resolution at any time, since a Parliament cannot bind itself or its successors, but while it was in force such a resolution would remove the need for any votes on our recommendations.

2.5 Some three-quarters of the MPs who responded mentioned the structure and level of allowances. The allowances most frequently mentioned were Incidental Expenses Provision (IEP), travel allowances, staffing allowance and Additional Costs Allowance (ACA).

2.6 A significant number of MPs who gave evidence to us were concerned about the increasing workload (discussed by 38 MPs). This was partly, they said, as a result of ever increasing numbers of individual constituents seeking the assistance of their MPs with issues such as immigration, housing and child support. We also heard that this was particularly but not exclusively a problem for MPs with inner city constituencies. Many MPs also noted that greater use of e-mail is adding substantially to the volume of communications from constituents who now also expect a faster response.

2.7 MPs with London constituencies, particularly if they were newly elected, reported difficulties with the start up costs of running an office and some of those in favour of a review of IEP suggested that there could be separate financial provision for setting up and running constituency offices.

2.8 We received written and oral evidence from the Chairman of the House Committee on Standards and Privileges on behalf of the committee, and from the Parliamentary Commissioner for Standards. They were concerned with how the structure and level of allowances are perceived and the effect that this could have on the reputation of the House. They encouraged us to ensure that the purpose of allowances was made as clear as possible and to have regard to best practice elsewhere.

2.9 In addition, we received written and oral evidence from the Association of Former Members of Parliament. The Association made a number of points to us about the pension scheme and in particular their desire for better representation of pensioners on the scheme's board of trustees. We discuss these points in Chapter 3 on MPs' pay and pensions.

2.10 The TGWU Parliamentary Staff Branch and the Secretaries' and Assistants' Council provided written and oral evidence. Their main points were that:

- the salary levels did not recognise the importance of the work;
- increasing government legislation had led to greater demands being made on caseworkers such as the requirement for more depth of knowledge of immigration matters;
- the number of interns had significantly increased in recent years and it is important that there should be a balance between interns and those who were paid or carrying out work experience;
- staffing levels needed to increase in some areas where there had been an increase in casework, particularly in those areas where there was no other agency to deal with the work; and
- they claimed that some MPs did not award their staff annual pay increases despite the indexation of the staff allowance.

2.11 The Liberal Democrat Staff Group submitted written evidence making similar points and supporting several proposals made by the TGWU. We also received evidence from the Chairman of the Parliamentary Resources Unit which is a pooled research facility funded from MPs' allowances.

2.12 The Government provided evidence on pay, allowances and the Parliamentary Contributory Pension Fund (PCPF) as well as general economic evidence. It invited us to recommend a new, more appropriate mechanism for uprating parliamentary and ministerial salaries, to replace the current linkage with movement of the mid-points of senior civil service pay bands. The Government suggested that the new mechanism should take effect from April 2008 and take account of the Government's overall approach to public sector pay policy. The Government also asked us to consider whether further adjustments are required to MPs' salaries, to take effect from 1 April 2007. The Government is increasingly placing emphasis on total reward and it asked us to take into account MPs' pension benefits when considering their salary. It also asked us to examine various aspects of MPs' allowances and expenses, as well as some features of the PCPF. The then Leader of the House also gave oral evidence drawing on his long experience in the House and we are grateful for his insights.

2.13 In its economic evidence the Government drew attention to the need for pay settlements to be compliant with the Government's 2 per cent inflation target (as measured by the Consumer Price Indices (CPI)) and for pay restraint in the public sector. They were concerned about signals given to other pay negotiations.

2.14 In addition, we received 10 submissions from members of the public. All of these concerned pay issues, generally arguing for no increases in MPs' pay, and one also discussed pensions and the level of allowances. Overall we received a good response to our request for evidence and we would like to thank all those who took the time and trouble to write or speak to us. Copies of the written evidence, other than that submitted in confidence, may be found at http://www.ome.uk.com/review.cfm?body=4.

2.15 Following receipt of written evidence, we held 16 oral evidence sessions at which we heard from 22 individuals including MPs, office holders and representatives of staff associations. A list of those who provided evidence is at Appendix F.

2.16 As noted in the Introduction, we commissioned two pieces of consultancy work to support our review. We engaged PricewaterhouseCoopers (PwC), who assisted us in our last parliamentary review, to carry out a job evaluation of a sample of MPs and identify posts of similar weight in the public and private sectors for pay comparison purposes, and to review the allowances in both the House of Commons and the House of Lords. We also commissioned Watson Wyatt to examine the parliamentary pension scheme, with input from the Government Actuary's Department (GAD), and we asked PwC to work with Watson Wyatt to include the value of pensions in comparing total reward. Both reports are reproduced in Volume 2 of this report. The main findings, and the conclusions we draw from them, are set out in the following chapters on pay, pensions and allowances.

2.17 Finally, our secretariat researched the salaries and allowances of members of parliament in a number of EU and English-speaking countries and these findings are included at Appendix C.

Chapter 3

The salaries and pensions of Members of Parliament and committee chairmen

Introduction

3.1 In its memorandum to us[6] the Government asked us to consider a number of issues related to the pay and pensions of MPs and committee chairmen. As we pointed out in Chapter 1, we do not believe that the setting of MPs' pay should be approached in a mechanistic way, but should rather be a judgement based on consideration of a wide range of factors, not all of which can be readily quantified. In this chapter we address those factors and further related points raised in evidence.

Has MPs' pay fallen behind?

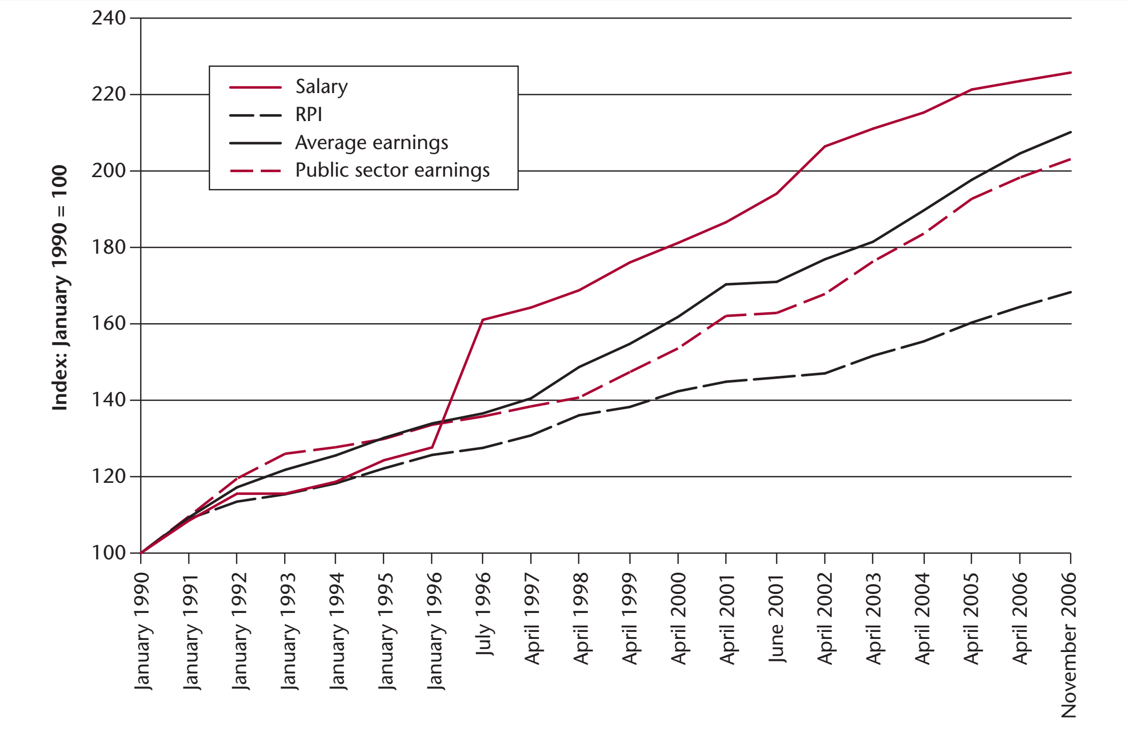
3.2 The Advisory Panel on Members' Allowances, speaking for themselves and MPs more widely, together with some individual MPs, believe that MPs' pay has fallen behind that of comparators in recent years or is inadequate given the burden of the job. They argued that pay had not kept up with comparators in the public and private sectors, and that pay levels should be increased. The Advisory Panel on Members' Allowances submitted evidence showing that MPs' pay had not kept pace with the Average Earnings Index (AEI) since 1997, and had failed to match the Retail Prices Index (RPI) since 2003. The AEI tends to increase faster than settlements because it includes overtime and reflects other sources of increased earnings such as pay drift[7] and productivity growth. However, comparing movements in MPs' pay with indices such as the AEI and RPI is sensitive to the chosen time period. The AEI was first compiled in 1990. If one compares the MPs' salary with the whole economy AEI, public sector AEI and RPI since 1990, MPs' pay has increased faster than all three indices, thanks largely to the 26 per cent increase recommended by the SSRB in 1996, the year before the base year used in evidence by the Advisory Panel. The MPs' salary fell behind the AEI (both whole economy and public sector) between 1990 and 1995 and barely kept ahead of RPI, but two significant increases in 1996 put the MPs' salary well ahead of AEI and RPI. The lead was somewhat eroded by 2002 but further increases in that year and subsequently have kept the salary ahead of both AEI indices and well ahead of RPI compared with 1990.

---

6 http://www.commonsleader.co.uk/files/pdf/Government%20Memo%20to%20the%20SSRB%20Dec%2006.PDF

7 Pay drift is the difference between settlements and pay bill growth. It can have many causes, for example an incremental pay system where the increase in the pay bill attributable to those joining or moving up the scales is greater than the savings from those leaving.

Figure 3.1: **MP's salary and other indices (1990 = 100)**



Sources: Office for National Statistics, House of Commons

3.3 In comparing MPs' earnings with those of workers in other, similarly weighted, occupations we seek to use total reward rather than base salaries or total cash. Total reward takes account of elements such as the value of pensions, bonuses and other forms of remuneration. It is a more comprehensive and, in our view, fairer measurement of remuneration for the purposes of comparison of different groups, and we use that approach in our reviews of the remuneration of the senior civil service, the judiciary and senior military officers.

Job evaluation

3.4 Our consultants, PwC, carried out a job evaluation for our last report on parliamentary pay and allowances in 2004 and we asked them to carry out a further job evaluation of a sample of MPs and to compare their salary with that of similarly weighted jobs in the public and private sectors. PwC interviewed a representative sample of 30 MPs including MPs from several parties, of both sexes, and with varying lengths of service and types of constituency. PwC used their Monks Job Evaluation System to evaluate systematically the following skills and competencies:

- knowledge;
- specialist skills;
- people skills;
- customer service/external impact;
- decision making; and
- creative thinking.

PwC scored each factor, used the resulting totals to identify public and private sector jobs of similar weight and then compared the salaries and total reward (see Chapter 3 of PwC's report, contained in Volume 2, for further details).

The choice of comparators

3.5 It is important to understand that each time the work of MPs is evaluated, the appropriate comparators are reviewed. Job weights are likely to change over time as responsibilities shift, both for MPs and for other posts in the job evaluation database.

3.6 Using their six factor system, PwC found that the 30 MPs interviewed scored between 683 and 797 points, with a median score of 722. MPs with additional, unpaid responsibilities, for example as members of a Select committee, Parliamentary Private Secretary or Opposition front bench spokesman, understandably tended to score higher than those without such responsibilities. Having established this range of scores, PwC identified comparator posts from their database with scores in a similar range. These are shown in Volume 2 of this report. The comparators identified are not exactly the same comparators as used last time, because the relative weights of both MPs' and other jobs may change over time. That is why it would not be right, as some have suggested, to link MPs' pay directly to that of one or more fixed comparators. In the 1980s and early 90s, MPs' pay was linked to that of Grade 6 (formerly Senior Principal) in the Civil Service but, as PwC's job evaluation shows, the more appropriate comparator is now senior civil service (SCS) Pay Band 1 (formerly Grade 5).

3.7 When they carried out a similar exercise in 2004, PwC found that an MP's base pay equated broadly to 85 per cent of the median salary of a typical private sector comparator and 88 per cent of the median of a typical public sector comparator. The latest research (included in full in Volume 2 of this report) shows relatively little movement in the relative positions of MPs and **public** sector comparators. MPs' total reward (not just salary) is now some 90 per cent of the average of the public sector comparators identified by PwC. However, MPs have fallen further behind **private** sector analogues.

3.8 PwC suggest that the growing gap between the pay of MPs and private sector comparators is explained by the fact that, as shown by the PwC database, earnings of managerial and professional private sector jobs have increased by some 19 per cent since 2003 while MPs' pay increased by 7.2 per cent over the same period. This confirms what we have reported for our other remit groups, namely that, at senior levels, pay is both higher and increasing much faster in the private than in the public sector. At lower levels, public sector pay has tended to be higher and increase somewhat faster than private sector pay up until recently. The trend for senior level pay to increase faster in the private sector is likely to continue while the economy is growing steadily and the Government is seeking to keep public sector pay awards down to a level which it regards as affordable and consistent with the achievement of its fiscal and economic targets.

International comparisons

3.9 We also asked our secretariat to research salaries and allowances of members of parliaments in some other countries. A summary of the findings is at Appendix C. Precise comparisons are near impossible because the roles and job weights of members of parliament in different countries vary considerably depending on factors such as the number of voters represented, whether the system is unicameral or bicameral, and whether members represent a defined constituency or are elected on a party list. The picture is further complicated by different tax, social security, pension and expenses regimes, as well as the effects of shifting exchange rates, although we have tried to counter the latter by expressing salaries in purchasing power parities.

3.10 Nevertheless, despite these caveats, we think it is clear that British MPs' salaries, pensions and expenses are at least on a par with their European counterparts. Parliamentarians in most of Canada are paid some 25 per cent more than British MPs and members of the US House of Representatives are paid almost 70 per cent more, but the latter also represent many more constituents.

Workload

3.11 One of the points made by several MPs in evidence is that their workload of constituency casework has been growing steadily in recent years. We accept that this is so. Expectations of what MPs can achieve for their constituents are rising. E-mail makes it even easier to contact MPs, and constituents expect rapid replies. Immigration and asylum casework is growing rapidly and this is not limited to urban constituencies. For example, we heard of an MP being called on to help with problems with work permits for agricultural workers in a rural constituency.

3.12 To some extent problems of workload are within MPs' own control. Different MPs devote different amounts of effort – and resource – to dealing with casework. Holding regular, well-publicised 'surgeries' and sending out newsletters are likely to generate more work. MPs with marginal constituencies are understandably keen to be visible and to help as many constituents as possible.

3.13 However, we repeat that one of our principles, set out in Chapter 1, is that pay should reflect levels of responsibility rather than workload. Most of MPs' casework is handled, at least initially, by their staff. Casework is time consuming but not always skilled work, though we accept MPs must exercise careful quality control and judgement, and may need to become personally involved in certain cases. Nevertheless, we do not accept that any of our remit groups deserve to be paid more simply because their workload is increasing. Workload is increasing for most people. For senior staff, pay should reflect primarily responsibility (i.e. job weight), not workload. However, an increase in MPs' workload does have implications for staffing and we return to this aspect in Chapter 5 below.

Setting the level of MPs' salaries

3.14 Our task is to come to a recommendation after weighing all the different pieces of evidence in accordance with our terms of reference. To apply the results of the job evaluation mechanistically would be too simplistic. There is no automatic read-across of pay levels between different jobs evaluated as having similar responsibilities, particularly when there are different labour markets and employers. The rate of pay for a given job will depend on many factors including the pay policies and structures of the different organisations, recruitment and retention, ability to pay and, where appropriate, profitability. Our terms of reference do not require us to ensure comparability with other groups but do require us to have regard to the need to recruit, retain and motivate suitably able and qualified people, and to the Government's inflation target, among other things.

3.15 Therefore, while we take note of the growing discrepancy between MPs' pay and private sector salaries, we believe MPs are quintessentially public sector workers. Pay is distributed very differently in the public and private sectors. The public sector pay curve is relatively flat and lower paid workers earn more on average than those in the private sector. However, at more senior levels the position is reversed. The higher the job level, the greater is the private sector lead, not least because of bonus possibilities, share options and other incentive arrangements. We see this in our annual reviews of the pay of senior civil servants, the judiciary and senior military officers. Nevertheless, the relatively lower salaries at higher levels in the public sector do not on the whole appear to affect adversely recruitment, retention and motivation. We see plenty of evidence of a 'public service ethos'. Many of those who work in the public sector, especially at more senior levels, appreciate the social value of what they do. Similarly, the factors that arguably partially compensate MPs for a salary below that of their public sector comparators (see paragraph 3.17) also go some way to offsetting higher private sector salaries. We therefore gave less priority to the private sector comparators of MPs. They are informative but not directly relevant for our purposes.

3.16 The evidence from the two job evaluation exercises in 2003-04 and 2006-07 suggests that MPs' total reward (after taking account of the respective values of pension schemes) is about 10 per cent lower than the average of a basket of similarly weighted public sector posts.

3.17 The question is therefore whether there is a case for narrowing the gap between MPs and those with similarly weighted jobs in the public sector. In order to answer that question, we believe we must first look at whether there are other reasons that could explain and justify the difference. For example, the fact that there is no shortage of candidates to stand for election might suggest that the salary is at least adequately market related. The status and job interest of MPs, the possibility of Ministerial or other office, the ability to influence and promote legislation, to question Ministers, to draw attention to issues and play an important role within a constituency, may all be regarded as non-monetary benefits which may compensate, at least to some extent, for a lower salary. On the other hand, MPs without safe seats could argue that they enjoy less job security than their public sector comparators, that this is not entirely compensated by the Resettlement Grant and so should be reflected in salary.

3.18 In its economic evidence to us the Government urged us to ensure that any recommendation was consistent with the Government's inflation target of 2 per cent as measured by the Consumer Price Indices. Settlements elsewhere in the public sector are currently around 2 to 2.5 per cent and lower in some cases. However, it is important to distinguish between settlements and earnings increases. Because MPs have no access to increments, performance pay or other forms of pay progression (except through becoming Ministers or committee chairmen), their annual increase is identical to their earnings increase. This is not true for most other public sector workers, with the notable exception of the judiciary who, like MPs, receive spot rate salaries. Most NHS employees, for example, are on incremental scales which mean that many receive an individual increase each year in addition to the annual uplift to the pay scales. Senior civil servants are eligible for performance pay and bonuses, and in 2005-06 two-thirds of them received base pay increases above 3 per cent, although it should be noted that 4 per cent of them received no base pay increase at all. Senior military officers are also on performance reflective incremental scales. The system for remunerating MPs should take account of these facts.

Our conclusion on MPs' pay

3.19 Having considered all the evidence, we believe there are some non-financial benefits of being an MP compared to other jobs which go some way to compensating for a lower salary and which help to ensure that there is little or no difficulty in recruiting sufficient suitable candidates to stand for election. There does not appear to be a problem of retention. We heard no evidence to suggest that MPs are leaving the Commons because of inadequate pay. However, we do believe it would be reasonable to move MPs' total remuneration closer to the average of the public sector comparators identified by PwC while recognising that there are special features of the MP's position. We believe this will help to head off any incipient problems with recruitment and ensure that MPs' relative pay position in the public sector is sustainable conceptually and in practice.

3.20 We conclude that this is best achieved by a combination of a new annual uprating mechanism for MPs' pay and a limited number of modest additional cash increases spread over four years. There should be a further review at the end of this period to check whether our recommendations have been effective. We deal first with the uprating mechanism before returning to the further adjustments.

The uprating mechanism

3.21 The Government asked us to recommend a new uprating mechanism for MPs' salaries to apply from April 2008. The current uprating mechanism, which we recommended in our 1996 report[8], increases salaries by the average percentage by which the mid-points of the senior civil service pay bands have increased compared with the previous year. At that time the expectation was that the top and bottom points of the bands – and hence the mid-points – would be increased more or less in parallel, although different bands might be increased by different percentages, which would then be averaged to arrive at an uplift for MPs' salaries. (The formula has also been incorporated in legislation for the salaries of Ministers and committee chairmen.)

3.22 In recent years, however, changes to the pay system for the senior civil service have shifted the emphasis away from the bands, which now define only the pay floor and ceiling for each grade, to the amount of money available for performance pay increases and non-consolidated performance bonuses. Progression within the bands depends entirely on performance-related increases. The annual settlement is now defined in terms of the increase in the pay bill available for performance-related increases. Thus in our latest report[9] we recommended and the Government accepted that the average base pay increase for senior civil servants should be 2.6 per cent (with actual awards varying between 0 and 9 per cent), but we recommended increases of 2 per cent for the bottom points of the pay bands and zero for the ceilings, with the consequence that the average movement in the mid-points was only 0.66 per cent. We were aware that this would lead to very small increases for MPs, Ministers and committee chairmen, but we were already engaged on this review of parliamentary pay, as part of which we were specifically asked to review the uprating mechanism, and we did not wish to distort the senior civil service pay system simply to produce a more appropriate result for MPs and others.

3.23 We asked PwC to examine the uprating mechanism as part of their work for us. They considered two main options: use of one of the Average Earnings Indices published by the Office for National Statistics; and linking to an index of public sector settlements. The latter index would have to be specially created.

3.24 We have considered these ideas carefully but we do not support them. We are not aware of any group of public sector workers that now has its pay increases determined by reference to an index. Indexation of MPs' pay would create a precedent that other groups would probably seek to follow. We consider indexation gives rise, over time, to problems of inflexibility in the face of changing responsibilities, relative job weights, and the varying nature of different labour markets, both creating anomalies and reducing the scope for dealing with them. For its part, the Government is understandably wary of indexation because of its potential, as shown in the past, to lead to a spiral of pay inflation. We have therefore sought a different approach.

3.25 We remain of the view that the most appropriate comparator group for MPs is the senior civil service (SCS) and in particular Pay Band 1 which PwC included among the public sector comparators. SCS members are at the heart of central government and work closely with Ministers and Parliament. They are one of the remit groups on whom we report annually. We consider it desirable to retain a link between MPs and the SCS, but with a new mechanism. We therefore propose that MPs' salaries should be increased each year by the average percentage increase in the base salary of the SCS, or of Pay Band 1 of the SCS if that figure is identified separately in the future. By 'the average percentage increase in the base pay of the SCS' we mean the amount by which the

---

8 Review of Parliamentary Pay and Allowances: Volumes I and II, Cm 3330, July 1996

9 Twenty-Ninth Report on Senior Salaries 2007, Cm 7030, March 2007

average base salary of all SCS members increases year on year as a result of individual performance awards. (As noted above, that figure for 2007-08 was 2.6 per cent.) This increase excludes non-consolidated bonuses for which SCS members are also eligible. Those bonuses are intended to reflect performance in year and are not appropriate to MPs for whom there is no practical means of measuring performance. We have taken the view for our remit groups that the SCS ability to earn non-consolidated bonuses equates broadly in pay terms to the more favourable pensions of the judiciary and senior military, and the same can properly be argued for MPs' pensions (see paragraph 3.57 below).

3.26 Although the Government asked us for a new formula to apply from April 2008, it seems to us illogical to delay its application since that would mean that MPs and others would receive substantially lower increases this year than their closest public sector comparators. We have stated above that we believe MPs' pay should be adjusted closer to that of those comparators and it would be perverse and unfair to MPs to begin the process by allowing the gap to widen. MPs received an increase of 0.66 per cent at the beginning of April 2007. We recommend that the uprating mechanism proposed above should be considered to apply with effect from April 2007 and that MPs should therefore receive a further increase of 1.9 per cent of the salary payable from 1 November 2006, backdated to 1 April 2007.

Recommendation 1: We recommend that for 2007 the salaries of MPs be increased by a further 1.9 per cent of the salary payable from 1 November 2006, taking the new salary to £61,820, and that this increase be backdated to 1 April 2007.

Recommendation 2: We recommend that, instead of the existing annual uprating mechanism, the pay of MPs be uprated on 1 April each year, beginning in April 2008, by the average percentage increase in base salary of the senior civil service (SCS), or of Pay Band 1 of the SCS if that figure is identified separately.

3.27 These two recommendations should ensure that in coming years MPs' pay remains broadly in line with that of their public sector comparators. However, in order to secure the goal of the longer term sustainability of MPs' pay described in paragraph 3.19, we propose a flat cash increase of £650 a year, in addition to the increase resulting from the proposed uprating mechanism, for each of the next three years, beginning in April 2008.

Recommendation 3: We recommend that for three years, beginning in April 2008, MPs' salaries be increased by £650 a year, in addition to the increase resulting from the proposed uprating mechanism, in order to achieve a more sustainable relationship between the remuneration of MPs and relevant public sector comparators.

Frequency of reviews of parliamentary pay, pensions and allowances

3.28 In 1996 we recommended three-yearly reviews of parliamentary pay, pensions and allowances. If our proposals above for uprating over the next four years, coupled with modest flat cash increases in MPs' salaries designed to bring them closer to those of public sector comparators, are adopted, then we believe the frequency of reviews could be reduced to every four years, or typically once a Parliament, unless exceptional circumstances require otherwise.

Recommendation 4: We recommend that, subject to the adoption of Recommendations 1 to 3 above, future reviews of parliamentary pay, pensions and expenditure should henceforth normally take place at four-yearly intervals (rather than every three years as at present).

Who should set MPs' pay?

3.29 Several MPs argued in their evidence to us that MPs should no longer vote on their own pay (and allowances). Rather the figures should be determined – and be seen to be determined – independently.

3.30 Since Parliament is sovereign, only MPs themselves could take the decision to apply without amendment the recommendations of an independent body such as the SSRB. Moreover, MPs could, subject to their own rules of procedure, overturn such a decision at any time, whether it was enshrined in legislation or simply a resolution. Nevertheless, we would welcome such a decision by the Commons to accept our recommendations en bloc, not least because this would remove the temptation for MPs to accept those proposals they like and reject those that do not suit them. Our recommendations are intended to form a balanced package. That balance can be lost if, as has happened to some extent on recent occasions, MPs 'cherry pick' our recommendations.

3.31 A less radical form of self-denying ordinance for the future would be for MPs to continue to vote on pay and allowances but with the proviso that changes would not take effect until after the subsequent general election. Such a system would mean MPs were voting on conditions for their successors rather than themselves (although in practice a substantial proportion of MPs could expect to remain in office from one parliament to the next). This approach would have the additional advantage that those standing for election would have a much clearer idea of their remuneration throughout the forthcoming parliament if they are indeed elected. The approach would also fit well with a four-yearly rhythm of reviews since parliaments now tend to last around four years, but in the event of a very short parliament, lasting say two years or less, then the conditions for that parliament could be rolled forward to the next one.

3.32 We make no firm recommendations on these ideas but believe they have real merit and offer them for consideration and debate.

Pay for chairmen of Select and Public Bill committees

3.33 PwC in their report to us said that there was a case for increased pay for chairmen of Select committees and Public Bill committees (formerly known as Standing committees), although PwC's evaluations assumed a senior member of the Speaker's Panel of Chairmen and one of the larger Select committees. We have not received any representations from committee chairmen themselves or indeed others, although the Government did invite us to consider whether payments to other committee chairmen are set at the right level. PwC's report implies there is a case for differentiation in the pay of committee chairmen according to the weight of the committee. Although we can see the case in principle for this, in practice it is hard to identify and quantify the factors to justify differentials. Therefore, in the absence of firm evidence or concrete proposals for change, we do not make any recommendations for changes to the level of pay for chairmen of Select and Public Bill committees beyond uprating their supplements by the same overall percentage by which MPs' salaries increase as a result of our recommendation on MPs' pay.

Recommendation 5: We recommend that with effect from 1 April 2007 the salary supplements paid to chairmen of Select and Public Bill committees should be increased in April each year by the same percentage as the overall increase in the MP's salary resulting from our recommendations on MPs' pay.

Pay for members of Select and Public Bill committees

3.34 A few MPs suggested that MPs should receive additional pay for additional duties such as membership of Select or Public Bill committees. We do not support this idea because, in line with the views of most MPs, we see service on committees as an integral part of the MP's role which is reflected in the job evaluation.

The case for extension of payments to Opposition front bench spokesmen

3.35 We heard a suggestion that Opposition front bench spokesmen found themselves out of pocket, for example because of the need to attend conferences and other events as part of their role, and that they should therefore be paid more than other MPs. We do not think a pay supplement is the correct way to address this point. In both Houses there is a system of funding for Opposition parties to help them carry out their parliamentary (as opposed to party) business. In the Commons this is known as 'Short money' (named after Ted Short MP, the Leader of the House when it was first introduced in 1975). The amount per party is determined by a formula based on the number of seats won and votes received at the previous general election. In the year 2006-07 the Conservative party was entitled to receive over £4.3 million, including nearly £0.6 million for funding the office of the Leader of the Opposition. The Liberal Democrats were entitled to nearly £1.6 million and other parties to smaller amounts. The amount for each party is uprated by the RPI each April. These amounts include an element for travel. There is a similar, albeit smaller, scheme in the House of Lords, known as 'Cranborne money', after Viscount Cranborne.

3.36 We believe that Short and Cranborne money provides a suitable means of funding the additional expenditure necessarily incurred by Opposition spokesmen. Therefore we do not recommend increased salaries for Opposition spokesmen beyond those already in place. The overall level and allocations of Short money (and of its equivalent in the Lords) are political matters, negotiated by the parties, on which we do not believe we should comment.

MPs' pensions

3.37 The Parliamentary Contributory Pension Fund (PCPF) provides benefits to MPs, including committee chairmen, and their dependants in the event of retirement and death. Full details of the scheme are given in the Watson Wyatt report reproduced in Volume 2 of this report. The main features of the scheme are set out in Table 3.1 below.

Table 3.1: **Principal features of the Parliamentary Contributory Pension Fund**

Benefit	Current provision
Accrual rate	1/40th (or 1/50th) whilst paying contributions. This is reduced to 1/60th when pension reaches 2/3rds of salary less pension equivalent of retained benefits[1].
Pensionable salary	MP salary (i.e. excluding allowances).
Normal Retirement Age	65 although members can continue to build up benefits after that age[2].
Earliest age at which pension can be taken unreduced before normal retirement age	If leaving Parliament, the later of 60 and the age at which service plus 20 is equal to 80. Otherwise 65. This "Rule of 80" is being phased out.
Member contributions	10% (6% for 1/50th) until maximum benefit reached.
Maximum benefit	2/3rds of pensionable salary, although accrual can recommence if the member is older than 65[3].
Benefits on death whilst an MP	Dependant paid a pension for life of 62.5% of the pension the member would have received if they had remained in service to age 65 but based on pensionable salary at death. A lump sum of 4 times salary is also paid.

Sources: Watson Wyatt, House of Commons

[1] Accrual rate
Pre June 1989 joiners – 2/3rds limit applies on retirement at 65. Members who have reached this limit can then build up further pension in excess of the 2/3rds limit.
Post June 1989 joiners – 2/3rds limit applies on retirement at 65 or date of retirement if later.

[2] Normal Retirement Age
Pre June 1989 joiners who have reached the 2/3rds limit at age 65 can build up further pension after this age.
Post June 1989 joiners can build up further pension after age 65 only if they have not reached the 2/3rds limit.

[3] Maximum Benefit
See comments under Normal Retirement Age.

3.38 As the name indicates, the PCPF is like most private sector schemes (but differs from many public sector schemes) in having employer and employee (or in this case, Government and MP) contributions paid into a fund from which benefits are met when they fall due, rather than being a 'pay as you go' scheme without a fund where the Government pays benefits out of current tax receipts.

3.39 The Government asked us to address three issues in relation to MPs' pensions:

- how the outstanding cost of the improved accrual rate should be recovered from members;
- whether the retained benefits restriction in the PCPF regulations should be removed; and
- how to fund the scheme, in a way that is fair to both the Exchequer and members, so as to ensure that it remains affordable.

3.40 The Chairman of the PCPF Trustees also asked us to examine the possible removal of the retained benefits restriction. The Association of Former Members of Parliament raised the following issues with us, all relating to the pension scheme:

- the number of trustees who are pensioner members;
- accrual rates for service prior to 1983;
- the requirement to repay pension overpayments; and
- the possibility to increase a spouse's pension.

The cost of the improved accrual rate

3.41 In 2001 the House of Commons voted to increase the pension accrual rate to 1/40th, with the Exchequer to bear the cost, although the SSRB had not recommended such an increase. The Government referred the financing of the accrual rate back to us and we recommended that members who opted for the 1/40th rate should initially contribute an additional 3 per cent of salary, recognising that according to estimates at the time the total cost of the enhanced accrual was 5 per cent of the salary bill. That recommendation was implemented in 2002. In 2004 we recommended an additional increase of 1 per cent in contributions of those who had opted for 1/40th accrual, bringing the total to 10 per cent, with the expectation that a further 1 per cent increase in contributions might still be needed to ensure that the full cost of implementing the increased accrual rate was borne by MPs. The resulting contribution rate is significantly higher than the contribution rate paid by most public and private sector employees. The option remains for MPs to choose the 1/50th accrual rate and pay contributions of 6 per cent only. We understand, however, that over 90 per cent of MPs have currently opted for the 1/40th accrual rate.

3.42 We have seen a report dated November 2006 from the Government Actuary's Department (GAD) which now estimates the outstanding cost for future benefit accrual of the introduction of the 1/40th accrual as between -0.25 per cent to +0.5 per cent of the payroll. The uncertainty stems from lack of information about retained benefits (see below). GAD also points out that the net effect of the 1/40th accrual and other changes to the scheme (notably survivor benefits and phasing out of the "Rule of 80") lead to a net saving of between 0.5 and 1.75 per cent of payroll and one-off costs of £1.5m to £3m. This analysis is supported by Watson Wyatt who conclude that:

> "In our opinion there is no further cost to take into account. The increase in members' contribution from 9% to 10% of pay in 2004 (in addition to the increase from 6% to 9% at the time of its introduction) can be considered to have borne the increase in cost in full." (Watson Wyatt report, Volume 2, paragraph 2.30)

3.43 We agree, and in these circumstances see no reason to recommend a further increase in MPs' pension contributions simply to pay for the 1/40th accrual rate.

The retained benefits restriction

3.44 Before 6 April 2006, tax legislation required that benefits built up in other pension schemes ("retained benefits") had to be taken into account in calculating the maximum benefits payable under all pension schemes approved by HMRC. The legislation was changed with effect from 2006 so that schemes are no longer required to take retained benefits into account although they are not prevented from doing so. The PCPF rules have not been changed, so retained benefits are still taken into account in calculating the normal maximum pension of two-thirds of final salary, and the pension of an MP with retained benefits may be reduced accordingly, although not below a pension based on an accrual rate of 1/60th of final salary. This means that some MPs with retained benefits who are currently contributing for an accrual rate of 1/40th or 1/50th of final salary will receive a pension based on a 1/60th accrual rate only. We understand that a number of MPs have opted for the 1/40th accrual rate in the expectation that the retained benefits restriction would be dropped following the change in legislation.

3.45 It could be argued the retained benefits restriction was designed so that total pension benefits from all sources, including service as an MP, would be restricted to the same proportion of final salary. However, it does mean, as the Government said in its evidence, that the pay and pension package "can amount to less for those MPs who have been prudent and accumulated pension saving when they were younger, or those who have given up well-paid jobs for public service". What this means is that MPs caught by the retained benefits restriction are subsidising the scheme.

3.46 We are satisfied that the balance of arguments is clearly in favour of removing the retained benefits restriction. The problem is that to do so would of course have a cost, since those MPs with retained benefits who would previously have had their PCPF pensions reduced so that the total pension, including the retained benefits, did not exceed at two-thirds of final salary, would now receive higher pensions from the PCPF. The Government argues that any increase in the cost of the scheme caused by the removal of the restriction should be met by increased members' contributions or reductions in other scheme benefits, or a combination of both. This would mean that members with retained benefits were now subsidised by those without.

3.47 The cost of removing the restriction is uncertain because a significant number of MPs have not responded to repeated requests from the Trustees for information on their retained benefits, if any. This failure to respond is, to say the least, unhelpful. GAD has estimated the costs of removing the restriction at between 3.5 and 5 per cent of payroll, based on the assumptions that the pattern of retained benefits for all MPs is the same as for those who have provided information, and that transferred-in benefits should also be exempted from the two-thirds limit so as not to penalise members who could have kept retained benefits. The Chairman of the PCPF Trustees argues that the latter figure is on the high side since he considers it likely that MPs who have failed to provide information about retained benefits simply do not have any such benefits and therefore may see no need to respond.

3.48 If, as the Government suggests, all members' contributions were increased to meet the full cost of removing the restriction, the effect would be that most of the cost would fall on those members <u>without</u> retained benefits who would pay higher contributions for the same level of pension. This seems even more unfair since those affected by the restriction on retained benefits are by definition likely to have higher pension entitlements than those without retained benefits, and thus spreading the cost across all members would on average mean a transfer from those with lower pension entitlements to those with higher. However, it would be equally unfair to load the cost solely onto those with retained benefits since they are already paying contributions based on rates of accrual of 1/40th or 1/50th although at present they stand to receive a lower pension. In other words, they are already paying for a benefit they do not get and to load the additional costs onto them alone would mean they were paying twice for the benefit.

3.49 These considerations about which MPs would be subsidising others in the scheme prompt Watson Wyatt to conclude that "if the retained benefit restriction [were] to be removed, further inequity among members could be avoided only if the Exchequer met the additional cost." But the Exchequer has said it is unwilling to meet the additional cost.

3.50 There is no easy way to meet the cost of removing the retained benefit restriction and we therefore propose what appears to us to be the 'least bad' solution, namely one suggested by Watson Wyatt whereby, with the retained benefits restriction retained, MPs should be offered an additional option to accrue pension at 1/60th in return for reduced contributions, for example 3 per cent of pay, enabling MPs with retained benefits to pay contributions more reflective of the value of the scheme to them. This option would also have a small cost (because it would reduce the savings to the scheme, and hence to the Exchequer, which currently arise from the retained benefit restriction) though Watson Wyatt expect this cost to be lower (perhaps 1 to 2 per cent of pensionable pay) than that of removing the retained benefit restriction (3.5 to 5 per cent). Again, there is no way of apportioning the cost of the 1/60th option equitably between members, so we recommend that if this option is adopted, the residual cost should be borne by the Exchequer.

Recommendation 6: We recommend that Parliamentary Contributory Pension Fund members with retained benefits should be allowed to opt for a 1/60th accrual rate in return for reduced contributions to be calculated by the Government Actuary's Department, with any additional costs being met by the Exchequer.

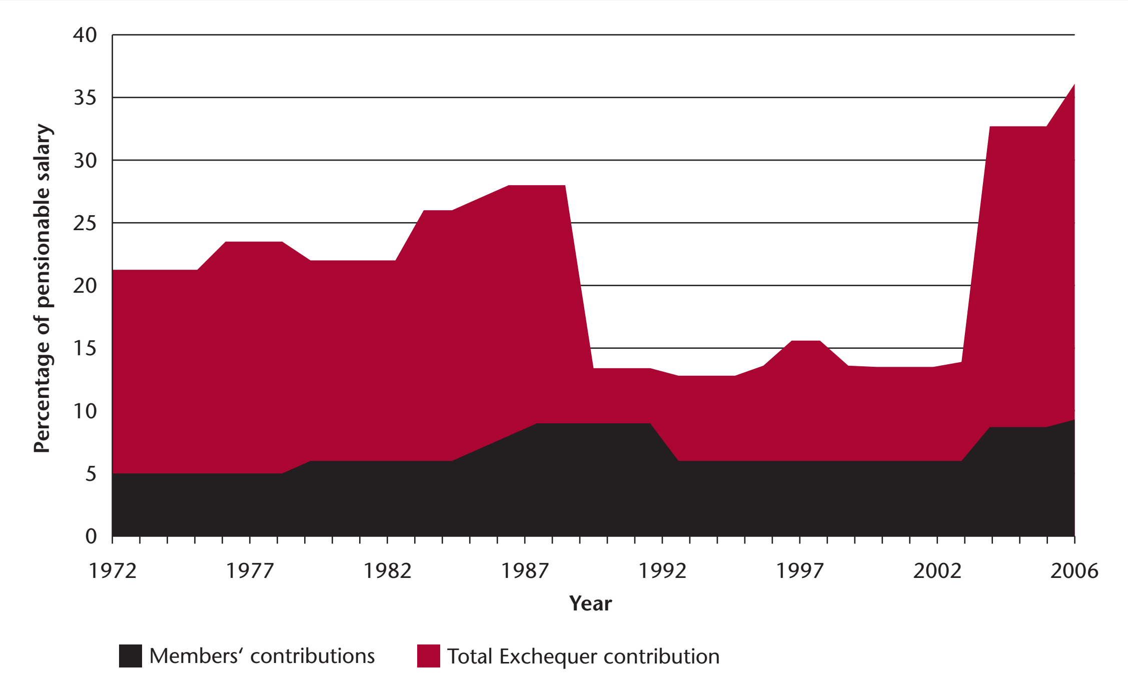
Sustainable funding of the scheme

3.51 In its memorandum the Government stated:

> *"The Government believes that the argument that public service pension schemes need to be affordable applies equally to the PCPF.* ***In the light of the cost pressures facing PCPF, and evidence of how issues of sustainability are being addressed by other pension schemes, the Government invites the Review Body to recommend an approach to the funding of the PCPF which ensures that the scheme remains affordable, and which is fair to both the Exchequer and Members.*** *The Government's expectation is that this approach will include a recommended maximum level above which the Exchequer contribution should not rise in the future. The Government also invites the Review Body to recommend whether any particular cost pressures should be outside the scope of the proposed mechanism and when it should be introduced."*

3.52 The current position is that, following the 2005 valuation of the scheme, the Exchequer contributes 18.1 per cent of payroll for the accrual of benefits while members collectively contribute 9.3 per cent. (Most members contribute 10 per cent for 1/40th accrual but some contribute 6 per cent for a 1/50th rate.) In addition to the underlying contribution rate of 18.1 per cent, the Exchequer is also currently contributing an additional amount of 8.7 per cent of payroll required over 15 years to amortise the accumulated deficit that has arisen because at times the Exchequer contribution has been below the cost of accrual of benefits, as was the case between 1989 and 2003 while the scheme was in surplus. The evolution of contributions can be readily appreciated from the following graph:

Figure 3.2: **Member and Exchequer contribution rates since 1975**



Source: Watson Wyatt

3.53 In their report to us Watson Wyatt question whether the Government's desired approach of setting a cap on the Exchequer contributions to the PCPF is reasonable in all circumstances. For example, Watson Wyatt suggest it is debatable whether any increase resulting from changed assumptions about the investment return on assets should be shared between the Exchequer and members, let alone borne by members alone, since this is not expected to happen for unfunded public sector schemes.

3.54 Watson Wyatt suggest that on balance they think there is some merit in investigating further the possibility of some form of cost sharing between the Exchequer and MPs. We agree and recommend that for the underlying contribution rate any increase or decrease in the costs of accrual, that is from factors other than changes to assumptions about the investment return on assets, should be shared equally between the Exchequer and members. This is the same principle which applies in the new pension scheme for civil servants. We believe this is a reasonable compromise which will mean that scheme members have an incentive to consider alternatives to increased contributions, such as offsetting reductions in benefits, if the cost of the scheme rises.

Recommendation 7: We recommend that any increase or decrease in the cost of accrual for MPs in service in the Parliamentary Contributory Pension Fund should be shared equally between the Exchequer and members. We consider the following to be some of the elements excluded from the cost of accrual:

- **payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund;**
- **changes to allow members with retained benefits to opt for a 1/60th accrual rate (i.e. the consequence of Recommendation 6); and**
- **changes to the assumptions about the investment return on assets.**

3.55 We have also considered the Government's request for "a recommended maximum level above which the Exchequer contribution should not rise in the future". On the one hand we recognise that ceilings on the employer's contribution have been introduced as part of the revision of several public sector schemes. For example, the intention is to limit the employer's contribution to the civil service pension scheme to no more than 20 per cent of pay, while the ceiling on employer contributions for the teachers' and NHS schemes is 14 per cent. On the other hand, those are all 'pay as you go' rather than funded schemes. However, we think the public would find it hard to understand why the taxpayer should have an unlimited liability to contribute to the PCPF when members of so many pension schemes in both the private and public sector are facing increased contributions, reduced benefits or both to take account of increasing longevity and, in the case of some funded schemes, reduced investment returns. We therefore recommend that there should be a ceiling of 20 per cent on the underlying Exchequer contribution (i.e. excluding the 8.7 per cent to amortise the current deficit).

Recommendation 8: We recommend that the Exchequer contribution to the cost of accrual of benefits for MPs in service in the Parliamentary Contributory Pension Fund (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) should in principle be limited to 20 per cent of the payroll of scheme members.

3.56 Watson Wyatt in their report to us also recommend a fundamental review of the PCPF, in the light of changes occurring elsewhere in occupational pensions. They suggest that a defined contribution arrangement could be more beneficial to MPs who leave the House sooner than expected and for younger MPs, while a career average scheme could also have some advantages and give the Exchequer greater control over costs.

3.57 The PCPF has a high accrual rate and other features tailored to the particular circumstances of MPs. It may appear generous at a time when other public sector schemes have been renegotiated to introduce features such as career averaging rather than final salary pensions and caps on employer contributions – see Volume 2 for further details. The value of the scheme to members is reflected in the relatively high adjustment made for the PCPF in calculating total reward.

Table 3.2: **Comparative net value to employees[1] of associated pension benefits as a percentage of pensionable pay**

Arrangement	**Defined benefit % of pensionable pay**
PCPF – 40th accrual rate (before maximum benefits)[2]	22
PCPF – 50th accrual rate (before maximum benefits)[2]	20
Armed Forces (Colonel)[3]	28
Civil service[3]	18
Local government[3]	11
NHS[3]	13
Police (Chief superintendent)[3]	11
Teachers[3]	13
Private sector (median)	17

Source: Watson Wyatt

Notes:

1. Comparative net value to employees in this context means the contributions, expressed as a percentage of pensionable salary, that an employer would need to invest in addition to member contributions to establish a fund of assets expected to be sufficient to pay the benefits arising from the member remaining in service for a further year and (for final salary arrangements) for the benefit built up over that year to remain linked to increases in salary until the member leaves service.
2. For an average PCPF member aged 54. See Vol 2 for the full assumptions.
3. See Vol 2 for changes to be introduced to the above public sector schemes other than the PCPF.

3.58 We understand that the PCPF is seen by MPs as a valuable part of their package and they would be reluctant to see its benefits reduced. We make no recommendation at this juncture for fundamental change. However, we do invite all concerned to consider whether the scheme as currently constituted provides the best balance of contributions and benefits for MPs of different ages and different patterns of service in the House. In addition, we recommend that, in the event that it appears likely that the proposed ceiling on the (underlying) Exchequer contribution of 20 per cent of the payroll will be breached, there should be a major review of the PCPF. We think it would be for a group comprising representatives of Government, MPs, the Trustees and retired members to carry out such a review, although the precise composition would be for discussion by the parties concerned.

Recommendation 9: We recommend that if it becomes likely that, unless action is taken, the Exchequer contribution to the cost of accrual of benefits for MPs in service in the Parliamentary Contributory Pension Fund (excluding payments to amortise the accumulated deficit identified in the 2005 valuation of the Fund) would rise above 20 per cent of payroll, then there should be a major review of the Fund.

Matters raised by the Association of Former Members of Parliament

3.59 As noted above, the Association of Former Members of Parliament raised four issues with us:

- the number of trustees who are pensioner members;
- accrual rates for service prior to 1983;
- the requirement to repay pension overpayments; and
- the possibility to increase a spouse's pension.

3.60 While we have some sympathy with their complaint that pensioner members are insufficiently represented on the board of trustees, we have to say that this is not a matter for us since it does not concern MPs' remuneration. Similarly the requirement to repay certain pension overpayments is not something on which we can make a recommendation. It is a matter for the trustees. They may consider or be advised that their fiduciary duty requires them to seek repayment.

3.61 The Association's point about accrual rates before 1983 affects members who left the House between 1983 and 1995. The accrual rate was increased from 1/60th to 1/50th in 1983. In 1995, following an SSRB recommendation, the House voted to increase the accrual rate to 1/50th for service before 1983 but only for members still in the House. The Association argues that this is unfair to those who left between 1983 and 1995. However, when the decision was taken in 1995, the scheme was in surplus. That is no longer the case. There would be a cost now in increasing the accrual rate retrospectively for those who left between 1983 and 1995 and that cost would have to be borne by the Exchequer, current contributors or both. We do not believe it would be appropriate to apply further retrospection now.

3.62 Finally, to introduce the possibility for a PCPF member to increase a surviving spouse's pension by forgoing part of his or her pension could have a cost for the scheme, not least because of the risk of 'adverse selection', i.e. only those aware that they were likely to die much earlier than their spouses would make use of such an option. However, we understand that some schemes, including the Principal Civil Service Pension Scheme, do allow this option subject to conditions designed to avoid abuse, e.g. by requiring a declaration from the member that he or she is not aware of any condition pointing to reduced life expectancy and refusing to pay the increased survivor's pension if there is evidence that the provision has been abused.

3.63 We are not sure how much demand there is from PCPF members for such a provision and we understand that the Trustees recently considered and rejected it both because the current surviving spouse's pension is at a relatively high rate and because of the risk of adverse selection. In any case we could not recommend its introduction unless either the GAD were satisfied that the arrangement would not increase the costs of the scheme or, if it did increase costs, that those costs, as assessed by the GAD, would be fully met by the members through increased contributions, a corresponding reduction in other benefits or a combination of both.

Chapter 4

Pay and pensions of Ministers, Speakers and certain other office holders

Introduction

4.1 We noted in our last report on parliamentary pay and allowances that:

> *"As with the salary of MPs, the salaries of Ministers and other paid office holders are lower than those of their comparator jobs in the private and public sectors, and indeed significantly lower in the case of more senior roles." (2004 Report, paragraph 2.16)*

The latest research undertaken for us by PwC confirms that this continues to be so. PwC report that the parliamentary pay structure is significantly more compressed (i.e. the difference between the top and bottom salaries is significantly smaller) than other pay structures in the public and private sectors.

4.2 The relatively low pay of Ministers and other senior political office holders is probably due to a combination of factors. There is an obvious political reluctance on the part of Ministers themselves to be seen to take large pay increases and the cumulative effect of this over the years is a considerable and growing gap between the pay of Ministers and their comparators. The Ministerial Code also requires Ministers to give up any other paid activities on becoming a Minister, adding to the potential penalty in remuneration terms of holding ministerial office.

4.3 However, it is also the case that there is no obvious shortage of willing candidates for ministerial posts and that the 'market' for ministerial appointments operates completely differently from that for jobs in the wider economy. Nevertheless, we have heard anecdotally and informally some concerns that ministerial salaries are so low compared to those in some other professions and business sectors that some people are deterred from pursuing a career in politics, thus limiting the pool of available talent.

4.4 The compression of ministerial salaries over time, partly resulting from the reluctance of Prime Ministers and senior Ministers to see their salaries increase, conflicts with the provision in our terms of reference that allows us to make recommendations "to ensure that, as appropriate, the remuneration of the remit groups relates coherently to that of their subordinates". The Prime Minister and Cabinet Ministers are paid substantially less than their most senior officials, despite the fact that responsibility for policy and many other important decisions, e.g. many appointments, rests with Ministers rather than civil servants. Moreover, on the whole the latter enjoy far greater job security. Some idea of the scale of the shortfall may be gained from the following table.

Table 4.1: **Comparison of selected ministerial and public sector salaries – as at 1 January 2007**[1]

Post	Basic salary £[2]
Ministers	
Prime Minister	187,610
Cabinet Minister (Commons)	136,677
Cabinet Minister (Lords)	103,701
Minister of State (Commons)	99,908
Other public servants	
Cabinet Secretary	222,500[3]
Metropolitan Police Commissioner	234,939
Chief of the Defence Staff	208,676
Lord Chief Justice	225,000
Permanent Secretaries (median)	162,500[3,4]

Sources: PwC, OME, Cabinet Office

Notes:
1. Salary details of other public servants are published annually. At the time of writing, 1 January 2007 was the latest date for which comparable, published figures were available.
2. Ministers and the Lord Chief Justice are paid spot rates, so their basic salary = total salary. The Chief of the Defence Staff is eligible for performance-related increments. All others are eligible for discretionary, performance-related bonuses.
3. The pay of the Cabinet Secretary and Permanent Secretaries is disclosed in £5,000 bands. For the purposes of this table the actual and median salaries are taken to be the mid-point of the relevant £5,000 band.
4. From 1 April 2007 the range for Permanent Secretaries is £139,740 to £273,250. The median given in the table represents the median of salaries actually in payment at 1 January 2007, excluding the Cabinet Secretary and Second Permanent Secretaries and equivalents.

There are public sector posts in organisations such as the Royal Mail, Network Rail, the BBC, British Nuclear Fuels, the Financial Services Authority, Channel 4 and Ofcom that are paid very substantially more than the Prime Minister. Chief executives of some local authorities and NHS Trusts are among a significant number of public sector workers paid over £200,000.

4.5 We believe that it is right in principle that Ministers (and certain other parliamentary office holders) should be paid at a level which recognises, at least broadly, their substantial additional responsibilities relative to both MPs without such responsibilities and public servants who report to Ministers. If salaries were set according to the level of responsibility and accountability, then the Prime Minister ought to earn more than the Cabinet Secretary and Cabinet Ministers ought to earn more than their Permanent Secretaries. However, we are forced to accept that increases of the size needed to achieve that position are simply not politically credible. Instead, therefore, we propose a series of staged increases designed to move the pay of senior Ministers towards that of their senior officials over a period of years. Coupled to this we propose a mechanism to link Ministers' pay to that of MPs – and through them to the pay of senior civil servants – to try to stabilise the relative position of ministerial salaries, through a logical system that is intended to make changes in ministerial pay less capricious in the future.

4.6 At the same time we note that the Prime Minister, Lord Chancellor and Speaker of the Commons also benefit from unusual pension arrangements by which from their first day in office they are entitled to a pension equal to one half of their final salary when they leave that office, regardless of age or length of service. These provisions were originally justified on the grounds that it would not be dignified for the Prime Minister and

Speaker to have to seek employment after leaving office, and the Lord Chancellor, who must be a lawyer, should not return to practice. We do not believe these arguments remain valid. For all three posts, salaries and normal pension entitlements have improved substantially. The Speaker is invariably a long serving member of the Commons and by convention is not opposed at elections by the major parties. He or she is therefore sure to be entitled to an adequate pension from the PCPF. The Prime Minister can now expect to have a career, or a portfolio of earnings opportunities, after leaving office. The Lord Chancellor is also likely to have a variety of opportunities on leaving office. The previous Lord Chancellor proposed that judges should be able to resign or retire from the bench and return to practice, subject to suitable safeguards, and it is hard to see why the same should not apply to Lord Chancellors. We therefore make recommendations for new pension provisions for these posts.

Ministers' pay

4.7 Ministers who are members of the House of Commons receive the normal MP's pay from the House and a ministerial supplement from their departments. Ministers in the House of Lords receive a salary from their departments. The total salaries currently payable are set out in Table 4.2 below.

Table 4.2: **Salaries of Ministers and office holders[1] as at 1 April 2007**

House of Commons salaries

Post	**Salary £[2]**
Prime Minister	188,848
Cabinet Minister	137,579
Government Chief Whip	137,579
Minister of State	100,567
Parliamentary Under Secretary of State	90,954
Solicitor General	127,683
Government Deputy Chief Whip	100,567
Government Whip	86,348
Assistant Government Whip	86,348
Leader of the Opposition	131,172
Opposition Chief Whip	100,567
Deputy Opposition Chief Whip	86,348
Speaker	137,579
Chairman of Ways and Means (Deputy Speaker)	100,567
First Deputy Chairman of Ways and Means (Deputy Speaker)	95,736
Second Deputy Chairman of Ways and Means (Deputy Speaker)	95,736
MP's Salary	60,675

Table 4.2: **Salaries of Ministers and office holders[1] as at 1 April 2007 (continued)**

House of Lords salaries

Post	**Salary £**
Cabinet Minister	104,386
Minister of State	81,504
Parliamentary Under Secretary of State	70,986
Lord Chancellor[3]	104,386
Attorney General	109,201
Advocate General	94,794
Government Chief Whip	81,504
Government Deputy Chief Whip	70,986
Government Whip	65,642
Leader of the Opposition	70,986
Opposition Chief Whip	65,642
Lord Speaker	104,386
Chairman of Committees	81,504
Principal Deputy Chairman of Committees	76,250

Source: Government memorandum adjusted for 0.66 per cent increase from 1 April 2007.

Notes:
1. Excluding Select and Public Bill committee chairmen who are covered in Chapter 3.
2. For Ministers and office holders in the Commons, salary is the total of MP's salary and ministerial supplement.
3. Under legislation the Lord Chancellor is entitled to a salary £2,500 higher than that of the Lord Chief Justice. This is a legacy from the time when the Lord Chancellor and not the Lord Chief Justice was head of the judiciary in England and Wales. Lord Falconer drew only the salary of a Cabinet Minister in the Lords. Since 28 June 2007 the post of Lord Chancellor has been held by the Secretary of State for Justice who is a member of the House of Commons.

4.8 We propose that the pay of Ministers and other office holders in the Commons should henceforth be linked to that of MPs and increased in stages to a level such that the Prime Minister is paid broadly the same as the Cabinet Secretary, Lord Chief Justice and Chief of the Defence Staff, and Cabinet Ministers are paid broadly in line with Permanent Secretaries. As we point out in paragraph 4.5, this would continue to fall well short of what is arguably the correct pay relativity between Ministers and senior public servants who report to them. Our proposal could be achieved either by adjusting the current cash differentials over the MP's basic salary or defining the total salaries for Ministers and other office holders by reference to the MP's salary. We prefer the latter approach. It would ensure that differentials between Ministers and MPs were maintained over time as the MP's salary increased and that differentials between the various levels of ministerial appointments did not continue to become ever more compressed with passing years. There is a logic to such an approach in that the ministerial and Opposition hierarchy represents the equivalent of a career structure for MPs (alongside the small structure of House office holders) and it would be transparent to set out the level of salary increase that would attach to each step up the ladder. This method of setting pay by reference to a benchmarked group (in this case, MPs) to take account of the extra difficulty of more senior posts has been termed 'internal pay equity'[10] and it may be appropriate where (as in the case of Ministers and other office holders) there are no genuine market comparators.

[10] see *Senior Executive Reward* by S. Pepper, Gower, Aldershot, 2006

4.9 The pay system described above, whereby Ministers in the Commons continue to receive their salary as MPs plus a supplement from their departments, reflects the reality that most Ministers have two jobs: as a constituency MP and as a senior manager of a department, responsible for an area of policy. If Commons Ministers' total salaries (including their pay as MPs) are expressed as a ratio to the MP's salary, the current situation is this:

Table 4.3: **Ratios of Ministers' and other office holders' salaries to MP's salary as at 1 April 2007**

Post	Salary £	Ratio to MP's salary
Prime Minister	188,848	3.11
Speaker	137,579	2.27
Cabinet Minister	137,579	2.27
Government Chief Whip	137,579	2.27
Leader of the Opposition	131,172	2.16
Solicitor General	127,683	2.10
Minister of State	100,567	1.66
Government Deputy Chief Whip	100,567	1.66
Opposition Chief Whip	100,567	1.66
Chairman of Ways and Means (Deputy Speaker)	100,567	1.66
First Deputy Chairman of Ways and Means (Deputy Speaker)	95,736	1.58
Second Deputy Chairman of Ways and Means (Deputy Speaker)	95,736	1.58
Parliamentary Under Secretary of State	90,954	1.50
Government Whip	86,348	1.42
Assistant Government Whip	86,348	1.42
Deputy Opposition Chief Whip	86,348	1.42

Source: OME

4.10 Thus there are currently eight levels, ranging from 1.42 to 3.11. As noted at the beginning of this chapter, the pay structure is unusually compressed. If the Prime Minister were to be realistically paid in line with private sector comparators, the salary would be many times higher than at present. According to one estimate, the average overall pay of top UK executives (i.e. chief executives of FTSE100 companies) was £2.9 million in 2006[11] – although we understand that part of this figure is tied up in long-term incentives, some of which may not come to fruition. As we point out in paragraph 4.4, there are many senior public sector jobs paying over £200,000 a year. Arguably the Prime Minister's job carries much greater responsibility than both these and those of major company chief executives. This again underlines the growing pay gap between the private and public sectors at senior levels. However, as we made clear in Chapter 3, we do not believe it is sensible or desirable for the public sector to try to match the private sector on pay at the more senior levels.

[11] Financial Times, 31 October 2006

4.11 Nevertheless, we believe there is a case, based on the need for a coherent relationship with the pay of subordinates, as set out in our terms of reference, for a restructuring of ministerial pay. Starting at the top, if the Prime Minister were to be paid 3.5 times the salary we propose for an MP, this would currently equate to £215,023 and would bring the Prime Minister to within some £8,000 of the Cabinet Secretary's current basic salary (excluding bonus and other benefits). Moreover, our proposed mechanism for linking MPs' pay to that of the senior civil service should mean that this rough equivalence is maintained over the coming years. We believe such an increase would be justified, particularly when coupled with a reduction in pension benefits as proposed below. As with our recommendation on the MP's salary, however, this new approach should be phased in over the next four years in recognition of the need to avoid inflationary increases. The same approach could be taken with the other posts. For this review we propose to maintain broadly the current relativities between posts while making some use of the increased headroom. A future review should in our view carry out some job evaluation of the different levels to check the validity of the differentials. Table 4.4 sets out our proposed relativities between an MP's pay and that of ministerial and other office holders over the next four years.

Table 4.4: **Staged increases for the Prime Minister, Ministers and other office holders in the House of Commons**

Post	Current Salary £	Current ratio to MP's salary	Ratio from 1 April 2007	Ratio from 1 April 2008	Ratio from 1 April 2009	Ratio from 1 April 2010
Prime Minister	188,848	3.11	3.20	3.30	3.40	3.50
Speaker, Cabinet Minister, Government Chief Whip	137,579	2.27	2.30	2.40	2.50	2.60
Leader of the Opposition	131,172	2.16	2.20	2.25	2.30	2.35
Solicitor General	127,683	2.10	2.15	2.20	2.23	2.25
Minister of State, Government Deputy Chief Whip, Opposition Chief Whip, Chairman of Ways and Means (Deputy Speaker)	100,567	1.66	1.70	1.75	1.80	1.90
First Deputy Chairman of Ways and Means (Deputy Speaker), Second Deputy Chairman of Ways and Means (Deputy Speaker)	95,736	1.58	1.62	1.66	1.70	1.75
Parliamentary Under Secretary of State	90,954	1.50	1.53	1.57	1.60	1.65
Government Whip, Assistant Government Whip, Deputy Opposition Chief Whip	86,348	1.42	1.44	1.46	1.48	1.50

Recommendation 10: We recommend that the salaries for the Prime Minister, Ministers and other office holders (excluding Select and Public Bill committee chairmen) in the Commons be set as ratios of the MP's salary, and that the ratios be increased in stages as set out in the table above.

Ministers and office holders in the House of Lords

The Lord Speaker

4.12 In February 2006 the Leader of the House of Lords asked us for advice on the salary for the new role of Lord Speaker, in advance of the decision to create the post and the subsequent election to it. We recommended as an interim measure that the post should receive the same salary as a Cabinet Minister in the House of Lords pending the findings of this current review. We then asked PwC to carry out a job evaluation of the post. The role is still evolving and it is therefore difficult to assess the job weight definitively, particularly given the possible reform of the second chamber. PwC's full report is reproduced in Volume 2 of this report. We therefore recommend that the salary of Lord Speaker be pegged at its current rate on a 'mark time' basis until the next review of parliamentary pay and expenditure, or until reform of the second chamber.

Recommendation 11: We recommend that the salary of Lord Speaker be pegged at its current rate on a 'mark time' basis until the next review of parliamentary pay and expenditure or until reform of the House of Lords.

The Lord Chancellor

4.13 As mentioned in the notes to Table 4.2 above, the Lord Chancellor is currently entitled in legislation to a salary £2,500 higher than that of the Lord Chief Justice, who from 1 November 2007 will earn £230,400. This arrangement reflects the fact that until recently the Lord Chancellor was head of the judiciary, as well as Speaker of the House of Lords and a Cabinet Minister. However, legislation has removed from the Lord Chancellor the role of head of the judiciary, and reforms in the House of Lords mean he no longer acts as Speaker. Accordingly, the previous Lord Chancellor drew only the salary of a Cabinet Minister in the House of Lords. There is no justification now for a higher salary and we recommend that henceforth the Lord Chancellor should receive the same salary as other Ministers of the same rank in the House in which he or she sits, and that the relevant legislation should if necessary be amended or repealed. We deal below with the Lord Chancellor's pension.

Recommendation 12: We recommend that where the post of Lord Chancellor is held by someone who also holds another ministerial post, that person should receive only the salary for that ministerial post.

Ministers in the Lords

4.14 Ministers in the Lords are paid less than those in the Commons because they do not have the role and responsibilities of constituency MPs. If Commons Ministers were paid at reasonable levels, then the salary of Lords Ministers could be set at that of Commons Ministers minus the MP's salary. However, as discussed above, in practice Ministers in the Commons are paid less than those with similarly weighted posts even in the public sector, especially when one considers that they are effectively doing two jobs.
The current salaries for Ministers in the Lords, together with the percentage of the corresponding Commons salary where appropriate, are shown in the following table.

Table 4.5: **Salaries of Ministers in the Lords and the percentage of corresponding Commons Minister's salary where applicable**

Lords ministerial post	**Current salary £**	**Percentage of Commons salary**
Cabinet Minister	104,385	76
Attorney General	109,201	n/a
Advocate General	94,794	n/a
Minister of State	81,504	81
Government Chief Whip	81,504	59
Government Deputy Chief Whip	70,986	71
Parliamentary Under Secretary of State	70,986	78
Government Whip	65,642	76

It appears that the role of the whips in the Lords is regarded as less onerous than in the Commons and that the Chief Whip in the Lords is equated in salary terms with the Deputy Chief Whip in the Commons and so on down the chain.

4.15 The salaries of Ministers in the House of Lords are likely to need overhaul following reform of the upper House, but for the time being we recommend that Ministers in the Lords receive the same percentage increases as corresponding Ministers in the Commons. So, for example, if in a given year the total salary of a Parliamentary Under Secretary of State (PUSS) in the Commons increases by 2 per cent as a result of the linkage to an MP's salary, then the salary of a PUSS in the Lords should also increase by 2 per cent.

Recommendation 13: We recommend that with effect from 1 April 2007 Ministers in the House of Lords receive the same percentage increase in their salaries as Ministers of the same rank in the Commons.

Other office holders in the Lords

4.16 The first three posts in the table below are currently linked to ministerial posts in the Lords: the Leader of the Opposition is paid the same as a Parliamentary Under Secretary of State; the Opposition Chief Whip is paid the same as a Government Whip and the Chairman of Committees is paid the same as a Minister of State. We have no evidence to suggest that these linkages are no longer appropriate and we therefore recommend that they remain for the time being but should be reviewed as part of the wider review of remuneration for a reformed second chamber.

Table 4.6: **Other salaried posts in the House of Lords**

Post	**Current salary £**
Leader of the Opposition	70,986
Opposition Chief Whip	65,642
Chairman of Committees	81,504
Principal Deputy Chairman of Committees	76,250

4.17 The salary of the Principal Deputy Chairman of Committees is linked to that of the Chairman of Committees. His salary should continue to increase by the same percentage as that of the Lord Chairman.

Recommendation 14: We recommend that the Leader of the Opposition, Opposition Chief Whip and Chairman of Committees in the House of Lords continue to be paid the same as, respectively, a Parliamentary Under Secretary, Government Whip and Minister of State, all in the Lords. The Principal Deputy Chairman of Committees should receive the same percentage increase in salary as the Chairman of Committees.

Severance payments for Ministers

4.18 In its memorandum the Government asked us to review severance payments to Ministers. Payments equal to three months' of the Ministerial supplement (i.e. excluding the base MP's salary) are currently made to all salaried Ministers and other office holders leaving office at any time and for any reason, provided that the person concerned has not reached the age of 65 and is not appointed to another relevant ministerial paid office, in either House, within a period of three weeks. Severance payments for Ministers in the Lords were introduced in 1984, following a recommendation from this Review Body which recognised that, unlike Ministers in the Commons, they had no parliamentary salary to fall back on. In 1988 our predecessors recommended that payments be extended to other Ministers, subject to the conditions that form the basis for the current arrangements, and this was enacted in the Ministerial and other Pensions and Salaries Act 1991. The argument for extending the scheme to Commons Ministers and paid office holders was that they are required to relinquish all other paid interests on appointment and a severance payment is appropriate to cover the period during which they seek new sources of income. The Prime Minister, Lord Chancellor and Speaker are excluded from the scheme because of their pension arrangements, discussed below.

4.19 The Government invited us to consider:

- the need for a provision for repayment to cover situations where eligible Ministers and other office holders are reappointed to office outside the three-week cut-off point; and
- whether the bar on Ministers receiving severance pay if they are over the age of 65 remains appropriate in the light of the recent legislation on age discrimination.

4.20 Having considered this matter we recommend that where a Minister or other office holder is reappointed to a salaried office within three months of leaving office, the severance payment should be reduced pro rata and the balance repaid, e.g. someone reappointed two months after leaving office should repay one third of the severance payment. We agree that the age restriction should be abolished, as it has been for redundancy payments. The Prime Minister, Lord Chancellor and Speaker should be covered by the scheme if and when they give up their special pension arrangements (see below).

Recommendation 15: We recommend that:

- **where a Minister or other office holder is reappointed to a salaried government or parliamentary post within three months of leaving office, the severance payment should be reduced pro rata and the balance repaid;**

- **the age restriction on ministerial severance payments should be abolished; and**

- **the Prime Minister, Lord Chancellor and Speaker should be covered by the scheme if and when they cease to be entitled to their special pension arrangements.**

Pensions of Ministers and other office holders

4.21 Ministers and other office holders in both the Commons and the Lords receive pensions broadly in line with those of MPs. They pay contributions at the same rate of salary and receive preserved pension rights proportional to their salary. This is similar in effect to a career average pension scheme and reflects the fact that many MPs who become Ministers cease to be in ministerial office before the end of their parliamentary careers. No issues have been raised with us on the general scheme for Ministers.

4.22 We nevertheless believe we should comment on the special pension arrangements of the Prime Minister, Lord Chancellor and Speaker of the Commons. Under the Ministerial and Other Pensions and Salaries Act 1991, the holders of these three offices are entitled to receive pensions equivalent to half of salary immediately on leaving office, regardless of length of service. On appointment the Prime Minister and Speaker may also choose between having all of their net contributions to the PCPF refunded, or those prior to February 1991. In the former case, no benefits are then payable from the PCPF. In the latter, benefits are paid from the PCPF in respect of service since February 1991.

4.23 As explained in paragraph 4.6 above, we understand that the intention behind these pensions was to ensure that former holders of these offices should not need to seek further employment, and that the Lord Chancellor should not have to return to legal practice. However, although these pension arrangements stem in large part from recommendations of our predecessors, we believe they are no longer justified. We come to this conclusion partly because we consider that former office holders are most unlikely to suffer financial hardship. They are likely to have plenty of suitable employment or other earnings opportunities and good pensions from the PCPF when they reach retirement age. Since their arrangements were established, there have been many improvements to the PCPF, including the option for 1/40th accrual. Our proposals on ministerial salaries are also relevant. A further consideration is that these pension arrangements appear increasingly anomalous at a time where rising life expectancy and reduced investment returns have led to higher contributions, reduced benefits or both in many occupational schemes. We therefore recommend that the special arrangements for the three office holders should be ended. We appreciate that the current post holders may have legitimate expectations – indeed it would probably constitute retrospective effect to change their entitlements which have been in place from the first day in office – so we recommend that the change, which will need legislation, should not take effect until there is a change in the holder of each of the offices subsequent to the passing of the legislation.

Recommendation 16: We recommend that the special pension arrangements in place for the Prime Minister, the Speaker of the House of Commons and the Lord Chancellor not be extended to new incumbents of these offices after the passing of the necessary legislation to end the existing arrangements. Instead those three office holders should be covered by the Parliamentary Contributory Pension Fund and arrangements for ministerial severance payments.

Chapter 5

House of Commons expenses

Introduction

5.1 We have been asked to review the level of what are known as the allowances for members of the House of Commons. In fact, as we point out in Chapter 1, most of the so-called allowances are in fact mechanisms for the reimbursement of expenditure actually and necessarily incurred by MPs in order to do their jobs. They need to employ staff. They need to pay for offices for their staff to work in or to hold surgeries. They need to communicate with constituents both on individual casework and through general reports. They need to travel in their constituencies, to get to Westminster and to undertake other official duties. They incur costs for working long periods away from home and they may incur winding-up costs even after they have ceased to be MPs. A few MPs themselves do not clearly understand that the purpose of the allowances is only to reimburse necessary expenditure on these items, since they suggested in evidence to us that they should be able to donate the unspent balance of allowances to charity or their party. We believe it would help to avoid misunderstanding or misrepresentation if allowances were renamed to make as clear as possible that this is not money which in some way augments MPs' salaries, but indeed is expenditure necessarily incurred to do the job their constituents and the nation expect of them.

5.2 A fair system for reimbursing necessary expenditure is therefore essential if MPs are to be able to do their jobs properly. The challenge is to put in place a system that achieves this efficiently and without unnecessary bureaucracy, while safeguarding the interests of taxpayers by ensuring that expenditure is only for proper purposes and represents value for money. Both the Advisory Panel on Members' Allowances and the Committee on Standards and Privileges encouraged us to achieve 'tautness' in the setting of allowances and that has been one of our objectives. In addition, spending by MPs should not provide an undue advantage to incumbents when it comes to elections. The system which has been built up over the years achieves that end and is the product of experience. We have already commended in Chapter 1 the guidance on propriety of expenditure in the Green Book[12]. Much of what we propose below seeks to reflect changing circumstances, e.g. MPs' growing load of casework, but some proposals are aimed at increasing transparency and confidence in the system.

5.3 Although there is much comment about MPs' allowances in the press, we have received no substantive evidence to suggest that MPs are abusing the system. Indeed, the UK Parliament is one of the most scrutinised in the world. Details of allowances claimed by MPs in the previous allowances year are now published each October, but the figures can prompt further questions about the reasons for the variation in individual expenditure. For example, MPs with constituency offices face higher costs than those whose staff are housed on the parliamentary estate, but it would be misleading to characterise them as "higher spending MPs" because the costs of housing staff on the estate are effectively hidden. We share MPs' concern about the way in which allowances are portrayed and we support them in their desire to promote better understanding of the expenses regime. However, we believe that some additional measures should be put in place to improve the transparency of the system. We note, for example, that the Scottish Parliament now publishes MSPs' claims quarterly and in greater detail than in Westminster[13]. In other areas of the public sector as well as in the private sector it has

---

12 *The Green Book*, Department of Finance and Administration, House of Commons, July 2006, http://www.parliament.uk/documents/upload/HofCpsap.pdf

13 http://mspallowances.scottish.parliament.uk/MSPAllowances/default.aspx

been good practice for some time for expenses to be paid only on production of receipts for all expenditure and for claims to be subject to regular audits. We therefore suggest that the concerns and criticisms surrounding MPs' allowances could best be addressed through greater openness about what is claimed and the reasons for this, and with more formal audit arrangements.

5.4 At present MPs do not need to submit receipts for items costing up to £250 under some of the allowance headings. This rule was introduced by the House Authorities to cut down on paperwork. However, it is out of line with good practice and has the potential to equate to several thousand pounds of expenditure a year for which there is no validation. It is reasonable for MPs to have petty cash for minor items. We do not expect MPs to provide receipts for petty items such as batteries or light bulbs. However, in the interests of transparency, we recommend that in future the House should agree that each MP should not be able to claim more than £50 in total each month for items without receipts.

Recommendation 17: We recommend that the House agree that the ceiling for reimbursement of unreceipted expenditure be set at £50 per member per month.

5.5 In addition, we believe it would help to increase public confidence in the system of reimbursing MPs' expenditure if MPs were to agree that each year a small sample of MPs, perhaps 5 – 10 per cent, were to have their expenditure claims audited by the National Audit Office.

Recommendation 18: We recommend that the House of Commons request the National Audit Office to audit the expenses of a representative sample of MPs each year.

5.6 The full list of the current allowances is at Appendix B. At present, allowances are uprated each year in April at the start of the financial year by the appropriate index. The Green Book provides useful and detailed information on allowances, together with information on pay, pensions, responsibilities for employees and sources of advice. Details of salary and allowance levels are published separately in the Quick Guide[14] which is also updated each April.

5.7 While there was no change in Government resulting from the 2005 general election, nearly a fifth of the MPs in the subsequent Parliament were newly elected. We found that this group had particular issues with some of the allowances which are discussed later in this chapter.

5.8 We now address in turn the main types of expenditure which MPs incur in carrying out their duties.

Expenditure on employing staff

5.9 MPs need to employ staff as caseworkers, office managers and to provide office and secretarial support. MPs are the employer (with all the obligations that entails) but the House authorities set out guidance to MPs, including appropriate pay scales. MPs can currently employ up to three full-time equivalent paid staff using the Staffing Allowance. The Staffing Allowance is uprated each year in April, using the whole economy Average Earnings Index, and covers salary, National Insurance contributions, overtime, bonuses,

[14] http://www.parliament.uk/documents/upload/HofCpsapQG.pdf

severance payments, travel, subsistence and other staffing expenses such as bought in services. In addition, MPs are able to claim Temporary Secretarial Allowance (TSA) to cover the extra staffing costs if permanent members of staff are absent from work.

5.10 Up to 10 per cent of the Staffing Allowance can be transferred to Incidental Expenses Provision (IEP) in any one year to assist in the running of constituency offices. Similarly, the Staffing Allowance can be supplemented from IEP or even from MPs' own salaries (without any tax relief). MPs appreciate the flexibility to transfer funds between the Staffing Allowance and IEP. The cost of bought-in services such as consultancy and cleaning services can be met from either the Staffing Allowance (as long as it does not exceed 25 per cent of this allowance) or IEP.

5.11 At the end of the allowances year, any unspent Staffing Allowance can be used for bonuses or overtime payments to staff and up to 10 per cent of the allowance can be carried forward into the next year subject to certain rules.

5.12 These arrangements for reimbursing expenditure on staff appear reasonably sound. However, in line with our policy to make clear that MPs are reimbursed for necessary expenditure, we recommend that the Staffing Allowance be redesignated 'Staffing Expenditure'.

Recommendation 19: We recommend that the Staffing Allowance be renamed Staffing Expenditure, and Temporary Secretarial Allowance be renamed Temporary Secretarial Expenditure.

5.13 In our last report we recommended different rates for the staffing allowance depending on whether staff were based in London or outside London. MPs voted to apply the staffing pay ceiling we had calculated as being appropriate where staff were based in London, and where salaries are evidentially higher than outside London, to all MPs irrespective of the location of their staff. This removed the differential we had proposed to compensate for the higher cost of London-based staff. At the time there was some suggestion that we were trying to influence where MPs based their staff. This was not so. We were simply trying to reflect the economic reality of regional pay that, on average, staff in London are paid more than elsewhere. (We make a proposal on office costs below which is also designed to take account of local variations in office costs.)

5.14 We remain convinced that it is right that MPs should be able to pay their staff in London a supplement. PwC's analysis fully supports us in this view. Indeed, one MP told PwC he thought he should be able to pay staff more in London. This is what we had recommended. We therefore again recommend that there should be a differential in the ceiling on staff pay according to whether or not staff are London-based and that the ceiling for staff in London should be higher than that for staff outside London. We set out the recommended rates in Recommendation 20 below which also takes account of our proposed increase in the maximum number of staff an MP may employ. We believe the House authorities should develop separate pay scales for staff in and outside London, but this should not lead to an increase in the salaries of London staff since in most cases they will already include a London element, even if it is not explicit.

5.15 Staffing expenditure data provided by the Department of Finance and Administration to PwC show that 87 percent of MPs employ three or more members of staff and on average each MP employs the equivalent of 2.9 full-time members of staff. This has increased since our last review in 2004 when we noted that 14 percent of MPs employed three or more full-time (or equivalent) members of staff and on average each MP employed 2.3 full-time (or equivalent) members of staff. These figures are drawn from analyses of paid staff and do not include unpaid staff such as interns and volunteers who assist MPs but who are not paid from the public purse.

5.16 MPs have told us of the growing pressure on the staffing allowance and argued a strong case, based on workload, for increasing staffing levels. About a third of MPs submitting written evidence commented on the high workload levels and we heard similar comments during oral evidence sessions. MPs are now more accessible and can be contacted by e-mail at any hour. With this form of communication comes the expectation of a fast response. At the same time casework, such as that involving immigration and benefits issues, has increased and whereas in the past MPs were able to turn to other agencies in the resolution of cases, they and their staff find that they are now often the prime source of support. It was also reported to us that some members of the public increasingly see their MP as the initial point of contact, rather than last resort, for dealing with issues such as housing, particularly in inner London constituencies. In the past MPs would have become involved in these cases only if approaches to other agencies had been unsuccessful. Further pressure on the staffing allowance has recently emerged following the issue of guidance to MPs making clear that in some circumstances 'interns' and other workers whom MPs had considered to be volunteers may fall within the definition of workers for the purposes of the national minimum wage.

5.17 We agree that the workload has increased for many MPs, and should be reflected in the level of staffing available to MPs who are already under pressure in this respect. However, some MPs may see it to be to their advantage to maximise their constituency work as an aid to re-election (see paragraph 5.20 below). We do not, therefore, believe a dramatic change in the ceiling on staffing levels is justified. We recommend increasing the Staffing Expenditure to cover the cost of employing the equivalent of an additional half of a caseworker.

Recommendation 20: We recommend that the Staffing Expenditure ceiling should increase to allow MPs to employ up to 3.5 full-time (or equivalent) members of staff.

5.18 The current staffing allowance is £90,505. This figure has been reached by the annual uprating of the figure (£80,460) we recommended in our 2004 report that should apply where all of an MP's staff were employed in London. We recommended a lower total, £72,000, where all staff were outside London, but, as noted in Chapter 1, the House of Commons voted to give all MPs the higher figure. Those figures were calculated to allow MPs to employ up to three full-time equivalent staff comprising an office manager or executive secretary, a researcher or parliamentary assistant and a junior secretary.

5.19 PwC calculate the annual cost of a caseworker (including salary, bonus provision and National Insurance at 12.8 per cent) at £22,504 outside London and £24,280 in London. PwC recommend that the rate in London should be about 6 per cent higher than the rate elsewhere. This means the total figure where all staff are based outside London should (allowing for rounding) currently be capped at £85,380. Adding the cost of half of a caseworker to the figure where all staff are based in London produces a (rounded) total of £102,650. The (rounded) figure for outside London taking account of the additional half an employee equivalent is £96,630 (£85,380 plus half of £22,504). We therefore recommend that the ceiling on staffing expenditure (before the increase proposed below) be £96,630 where all staff are based outside London, this figure to be increased by £1,720 for each full-time equivalent member of staff based in London, to a maximum of £102,650.

Recommendation 21: We recommend that the ceiling on Staffing Expenditure for the equivalent of 3.5 full-time staff where all those staff are based outside London should be £96,630.

Recommendation 22: We recommend that the ceiling on Staffing Expenditure for the equivalent of 3.5 full-time staff should be increased by £1,720 for each full-time equivalent member of staff based in London, up to a maximum of £102,650 where all staff are based in London.

5.20 Although we have recommended an increase in staffing levels, in response to the findings of our consultants on workload and the evidence from MPs themselves, we are concerned that the volume of casework appears to be growing inexorably. Some MPs appear to welcome or accept this, at least in part because of the opportunity it offers for them to raise their profile with their constituents, although others feel that it detracts from their other roles of scrutinising legislation and holding the executive to account. The public reliance on MPs to intercede with public authorities could be seen as a failure on the part of those authorities to deal properly with their clients, as well as of ombudsmen and other appeal mechanisms. On the other hand it might be argued that some MPs could do more to encourage their constituents to pursue more appropriate avenues before seeking assistance from MPs. It is not for us to reach a judgement on this but we believe it is time for serious consideration be given to the role of MPs and their staff as caseworkers and intermediaries with public authorities, not least because we suspect that in some cases employing more staff may lead to an increase in the volume of casework. In addition, the increasing numbers of MPs' staff are arguably an aid to incumbents since they increase the possibilities for contacts with and intervention on behalf of constituents.

5.21 Members of staff are employed directly by MPs but their salaries are paid centrally by the House authorities. They have agreed pay scales and standard contracts. Although as noted in paragraph 5.9 the ceiling on Staffing Allowance is uprated in April each year by the increase in the Average Earnings Index, the pay of staff is not automatically increased: it is for MPs individually to advise the House authorities of any increase they decide to pay their staff and we heard evidence from staff representatives that annual increases do not always take place. Suggestions made to rectify the situation included the automatic uprating of salaries, and that the House authorities should write to each MP to say that the uprating would take place unless the MP objected. We understand that only very few MPs fail to uprate staff salaries each year and we accept that there may be legitimate reasons, notably related to performance, for this. Many groups of workers no longer receive automatic increases. We therefore make no recommendation on this topic but believe the House authorities should consider issuing a notice to MPs in March to remind them of the opportunity for uprating.

Parliamentary Resources Unit (PRU)

5.22 We received evidence from the Chairman of the Parliamentary Resources Unit which is a pooled research facility funded from MPs' allowances. It provides factual research and briefing to Conservative MPs. In principle we welcome pooled research and support facilities for MPs since these have the potential to provide better value for money, but we believe they should be staffed and funded from within the existing ceilings on staff and expenditure (or possibly, where they serve a single party, from 'Short money'). We understand the Parliamentary Resources Unit has some difficulties, for example because its staff are excluded from the pension arrangements applying to individual MPs' staff.

We consider that the MPs and staff concerned should not be disadvantaged because those MPs choose to employ staff collectively rather than individually and we urge the House authorities to facilitate such arrangements, provided they do not have the effect of circumventing in any way the normal limits on staffing and expenditure.

Expenditure on offices

5.23 The Incidental Expenses Provision (IEP) is designed to cover the costs of office and 'surgery' accommodation, equipment and supplies for the office or 'surgery', work commissioned and bought in services, communications and certain travel (e.g. for staff). Claims against IEP can be paid directly to suppliers by the House authorities or paid by the MP and claimed back later. In general, only individual claims of £250 or more need to be substantiated with receipts or invoices. (We have recommended above that this figure should be reduced to £50 per member per month for all expenses.) The guidance makes clear that personal costs or the expense of party political campaigning are not covered.

5.24 IEP is adjusted each year in line with the movement in the Retail Prices Index and currently stands at £21,339 (1 April 2007 rates). In addition, it is possible to transfer up to 10 per cent of the staffing allowance to IEP.

5.25 In conjunction with IEP, the House provides office accommodation on the parliamentary estate free of charge and we heard from MPs who believed that this can act as an incentive for MPs to base their staff there rather than setting up an office in their constituencies. They are then typically free to transfer any surplus into staffing budgets, an option not available to MPs with constituency accommodation outside the parliamentary estate. We addressed this issue in our last report after we had received evidence from MPs who based the majority or all of their staff away from the parliamentary estate and who felt they were being disadvantaged by being largely based in the constituency. We sympathised with that argument and recommended that IEP should be increased from £19,325 to £27,500, but that the sum should be abated by £7,500 for every workstation an MP kept on the parliamentary estate for a member of staff. The reasoning for this recommendation is explained more fully in our last report.[15] However, the House voted to reject that recommendation. At the time, some MPs objected that the SSRB was straying outside its brief in seeking to tell MPs where to locate their staff. That was most definitely not our intention: we simply sought to treat MPs equally so that no financial advantage or disadvantage flowed to them or the taxpayer from their individual decisions on where to locate their members of staff. The principle we proposed remains sound and we set out further recommendations below to give effect to it.

5.26 Since we last reported, various changes have become appropriate to the structure of the IEP, particularly in relation to office costs and communication expenses. During this review we heard evidence from MPs that IEP was not sufficient to cover the rental costs of reasonable office accommodation in some of the more expensive parts of the country, especially if offices are to be located in town centres where rents are usually high. PwC reported, on the basis of information from the House authorities, that average office rental costs incurred by MPs were £5,000. However, they also noted that office rental costs vary widely. A sample of locations suggested that the typical annual rent per square foot for offices averaged £22 but varied by location from £14 to over £30 in London. Some MPs made similar points in their evidence and gave examples of office costs in their constituencies which simply could not be afforded under IEP. We do not believe MPs should have extravagant offices and they need not be in prime locations,

---

[15] Review of Parliamentary Pay and Allowances, Cm 6354-1, October 2004

but if an MP believes that he or she needs an office in the constituency, it should be reasonably central so that constituents have ready access. We have considered how the IEP ceiling could be adjusted to allow for the wide variation in costs across the country but we cannot find a simple, workable solution using a single figure for a cap to the expenditure. Instead, we propose a cap on the maximum reimbursable floor area for an MP's constituency office. In calculating the maximum reimbursable area we have sought to allow for office space for the MP and up to four staff as well as for space for meeting constituents or other visitors. We have also referred to publications of the British Council for Offices and the National Audit Office. However, as with all ceilings, we expect many MPs to be able to manage with less.

5.27 We therefore recommend that, in order to ensure that MPs in high cost areas can afford reasonable constituency offices, actual office and 'surgery' lease or rental costs should in future be met in full subject to the following conditions:

(i) the maximum area of the premises for which cost reimbursement can be claimed should be 800 square feet, with this area to be reduced by 100 square feet for each member of an MP's staff who is based on the parliamentary estate (so an MP with all 3.5 staff on the estate would be entitled to reimbursement for a maximum of 400 square feet); and

(ii) before renting or leasing premises an MP must obtain and forward to the House authorities a certificate from an independent chartered surveyor (i.e. one not otherwise involved in the transaction) stating that the premises are suitable for the purpose and that the cost is reasonable in relation to typical office premises in the constituency. The cost of obtaining that certificate should itself be reimbursable as part of the cost of the office.

5.28 We believe that this recommendation will enable MPs who cannot at present afford to rent constituency offices within the IEP ceiling to do so in future. It should also help to relieve pressure on the parliamentary estate, although that is an incidental benefit and not the purpose of the proposal. In addition, we believe this recommendation will help newly elected MPs, some of whom told us that IEP is insufficient to cover initial start up costs and running costs in the first year or so.

5.29 As a transitional measure, MPs who currently have premises larger than the suggested limits should be allowed to keep them and continue to claim the actual cost until the expiry of the lease or the next election, whichever is sooner.

Recommendation 23: We recommend that office and 'surgery' lease or rental costs should be met in full up to a maximum area of 800 square feet, this area to be reduced by 100 square feet for each member of an MP's staff who is based on the parliamentary estate. Before renting or leasing premises an MP must obtain a certificate from an independent chartered surveyor stating that the premises are suitable for the purpose and that the cost is reasonable in relation to typical office premises in the constituency.

5.30 As a consequence of meeting the costs of premises separately and in full, IEP should be reduced by the average cost of premises currently met through the IEP (currently £5,000) and should be renamed Other Office Expenditure. In our last report we recommended that IEP should be reduced by £7,500 for each member of an MP's staff who has a workstation on the parliamentary estate. This was intended to reflect the saving to the MP on rent, utilities, IT etc. from basing staff in parliamentary buildings as opposed to an office constituency. The House rejected this proposal, although it did not vote for the linked recommendation to increase IEP to £27,500. We still believe an offset for staff based on the parliamentary estate is justified for two reasons: because there is a hidden cost to the taxpayer in providing workstations on the estate, and because otherwise MPs who choose to base their staff in their constituencies would be disadvantaged. However, our recommendation on office costs goes some way to addressing this, by reducing the allowable reimbursable area of constituency offices when staff are based in Westminster. We therefore recommend that the ceiling on Other Office Expenditure be reduced by £2,500 for each member of an MP's staff with a workstation on the parliamentary estate.

5.31 We emphasise again that in making this recommendation we are seeking to make the choice of where an MP's staff are located cost neutral. We are not seeking to influence that choice. An MP who employs staff based in London will normally have to pay higher salaries than for staff outside London, and we have (again) taken account of this in our proposal above on staffing expenditure. On the other hand, an MP who bases staff on the parliamentary estate does not have to pay rent and other costs and we have sought to reflect this in our proposal to reduce the maximum size of constituency office and the maximum amount of other office expenditure to take account of staff based on the estate. We believe this is a balanced and economically sound approach.

Recommendation 24: We recommend that Incidental Expenses Provision should be renamed Other Office Expenditure and that the ceiling be reduced by £2,500 for each member of an MP's staff with a workstation on the parliamentary estate.

5.32 We heard in evidence from MPs and PwC that some MPs were worried about the safety of their staff because IEP is insufficient to cover necessary security measures in some constituency offices. The House authorities advise us that there is a special facility for reimbursing expenditure for security measures in MPs' offices and 'surgeries'. The first £1,000 of the cost of such measures must be met from IEP because that provision contains a notional £1,000 for office security. Where the police recommend specific security measures for an MP's office or 'surgery' costing more than £1,000, the House authorities will pay half of the additional cost up to a maximum contribution of £1,500. So in practice an MP can spend up to £4,000 on security recommended by the police and need fund only a maximum of £2,500 from IEP or other sources. This seems to us to be a sensible arrangement which provides additional assistance to MPs where the police recommend measures costing more than the £1,000 allowed for in IEP, but discourages unnecessary spending by requiring a contribution from the MP. We have not received any evidence to suggest that this arrangement, or the financial limits, need amendment and accordingly we do not recommend any change. However, it is possible that not all MPs are aware of this facility and the House authorities may wish to draw it to their attention.

5.33 We believe it is reasonable for the excess to be reimbursed outside the normal limits in expenditure since not to do so could put MPs or their staff at risk. We expect that this will normally be 'one-off' expenditure, e.g. for building alterations or to install 'panic buttons', and that the £500 figure in Other Office Expenditure will suffice for recurring costs such as alarm maintenance.

5.34 The new Communications Allowance recently approved by the House of Commons has led us to consider the communications element of IEP and we note that up to 100 per cent of IEP can be transferred to the Communications Allowance. The House authorities have issued guidance to clarify which expenditure should henceforth be reclaimed under IEP (or Other Office Expenditure as we propose it should become) and which from the new Communications Allowance. IEP contained an element of £5,000 to cover communications, staff travel and other expenditure. Given the creation of the new Communications Allowance, we believe that element in the IEP/Other Office Expenditure should be reduced by half (£2,500) to reflect the fact that there is now a separate budget for communications.

Recommendation 25: We recommend that the ceiling for Other Office Expenditure (before any reduction for staff based on the parliamentary estate) should be £13,839.

5.35 To summarise: we have recommended a new approach to the reimbursement of an MP's office costs based on actual expenditure, to be abated to the extent MPs make use of free office accommodation and facilities provided for them on the Westminster estate. We have endorsed the existing mechanism for sharing the costs of new security standards recommended by the police. We have reduced the amount included in IEP for communication because MPs have already decided on a separate communications allowance. With these changes we believe the IEP is better described as "Other Office Expenditure" and we recommend maximum expenditure allowable under this heading should be set at £13,839 to be abated by £2,500 for each member of an MP's staff based on the Westminster estate.

Provision of IT equipment and support

5.36 We have been asked to make recommendations on the adequacy of the current provision of IT equipment. MPs are currently entitled to one laptop, four desktop computers and two printers. Any other equipment that is required can be purchased through IEP.

5.37 On the whole MPs are satisfied with the **quantity** of IT provided and reported that this had improved in recent years. Where MPs felt they needed other equipment, for example a printer with a higher specification, they had been able to purchase one of their choice using IEP. There was less satisfaction with the **quality** of the equipment and also with the level of support and speed of response provided both centrally and in constituencies. We consider that the provision of IT equipment is adequate and make no recommendation for change to the current level of provision. However, we do urge the House authorities to try to address the issues raised by MPs about the quality of equipment and the level of support.

Communications expenditure

5.38 A new allowance designed to increase public understanding of parliamentary matters was introduced on 1 April 2007. The Communications Allowance covers the costs of communicating with constituents collectively about parliamentary business, for example through constituency newsletters, annual reports and websites. It is currently set at £10,000 and MPs are also able to use centrally purchased stationery and pre-paid postage free of charge, but capped at a value of £7,000, for individual correspondence. Prior to the introduction of the Communications Allowance, MPs could use the IEP to fund some or all of the costs of a website or printing and distributing publications to constituents and there was no cap on centrally provided stationery and postage, resulting in some extraordinarily high usage.

5.39 We heard from MPs who were concerned that the allowance would provide a means of greater contact and influence with constituents that would give incumbent MPs an unfair advantage at a General Election. The allowance could also increase the volume of correspondence an MP receives and subsequently apply more pressure on Staffing Expenditure to cope with the extra workload. At this stage it is too early to judge; we will consider this allowance more substantially in our next review. However, we are again encouraged by the guidance the House authorities have issued on the use of the allowance which makes clear that it is not to be used for personal or party campaigning.

5.40 PwC looked at the cost of printing leaflets and found that £10,000 would cover the cost of producing and hand delivering two leaflets and two flyers or two reports to just under 40,000 households. They concluded that this was a reasonable sum to cover the cost of current communications activities plus the cost of printing extra communications to constituents each year and operating a website. We therefore endorse the setting of the Communications Allowance at £10,000 although in line with our general recommendations on terminology, we suggest that this element be renamed Communications Expenditure. We believe this allowance should be updated annually in line with movement in RPIX.

Recommendation 26: We recommend that the Communications Allowance be renamed Communications Expenditure and be confirmed at £10,000 a year. It should be uprated in April each year in line with movement in RPIX.

Expenditure on travel and accommodation

5.41 MPs are entitled to claim for reasonable travel, whether by public transport or by private car (with the associated parking costs), which is necessary for their parliamentary duties including attendance in the House, visits on constituency business and travel relating to matters currently before the House or a select committee on which they serve. Travel between the main home, Westminster, and the constituency, and some European travel are also included but a number of exclusions apply including congestion charges and some road tolls, e.g. the M6 Toll motorway.

5.42 Following recommendations in our last report, the current mileage rates are set in line with approved HMRC rates[16] and are reimbursed at the following rates:

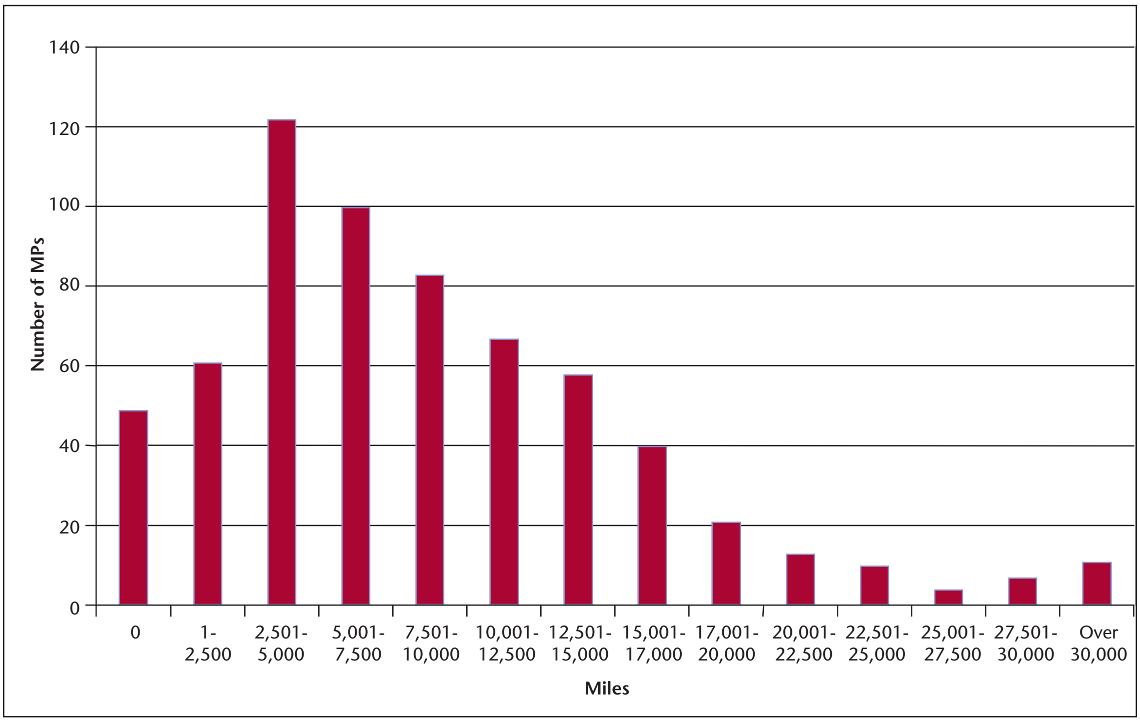
- car allowance: 40p per mile up to 10,000 miles and 25p a mile for any additional mileage;
- motorcycle allowance: 24p per mile; and
- bicycle allowance: 20p per mile.

5.43 The structure and level of car allowances concerned 38 MPs who provided written evidence as well as several who gave oral evidence. We received no representation on the mileage rates for motorcycles and bicycles. A small number of MPs suggested that the car mileage allowance is set at the correct rate or even too high, and cited environmental concerns to justify maintaining the current levels. However, the majority of MPs discussing this issue suggested that the mileage allowance for car use should be increased. Many of this group claimed that the current mileage rates do not fully cover the capital costs of running a car and that, when depreciation is taken into account, cars essential for their work are being run at a loss. It is not clear what view these MPs took of the contribution to be made to capital costs for their private mileage. This concern with current mileage rates was felt strongly by some MPs with large, rural constituencies and those based some distance from Westminster. One suggestion to deal with this was the introduction of lease cars for MPs, a system used by the Australian Government, and we suggest that the House authorities might explore this possibility. The Advisory Panel provided evidence arguing that use of a car is essential for most MPs and that "Members are often subsidising the cost of essential travel from their own pockets".

[16] http://www.hmrc.gov.uk/rates/travel.htm

5.44 An analysis of the number of miles claimed by MPs shows that 39 per cent of those making claims (231 MPs out of 597) claim reimbursement for more than 10,000 miles per year. The chart below gives more information on the distribution of car mileage claimed by MPs.

Chart 5.1: **Distribution of car mileage claims for 2005–06**



5.45 PwC also heard evidence from MPs that the mileage rates set by HMRC were inadequate and accordingly conducted a small survey of the rates used by some private sector companies. Most of those who responded reported that they used the HMRC rates to reimburse members of staff who used their own vehicle for business travel. Additionally, PwC reported that many public sector organisations also use the approved HRMC rates. Analysing the matter further, PwC considered the cost of owning and running a car, including fuel costs, and also the extent to which the car is used privately. They found that the HMRC mileage rates are adequate for covering the cost of running a medium-sized car which is also used for a reasonable amount of private mileage. Those rates do not necessarily cover the costs of larger cars or where there is little or no private mileage.

5.46 We also looked at the costs of running a car published by the AA and cited by the Advisory Panel in its evidence to us. The main difference between the PwC and AA rates is that the PwC rate assumes fixed annual costs for repairs and maintenance while the AA rate assumes these elements vary according to the total mileage undertaken in the year, but with most cars now requiring servicing only every 10,000 miles or more, the differences between these two approaches are not large. Using PwC's calculation, the current HMRC mileage rates would cover the costs of running a medium-sized car for up to 15,000 miles per year, while according to the AA method of calculation the current rates do not fully cover the costs of most usage patterns, though the shortfall is not large. However, it also needs to be borne in mind that MPs are reimbursed the costs of travelling between their home and work and in most cases that reimbursement is not taxable, whereas virtually all other workers have to meet the cost of travelling to work out of their own, taxed income. This could reasonably be regarded as offsetting any small loss borne by MPs in using a medium-sized car for parliamentary business.

5.47 We recognise that MPs who choose to run large cars, drive over 15,000 miles a year or have no private mileage, may not recover their full costs from the current mileage rates. Against that, MPs have the advantage of having their travel between home and work reimbursed, and for most this benefit is not taxable, instead of having to pay for it out of taxed income as most employees do. Moreover, the current HMRC mileage rates are clearly intended to discourage the use of large cars for environmental reasons. Since the evidence suggests that most organisations, including the civil service, apply these rates or similar arrangements[17], we recommend no change to the current mileage rates.

5.48 Other representations made by MPs concerning travel included travel to EU member states. With enlargement of the EU, some MPs felt that the number of allowable return journeys should be increased from three return journeys each year and that the subsistence allowance of two nights per visit should be increased to reflect the increased distance of some of the newer member states. It is not clear to us why MPs should need to travel regularly to the EU individually (as opposed to with a select committee or delegation where separate arrangements apply) on parliamentary duties. We have received no evidence to demonstrate that the need for such travel has increased. We therefore recommend no change to the current arrangements.

5.49 In its memorandum to us, the Government said that it had received representations that the present arrangements for funding visits to the devolved legislatures by MPs with Scottish, Welsh and Northern Ireland constituencies are inadequate. We did not receive any such representations from MPs.

5.50 We did, however, hear evidence on the reimbursement of hotel accommodation costs necessarily incurred on journeys that cannot be completed in one day, typically journeys to island constituencies. At present this expenditure may be reimbursed only through IEP, rather than treated as a travel cost. We suggest that the interpretation of the House rules on this matter ought to be more sympathetic to this necessary component of the total travel cost. We note in this context that the current rules specifically allow for reimbursement under travel expenditure of sleeper accommodation on a train, and we cannot see the distinction between this and the requirement to spend a night in a hotel as part of a journey because, for example, flight schedules make it impossible to complete the journey in a single day.

5.51 We also heard from MPs who suggested that spouses' and civil partners' travel costs allowance should be extended to unmarried partners. They pointed out that the rules relating to this allowance were at odds with the way unmarried partners are treated in pension schemes. We agree and therefore recommend that partners of MPs who are named in the PCPF as sole beneficiaries should be entitled to the same travel arrangements available to spouses and civil partners.

Recommendation 27: We recommend that partners of MPs who are named in the Parliamentary Contributory Pension Fund as sole beneficiaries should be entitled to the same travel arrangements available to spouses and civil partners.

[17] For example, the current police rates for essential users are 32p – 43.4p per mile for the first 8,500 miles and 12.1p – 14.4p per mile thereafter, with an annual lump sum of £726 – £1,056, all dependent on the size of car. The lump sum and the excess (if any) over HMRC rates are taxable.

Additional Costs Allowance

5.52 All MPs with constituencies outside London need to divide their time between London and the constituency and as a result incur substantial additional costs, either for buying or renting a second home or on hotels. This is necessary expenditure to allow them to carry out their parliamentary duties and should, according to the principles we set out in Chapter 1, be reimbursed. Again the Green Book guidance is excellent. It states, for example, that MPs should avoid purchases which could be seen as extravagant or luxurious, and it forbids any arrangement which may give rise to an accusation of personal or party benefit from public funds, as well as use of the allowance for entertainment or hospitality. The Additional Costs Allowance (ACA) accordingly reimburses MPs for expenditure wholly, exclusively and necessarily incurred when staying overnight away from their main home for the purpose of performing parliamentary duties. Up to £23,083 can be claimed and the allowance is increased in April each year by the annual percentage increase in the Retail Price Index (RPI) as at the previous December. MPs cannot claim ACA if they represent inner London constituencies (since they are in easy commuting distance from Westminster) and will automatically receive the London Supplement but those representing outer London constituencies can choose either to claim expenses allowed within the ACA or receive the London Supplement. Examples of expenditure allowable under ACA include rent on an additional home, mortgage interest costs and other costs associated with purchase and sale of an additional home, hotel expenses, utilities, furnishings, insurance and basic security measures.

5.53 PwC report that out of the 586 MPs reimbursed from ACA last year, 343 MPs claimed over 90 per cent of the maximum and there was some support for an increase in ACA, mainly from new MPs who found it difficult to fund accommodation in London from ACA. PwC nevertheless reported that the majority of MPs they interviewed were satisfied with the current limits on the expenditure that can be claimed and the evidence we received tended to confirm this view.

5.54 Although, as mentioned earlier, we have received no substantive evidence of abuse, we are concerned that it is in the area of ACA that the greatest scope for abuse is thought to exist. Our recommendation above that reimbursement of unreceipted expenditure be limited to a maximum of £50 a month will help to reduce that scope, as would our suggestion for audit of a sample of MPs' expenditure claims.

5.55 However, we are aware that at times the ACA may have been regarded as a means of supplementing MPs' pay and although it is now properly treated as a reimbursement of necessary expenses, it is still regarded by some as ambiguous. We believe this element of the expenses regime gives rise to more problems and misunderstanding, both within and outside the House, than any other and a fuller review of ACA might be appropriate. This would also provide an opportunity to re-examine the division of London constituencies into inner and outer zones, referred to above. The division appears somewhat outdated and may not take account of improved public transport in London, nor of the modernisation of the Commons' sitting hours. We suggest that the House review whether some constituencies currently in the outer zone should be reclassified to the inner zone, thus attracting only the London Supplement.

5.56 It has been argued by some observers that because MPs may make a capital gain from owning a second home the cost of which is met at least in part from ACA, there should be some means of sharing the gain with taxpayers. This seems to us a misplaced idea. First, gains on the sale of a home which is not the principal residence are already subject to Capital Gains Tax. Secondly, there would be problems of attributing any gain to any particular period of time. And thirdly, if an MP were required to pay any reasonable gain to the tax payer, the *quid pro quo* would surely be to require the taxpayer to make good any loss incurred by an MP, thus encouraging MPs not to drive a hard bargain when buying or selling.

5.57 We accordingly recommend that the allowance remain at its current rate, that it be renamed Personal Accommodation Expenditure in line with our general approach to reimbursable expenditure, and that it continue to be uprated in line with the RPI.

Recommendation 28: We recommend that Additional Costs Allowance should remain at its current rate and should be renamed Personal Accommodation Expenditure. It should continue to be uprated in line with RPI.

London Supplement

5.58 The Supplementary London Allowance ('London Supplement') which is currently set at £2,812 is payable to MPs with inner London constituencies who are not eligible to receive ACA and to MPs with outer London constituencies who do not claim for expenditure under the ACA. For tax purposes it is treated as salary, not expenses, like London weighting received by other workers. The London Supplement is uprated each year in April using the Average Earnings Index for public and private sectors combined.

5.59 We heard from a number of MPs who provided evidence to show that the London Supplement has not kept up with comparable allowances for living and working in London. PwC's research supports this view; their findings show that most other public sector employees in comparable roles in London receive between £3,000 and £4,000. We believe that the London Supplement should be increased to reflect the extra living costs found in London and therefore recommend that the London Supplement be increased to £3,500 and henceforth be increased in line with the Public Sector Average Earnings Index (ONS series LNNE) rather than the whole economy Average Earnings Index, since as explained in Chapter 3, we believe public sector comparators are more appropriate for MPs.

Recommendation 29: We recommend that the London Supplement be increased to £3,500 and henceforth adjusted in line with the Public Sector Average Earnings Index in April each year.

Compensation on leaving office

5.60 The Resettlement Grant is payable when an MP leaves the House after a general election. It is calculated as a proportion of salary ranging between 50 and 100 per cent of final salary, dependent on age and length of service. If an MP stands down during the course of a Parliament for ill health reasons, an ill health retirement grant is payable, calculated in the same way as the Resettlement Grant (as well as an immediate pension based on the service the MP would have accrued if he or she had continued to serve until age 65). The Table at Appendix E sets out the percentages of salary payable. The first £30,000 of the Resettlement Grant is tax free.

5.61 We were asked to consider the operation of the Resettlement Grant in the light of age discrimination legislation[18]. MPs are not 'employed' but are elected office holders and as such the age discrimination legislation does not apply to them. However, the arrangements for the grant are contrary to the principle of the legislation and, as discussed in our last report, we believe there is a case for revisiting the structure of the grant.

---

[18] The Employment Equality (Age) Regulations 2006.

5.62 The grant is designed to assist with the costs of 'adjusting to non-parliamentary life' and currently pays most to those aged between 55 and 64 who have been in the House for 15 years or more. However we heard anecdotal evidence of difficulties faced by MPs of all ages in obtaining new employment and it was pointed out that those with young families faced particular difficulties. The grant is thus designed to fulfil much the same purpose as redundancy payments. Such payments are not normally made to workers who retire or resign. Moreover, the level of payments varies according to length of service. We believe the Resettlement Grant should be aligned with those principles and therefore recommend that it be paid only to MPs who have stood unsuccessfully at a general election or whose seats have been abolished as a result of boundary changes. (MPs who are deselected by their parties, or whose constituencies are changed but not abolished would not be entitled to a Resettlement Grant unless they stood and were defeated at the next election.)

5.63 We also think that the level of the grant should reflect its purpose and the analogy of redundancy payments. We therefore recommend that the Resettlement Grant be calculated as one months' salary for each full year of an MP's service in the House, up to a maximum of nine months' salary.

5.64 We acknowledge that MPs may have taken decisions and made plans based on current arrangements and we therefore recommend that changes to the Resettlement Grant do not take effect until after the next general election.

Recommendation 30: We recommend that, with effect from the general election after next, Resettlement Grant should be paid at a rate of one month's salary for each year of service as an MP, up to a maximum of nine months' salary, to MPs who lose their seats at a general election or whose seats disappear as a result of boundary changes.

Winding Up Allowance

5.65 The Winding Up Allowance is available for six months following an MP's departure from the House after a general election, to meet the staff, office and travel costs necessarily incurred on parliamentary duties that remain outstanding. It is used to pay for the orderly termination of staff contracts, office leases etc and covers expenditure which would previously have been met from the Staffing Allowance and IEP, together with specific expenses resulting from leaving the House, such as removal expenses and the disposal of confidential waste. The allowance is equivalent in value to one third of the Staffing Allowance plus one third of the IEP and is currently set at a maximum of £37,281 for the year 2007–08.

5.66 We received little representation about the Winding Up Allowance other than that the current provision is considered acceptable. PwC also reported that no particular difficulties were experienced following the 2005 general election and in principle we see no need for change. However, the method of calculation needs revision because of the changes we have proposed above to Staffing Expenditure and Other Office Expenditure. We therefore recommend that the Winding Up Allowance be renamed Winding Up Expenditure and that, after the next election, the ceiling be calculated as one third of the relevant annual Staffing Expenditure, plus one third of the limit on Other Office Expenditure and one third of the actual annual office rent or lease claimed by each MP concerned.

Recommendation 31: We recommend that the Winding Up Allowance be renamed Winding Up Expenditure and that, after the next general election, the ceiling be calculated as one third of the relevant annual Staffing Expenditure, plus one third of the limit on Other Office Expenditure and one third of the actual annual office rent or lease claimed by each MP concerned.

Chapter 6

House of Lords allowances

Introduction

6.1 Backbench members of the House of Lords do not receive a salary in respect of their parliamentary duties but receive allowances for expenditure incurred in attending the House. The basic principle underlying the members' reimbursement allowance scheme is that members should not be financially disadvantaged as a result of carrying out their duties. A full list of allowances can be found at Appendix B.3. The main allowances and rates with effect from 1 August 2006 are:

- day subsistence: up to £79.50 per day to meet the cost of meals and refreshments at the House and incidental travel;
- overnight subsistence: up to £159.50 per night, when attending the House, to meet the cost of overnight accommodation in London while away from the main home; and
- office costs allowance: up to £69.00 per day to cover secretarial support, research assistance and necessary equipment.

6.2 Members may also claim actual travel expenses for journeys over five miles between a member's main home in the United Kingdom and Westminster, for travel on parliamentary business within the United Kingdom, for two European journeys on parliamentary business and for six return journeys for spouses, civil partners, and children.

6.3 Claims are paid in settlement of actual expenditure incurred while carrying out parliamentary business and are therefore not subject to income tax. The allowances are uprated on 1 August each year in line with the Retail Prices Index.[19]

6.4 Our consultants reviewed the system of allowances and concluded that the system is meeting its objective of reimbursing members for costs incurred while carrying out parliamentary business.

Reform of the House of Lords

6.5 In our last two reviews (2001 and 2004) we focussed on the levels of allowances and the rules applying to them, and concluded that since there might be further reform of the House, the time was not right for fundamental change to the structure of the allowances. Since then the White Paper on the composition of a future House of Lords has been published[20] (February 2007). It envisages that members of the reformed House will be paid and that the SSRB will be asked to make recommendations once the final shape of the House has been determined. In this report we therefore focus solely on the current structure and level of allowances of members of the House of Lords, in the expectation that we will in due course be asked to make recommendations on an entirely new system of pay and allowances for members of the second chamber once the principles of reform have been agreed.

---

[19] House of Lords Resolution was 20 July 1994 Hansard column 235, paragraph 9.

[20] HM Government, The House of Lords: Reform, 7 February 2007, Cm 7027, http://www.official-documents.gov.uk/document/cm70/7027/7027.pdf

Evidence

6.6 On 14 September 2006 we wrote to members of the House of Lords inviting them to submit written evidence in aid of our review and 19 chose to do so. The letter also offered members the opportunity to provide us with oral evidence. In addition, our consultants met a small sample of six members to seek their views and they received information on the operation of the allowances system from House officials. They also considered the operation of allowances available to non-executive directors in the private sector to use as a broad comparator.

6.7 The evidence received from members covers views on a number of subjects but indicates that members were broadly content with the level and structure of allowances. Specific concerns relate to:

- subsistence arrangements for official delegations;
- reimbursement of the cost of taxi travel to stations and the parking costs at railway stations and airports;
- the lack of financial assistance available to the Convenor of Crossbench Peers to carry out the role; and
- spouses' travel entitlements.

6.8 A number of members wrote to us about remuneration arrangements including compensation for loss of earnings, and the introduction of pension and sick pay arrangements. As noted above, members of the House of Lords are unpaid (with the exception of Ministers and certain office holders) so such arrangements would be contrary to the basic principle of membership not being remunerated. We believe that these are matters to be considered at the appropriate stage of reform of the second chamber and are not for this report.

6.9 It seems to us that the House's arrangements for reimbursing costs are not clearly understood. The basic day and overnight subsistence are flat rate amounts which are not taxable and are intended to reimburse all out of pocket expenses arising from attendance at the House. Some peers, however, seem to regard these allowances as a form of pay. Others argue that they should be able to claim for additional items where actual expenditure is higher than the flat rate. As a matter of principle, we disagree with the proposition that these approaches could be mixed. The flat rate approach is simple and convenient, but inevitably runs the risk of creating winners and losers. The alternative is a robust system of reimbursement of actual expenditure, such as applies in the Commons, but this would require allowable expenditure to be defined precisely, as in the Commons Green Book, and for peers to provide receipts for most items. If this approach were adopted, we believe the principle we propose for the Commons whereby a maximum of £50 of expenditure can be reclaimed each month without receipts should also apply in the House of Lords.

6.10 We do not, however, think it would be sensible to overturn the flat rate system now. Again, fundamental revision should await reform of the second chamber. Meanwhile, it is for the House itself to decide what constitutes parliamentary business for which the attendance allowances should be payable.

Day subsistence

6.11 Members may claim up to £79.50 day subsistence costs for each day they attend the House. The allowance covers the cost of meals and refreshments at the House. It also covers incidental travel costs which cannot be claimed separately such as travel within a five mile radius of Westminster, taxi fares, tolls and car parking charges, and an element to cover the costs of providing refreshments for visitors to the House on official business.

6.12 The evidence received suggests that the day subsistence allowance is adequate to meet the costs of attending the House. However, a number of members wrote to us, and also reported to our consultants, that they felt it unfair that members cannot claim the day subsistence rate when they are away from Westminster on parliamentary business or as part of an official delegation and that this deterred them from taking part in these activities. In these instances, members can recover costs only if specific arrangements are in place.

Recommendation 32: We recommend that the House of Lords consider whether the current definition of parliamentary business for the purpose of subsistence allowances covers all activities which are carried out wholly, necessarily and exclusively in the course of parliamentary duties.

Overnight subsistence

6.13 Members can claim up to £159.50 in overnight subsistence costs for the night before or after each day of attendance at the House. The subsistence can be claimed by members whose main home is outside the Greater London area and used to reimburse the cost of hotel or rental accommodation. It can also be used to cover the expenses associated with maintaining a second residence in London for the purposes of attending the House.

6.14 Since our last report, a new maintenance allowance has been introduced. Members may claim up to £106.50 for accommodation costs while away from Westminster on a committee visit on an official parliamentary delegation, or as a representative of the House, if they maintain a second residence in London for the purpose of attending sittings of the House.

6.15 Ministers and other paid office holders cannot claim the members' overnight allowance but instead may receive Night Subsistence Allowance. This is available to those whose first home is outside London and who need to fund other accommodation in order to undertake official duties. The maximum available is £35,090 per annum; it is taxed and payable with salary. There is an obvious inconsistency with the treatment of analogous expenditure incurred by Ministers in the Commons, probably because members of the House of Lords do not have constituencies and therefore do not face the same pressure as MPs to maintain a home near Westminster and one in the constituency. Arguably a member of the House of Lords who accepts a post as a Minister or other office holder should be prepared to move to London, which is his or her place of work, or to meet the cost of commuting from salary, as would almost all other workers. However, we recognise that Ministers and others have accepted posts on the basis of the current system of allowances and there is little point in proposing substantial changes to the system when it will need review in any case as part of reform of the second chamber. We therefore recommend no change to the current arrangements for the time being.

Office costs and secretarial allowance

6.16 Members are reimbursed for office costs associated with attending a sitting or meeting at the House or when engaged on mandated parliamentary business away from Westminster. Up to a maximum of £69 per day can be claimed to meet the cost of secretarial help, research assistance, and additional expenses such as domestic costs, purchase of books and periodicals and professional subscription charges which arise out of parliamentary duties. In addition, up to £69 per day for a maximum of 40 days a year may be reimbursed when the House is not sitting or when the House is sitting but a member does not attend. Receipts are not required when claiming this expenditure.

6.17 Ministers and other paid office holders in the Lords may not claim for office costs but are able to claim up to £5,192 per year secretarial allowance.

6.18 While there was little issue with the level of the allowance, our consultants reported concern amongst some members over the degree of overcrowding in offices which are shared with other members. We understand that this issue is being addressed and that arrangements are being made to lease additional accommodation. We do not recommend any change to the secretarial allowances. They will be uprated in the normal way.

Travel

6.19 The House reimburses those travel expenses incurred by members on parliamentary business which are not covered by the day subsistence allowance (described in paragraph 6.9). Those attending sittings in the House may claim for journeys between the member's main home in the United Kingdom and Westminster. Members are encouraged to use the member's travel credit card when buying tickets for travel and from April 2007 members who choose not to use the credit card are required to produce receipts or vouchers for each return journey costing more than £100.00.

Road

6.20 Travel costs are reimbursed at the following rates:

- car allowance: 40p per mile up to 10,000 miles and 25p a mile for any additional mileage;
- motorcycle allowance: 24p per mile; and
- bicycle allowance: 20p per mile.

We heard from one member who suggested that the car allowance should increase. However, as discussed earlier in the chapter on MPs' allowances, the mileage rates are in line with the approved HM Revenue and Customs rates and also match the rates received by MPs. We therefore recommend no change to the current mileage rates.

Rail and air

6.21 The cost of travel on public transport may be claimed or will be met directly by the House if a member's travel credit card is used. Members can claim the cost of first class travel when travelling by rail and the cost of business class when travelling by air. There is a limit of two return journeys to EU institutions in any year from 1 April to 31 March.

6.22 Our consultants reported that members travelling regularly by train or air found that the day subsistence did not always cover expenses such as meals and the costs of taxi journeys to or parking at railway stations and airports. We also received written evidence to the same effect. However, as explained in paragraph 6.9 above, we do not think it is appropriate to combine the flat rate approach with the reimbursement of actual expenditure.

Travel of spouses, civil partners and children

6.23 Members are entitled to claim reimbursement for up to six return journeys between their home and Westminster per year for their spouses and children (under 18). Ministers and other paid office holders in the Lords can claim up to 15 return journeys each year for their spouses and children. These entitlements were extended to include registered civil partners in November 2006. A number of members felt that this entitlement should increase to match that of MPs (30 single journeys a year between the constituency or main home and London for spouses, civil partners and children aged up to 18). However, MPs are generally required to divide their time between London and their constituencies. Members of the House of Lords do not face the same pressure to maintain a home away from London, although they may choose to do so. We therefore recommend no increase in the number of return journeys available to the spouses, civil partners and children of members of the House of Lords.

6.24 We heard from some members who felt that it was unfair that long-term partners do not have the same travel entitlement. We agree and recommend that the travel entitlement be extended to include a named partner.

Recommendation 33: We recommend that Spouses', Civil Partners' and Children's Travel entitlement be extended to include a named partner where a member does not have a spouse or civil partner.

Provision of IT Equipment

6.25 Members are entitled to a laptop, a desktop computer and a printer to support their parliamentary duties. They are also reimbursed the costs of broadband installation.

6.26 We received no written submissions about IT provision. However, our consultants found that while members were broadly satisfied that the amount of IT equipment met their needs, there was some dissatisfaction with the level and quality of support provided when technical difficulties arose.

Recommendation 34: We recommend that the House authorities review the IT support that is provided to members.

Convenor of Cross-Bench Peers

6.27 The Convenor of Cross-Bench Peers receives financial assistance from a scheme known as "Cranborne Money". This was set up to provide financial assistance to opposition parties in the House of Lords to help them carry out their parliamentary duties. We heard from several members advocating an increase in the level of support for the Convenor's office and citing the recent increase in the number of Crossbenchers and expansion of the Convenor's role. However, as we state in Chapter 3, we believe the overall level and allocations of Cranborne money (and of Short money in the Commons) are political matters, negotiated by the parties, on which we do not believe we should comment.

Chapter 7

Cost of Recommendations

Introduction

7.1 In making our recommendations, we must of course take into account their affordability, as we are required to do by our terms of reference. Our proposals in this report, particularly those concerning MPs, Ministers and other office holders in the Commons, are very much designed as a package with some increases in expenditure ceilings, e.g. for staffing, offset by reductions elsewhere, for example to take account of the new funding for communications. Moreover, as we have explained, we have sought to ensure that MPs have no financial benefit or penalty according to whether they choose to base their staff on the parliamentary estate or in constituencies.

MPs' pay

7.2 The total cost of running the House of Commons was expected to be some £275 million for the financial year 2006-07. MPs' salaries, including ERNIC and employer's pension contributions, account for less than a fifth of that figure, at approximately £54 million. Our proposals on MPs' pay will add 1.9 per cent or about £1.04 million to the total pay bill for 2007-08. The recommended increase in the London supplement will add a further £0.03 million (approximately 0.06 per cent of the pay bill).

MPs' pensions

7.3 Of our four recommendations on MPs' pensions, only one has any direct effect on costs. We recommend allowing MPs with retained benefits, whose pensions will be consequently be reduced by the value of those benefits, to contribute at a 1/60th accrual rate (see paragraph 3.50). Although we do not have precise figures, we understand the cost of this is likely to be between 1 and 2 per cent of **pensionable** pay (i.e. salaries excluding employer's ERNIC and pension contributions). Taking the middle of that range, this equates to just under £0.6 million or about 1.1 per cent of the **total** pay bill (including employer's contributions). We must emphasise that this recommendation does not result in any increase in MPs' pension benefits. MPs without retained benefits will see no change in their pension contributions or benefits. MPs with retained benefits will be able to opt to reduce their contributions so that they are no longer paying for benefits they do not receive.

MPs' expenditure

7.4 We estimate that expenditure on MPs' allowances in 2006-07 will have been about £88 million. (Expenditure in 2005-06 was £93.7 million but this was an election year and the overall total included £9.2 million for resettlement grant and winding up allowance.) The cost of our recommendations on MPs' expenditure is hard to forecast since it will depend on a variety of factors, such as how many MPs increase the number of staff they employ up to the proposed new maximum of 3.5 full-time equivalents, how many MPs currently without constituency offices choose to make use of the proposed new funding arrangement, and the balance of MPs' staff between London and elsewhere. In order to estimate costs we have had to make some assumptions. Currently 87 per cent of MPs employ three or more staff and the average MP employs the equivalent of 2.9 full-time staff. We estimate that 200 MPs will employ the equivalent of an extra half-time case worker. In a full year this could cost the equivalent of £2.63 million after allowing for ERNIC and pension contributions.

7.5 Our recommendation on the funding of offices is designed to enable some MPs to rent offices in their constituencies who currently cannot afford to do so because of the ceiling on Incidental Expenses Provision. It is hard to estimate how many MPs will make use of this and how much rent they will pay but as a working assumption we estimate that the average rental paid by an MP may rise from £5,000 to £6,000 because, the MPs now able to afford constituency offices will be those in high cost areas such as the centres of large towns. On this basis, the additional cost in a full year would be £0.65 million.

7.6 However, some of our recommendations will result in reductions. We recommend removing the £2,500 currently in the Incidental Expenses Provision for communications (because MPs have already decided on a new source of funding for communications). Assuming all MPs use the current allowance, this will reduce expenditure by £1.6 million in a full year. We also recommend reducing other office expenditure (the replacement for IEP) and the maximum size of constituency office where an MP has staff based on the parliamentary estate. We do not have sufficient information on where staff are based at present to make a precise estimate but we believe these recommendations could result in a reduction of at least £2 million a year in expenditure on the assumption that the average MP has 1.33 staff based on the parliamentary estate.

7.7 Taking all these changes to expenditure together, and allowing for an additional £0.06 million of expenditure as a result of the recommendation to extend travel entitlements to long-term partners, we estimate that the effect of our recommendations on the total amount of MPs' expenditure will be broadly neutral, although we stress again that this is our estimate based on the assumptions outlined above. Our recommendation on the Resettlement Grant will also lead to some savings. However, since we propose that this should not come into force until the general election after next, we cannot make any estimate now of the likely effect.

7.8 Thus taken together, we estimate our recommendations on MPs' pay, pensions and expenditure will result in a net increase of £1.38 million in a full year, or 1.0 per cent of the current annual total expenditure which we estimate at £142 million.

Pay of Ministers and other office holders in the House of Commons

7.9 We calculate the current total salaries of Ministers and other office holders in the Commons at £10.6 million. However, as explained in Chapter 4, these Ministers and other office holders receive an MP's salary and ministerial supplement. The proposed increase in the MP's salary is included in the figures in paragraph 7.2 above. The salary supplements currently total some £4.47 million. To this figure we must add employer's ERNIC and pension contributions which we estimate at 39.6 per cent, making a total of £6.24 million. We estimate that our recommendations for setting the salaries of Ministers and other office holders in the Commons by reference to the MP's salary would result in an increase in the total cost of the supplements in 2007-08 of £0.41 million.

Ministers in the House of Lords

7.10 We calculate the total salaries of Ministers and other office holders (excluding the Lord Speaker) in the Lords at £1.57 million. Again assuming employer's contributions at 39.6 per cent, the total pay bill will be around £2.2 million. Our recommendations to increase salaries by the same percentages as Commons equivalents will result in an increase in the total pay bill of some £0.09 million.

Allowances in the House of Lords

7.11 We estimate that our recommendation to extend travel entitlements to partners of members of the House of Lords will result in increased expenditure of around £0.06 million.

Conclusion

7.12 We believe this is an affordable package of adjustments to pay, pensions and allowable expenditure, justified by all the evidence we have considered. We judge it strikes a fair balance between the interests of MPs, Ministers, other office holders, the Government and the taxpayer. We invite all the relevant parties to remember that, for the fair balance to be maintained, our recommendations are intended to be taken as a package, rather than as a menu for selection.

Appendix A

Commissioning letter from the Prime Minister

10 DOWNING STREET
LONDON SW1A 2AA
www.pm.gov.uk

THE PRIME MINISTER

24 July 2006

Dear John,

I understand that the Senior Salaries Review Body is ready to undertake the triennial review of Parliamentary pay, pensions and allowances.

You will be aware of recent statements by the Chancellor of the Exchequer and the Chief Secretary to the Treasury on public sector pay restraint and the underlying rate of inflation. I am sure that the Review Body will wish to take account of this important context in its deliberations.

I am writing to confirm that the Government would like to see the following areas covered in your report:

a. the salaries of Members of the House of Commons taking into account the benefits of the Parliamentary Pension Scheme;

b. the salaries of Ministers and other office holders, including those with additional responsibilities in Parliament, and the operation of severance pay;

c. aspects of the benefits and funding of the Parliamentary Contributory Pension Fund;

d. an appropriate approach to the annual increase to Parliamentary salaries between triennial reviews to replace the current automatic link to the senior civil service given the changing recruitment and retention strategy for senior staff;

e. the rate of allowances for Members of the House of Commons, including eligibility for the Additional Costs Allowance and the London Supplement, and the operation of the Resettlement Grant in the light of forthcoming age discrimination legislation;

f. the rate of Peers' expenses allowances; and

g. the extension to unmarried partners of eligibility to spouses' travel costs, and to cover travel to devolved assemblies for Scottish, Welsh and Northern Ireland MPs.

I should also be grateful for your recommendations on the adequacy of the current provision of IT equipment for Members both in the House of Commons and in their constituencies.

Cabinet Office officials will liaise with yours over the details.

I look forward to receiving your recommendations next year.

Yours ever,

Tony

Mr John Baker CBE

Appendix B

Current salary levels and allowances

1. Parliamentary salary levels with effect from 1 April 2007

Post	Ministerial/ office holder salary	Salary inc MP's salary
Prime Minister	128,174	188,848
Cabinet Minister	76,904	137,579
Minister of State	39,893	100,567
Parliamentary Under Secretary of State	30,280	90,954
Government Chief Whip	76,904	137,579
Government Deputy Chief Whip	39,893	100,567
Government Whip	25,673	86,348
Assistant Government Whip	25,673	86,348
Opposition salaries		
Leader of the Opposition	70,497	131,172
Opposition Chief Whip	39,893	100,567
Deputy Opposition Chief Whip	25,673	86,348
Others: Commons		
Speaker	76,904	137,579
Chairman of Ways and Means (Deputy Speaker)	39,893	100,567
First Deputy Chairman of Ways and Means (Deputy Speaker)	35,061	95,736
Second Deputy Chairman of Ways and Means (Deputy Speaker)	35,061	95,736
Law Officers		
Solicitor General	67,008	127,683
Parliamentary Salary	60,675	

2. MPs' allowances at 1 April 2007

Allowance	Rate and description
Staffing Allowance	Up to a maximum of £90,505 to cover the cost of up to three members of staff.
Incidental Expenses Provision	A maximum of £21,339
Additional Costs Allowance	£23,083
London Supplement	£2,812
Travel	Motor mileage 40p per mile for the first 10,000 miles and 25p thereafter. Motorcycles: 24p per mile. Bicycles: 20p per mile.
Winding Up Allowance	Up to £37,281 – one third of the sum of the staffing provision and Incidental Expenses Allowance.
Resettlement Grant	50% to 100% salary (dependent on age and length of service).
Temporary Absence	Based on the salary of the absent member of staff.
Communications Allowance	£10,000

3. House of Lords salary levels

	Ministerial salaries
Post	
Cabinet Minister	104,386
Minister of State	81,504
Parliamentary Under Secretary of State	70,986
Government Chief Whip	81,504
Government Deputy Chief Whip	70,986
Government Whip	65,642
Opposition salaries	
Leader of the Opposition	70,986
Opposition Chief Whip	65,642
Others: Lords	
Speaker	104,386
Chairman of Committees	81,504
Principal Deputy Chairman of Committees	76,250
Lord Chancellor	104,386
Attorney General	109,201

4. House of Lords allowances with effect from 1 August 2006

Allowance	Rate and description
Day subsistence	Up to £79.50 per day to cover the cost of meals and refreshments at the House and travel within Central London (5 mile radius).
Night subsistence	Up to £159.50 per day to cover the cost of hotel costs or to put towards the cost of maintaining a second home in London.
Office costs allowance	Up to £69 per day to cover the cost of office, secretarial and research assistance plus certain incidental expenses.
Travel	Motor mileage allowances: 40p per mile for the first 10,000 miles and 25p per mile thereafter. Motorcycles: 24p per mile. Bicycles: 20p per mile.

Members (other than Ministers and paid office holders) may also claim

Office Costs for days of non-attendance: 40 days per year at £69 per day.
Return journeys for each spouse and children between home and Westminster: 6 return journeys per year.

Allowances when on parliamentary duties away from the House

When members travel elsewhere on officially mandated parliamentary duty, they are entitled to claim a reduced night subsistence allowance if they maintain a second home in London, and office costs, for each day of absence from the House.

Reimbursement of expenses connected with disability

Lords who are disabled may also recover additional expenses incurred as a result of their disability.

Ministers' in the House of Lords and Paid Office Holders' Allowances

In addition to their salary, Ministers in the Lords and paid office holders are entitled to the following allowances. In the case of Ministers, all allowances other than the secretarial allowance and travel for spouses and children are paid by Departments.

Allowance	Rate and description
Lords Night Subsistence Allowance	£35,090 a year to maintain a second home in London.
Travel	As above for office holders. Ministers' rates set by Departments.
Number of return journeys for spouse/civil partner and children between home and Westminster: 15 per calendar year.	
Secretarial allowance	£5,192 a year to cover the cost of secretarial assistance for parliamentary purposes.
London supplement	£1,667 a year for those who live in London.

Appendix C

Comparison of salaries of members of Parliament in selected countries

Country and currency	Annual salary in national currency	Purchasing Power Parity (PPP)	Equivalent in £	Difference from UK salary in £	Difference from UK salary %	Lower or single chamber number of members	Second chamber number of members	Population in millions (rounded)	Population per lower/ single chamber member in thousands
UK £	60,675	1	60,675	n/a	n/a	646	731	61	94
Australia Aus $	127,060	2.25	56,471	-4,204	-7%	150	76	20	133
Canada Can $	150,800	1.99	75,779	+15,104	+25%	308	105	33	107
France €	83,435	1.44	57,941	-2,734	-5%	577	331	64	111
Germany €	84,108	1.42	59,231	-1,444	-2%	613	69	82	134
Ireland €	95,363 – 101,446[1]	1.62	58,866 – 62,621	-1,809 – +1946	-3% – +3%	166	60	4	24
Italy €	140,444	1.39	101,039	+40,364	+67%	630	320	59	94
Netherlands €	90,0702[2]	1.40	64,336	+3,661	+6%	150	75	17	113
New Zealand NZ$	122,500	2.38	51,471	-9,204	-15%	120	n/a	4	33
Norway NKr	612,000	14.03	43,621	-17,054	-28%	169	n/a	5	30
Spain €	36,249	1.24	29,233	-31,442	-52%	350	259	45	129
Sweden SKr	634,800	14.83	42,805	-17,870	-29%	349	n/a	9	26
USA $	165,200	1.62	101,975	+41,300	+68%	435	100	303	696

[1] The base salary for Irish TDs is currently €95,363, rising to €98,407 after four years and to €101,446 after eight years.

[2] Including 8 per cent holiday allowance. An additional but unspecified end of year allowance is also payable.

Notes

(i) This and the following table compare gross base salaries, before tax, social security, pension etc contributions. They take no account of allowances, free travel and other entitlements. Most salaries for members of Parliaments are taken from the respective Parliament or Government websites but data for Ireland and Norway were obtained from official sources in those countries. Salaries for Heads of Government were taken from official sources where possible but some are based on press reports. The figures were checked on 15 November 2007.

(ii) Purchasing Power Parities (PPP) are used to convert salaries in national currencies to the equivalent purchasing power in Sterling. This provides a better comparison of relative value than conversion using (often more volatile) exchange rates. The PPP rates have been calculated from the OECD 2006 PPP rates, the latest available.

(iii) Currently salaries of members of the European Parliament (MEPs) are the same as those of members of EU national Parliaments, so MEPs from the UK are paid the same as MPs. However, MEPs' allowances are determined by the European Parliament. From 2009 MEPs will be paid 38.5% of the basic salary of a judge of the European Court of Justice.

Appendix D

Comparison of salaries of Heads of Government in selected countries

Country, currency and post	Annual salary in national currency	Purchasing Power Parity (PPP)	Equivalent in £
UK £ Prime Minister	188,848	1	188,848
Australia Aus $ Prime Minister	330,356	2.25	146,825
Canada Can $ Prime Minister	301,600	1.99	151,558
France € Prime Minister	242,472	1.44	168,383
Germany € Chancellor	189,990	1.42	133,796
Ireland € Prime Minister	271,822	1.62	167,791
Italy € Prime Minister	196,452	1.39	141,332
Netherlands € Prime Minister	128,000	1.40	91,429
New Zealand NZ$	360,000	2.38	151,261
Norway NKr	1,115,000	14.03	79,473
Spain € Prime Minister	89,304	1.24	72,019
Sweden SKr Prime Minister	1,512,000	14.83	101,955
USA $ President	400,000	1.62	246,914

Appendix E

Calculation of Resettlement Grant

Percentages of annual salary

	Number of completed years service						
Age (years)	**Under 10**	**10**	**11**	**12**	**13**	**14**	**15 or over**
Under 50	50	50	50	50	50	50	50
50	50	50	52	54	56	58	60
51	50	52	55	58	62	65	68
52	50	54	58	63	67	72	76
53	50	56	62	67	73	78	84
54	50	58	65	72	78	85	92
55 to 64	50	60	68	76	84	92	100
65	50	58	65	72	78	85	92
66	50	56	62	67	73	78	84
67	50	54	58	63	67	72	76
68	50	52	55	58	62	65	68
69	50	50	52	54	56	58	60
70 or over	50	50	50	50	50	50	50

Appendix F

List of those who provided evidence

Leader of the House of Commons, the Rt Hon Jack Straw MP

Opposition Chief Whip, the Rt Hon Patrick McLoughlin MP

Chairman of the Parliamentary Contributory Pension Fund Trustees, Sir John Butterfill MP

Members of the Advisory Panel on Members' Allowances, Chairman, the Rt Hon John Spellar MP

House of Commons Committee on Standards and Privileges, Chairman, Sir George Young MP and the Parliamentary Commissioner for Standards, Sir Philip Mawer

Chair of the London Group of Labour MPs, Andrew Dismore MP (http:www.ome.uk.com/review.cfm?body=4)

Representatives of the Transport and General Workers Union Parliamentary Branch

Representatives of the House of Commons Secretaries and Assistants' Council

Representatives of the Former Members of Parliament Association

90 pieces of written evidence from MPs and other interested parties (http:www.ome.uk.com/review.cfm?body=4)

19 pieces of written evidence from Peers (http:www.ome.uk.com/review.cfm?body=4)

10 pieces of written evidence from members of the public

In addition the SSRB received 23 pieces of evidence submitted in confidence

As part of the review the Parliamentary Sub-committee held 15 oral evidence sessions, listening to the views of 22 individuals.

Appendix G

Website references for publications

Past reports from the SSRB, before 2004, can be found at

http://www.ome.uk.com/review.cfm?body=4&page=2&all#documents

Review of Parliamentary Pay and Allowances, October 2004

Volume 1: http://www.ome.uk.com/downloads/SSRB%20pay%20review%20Cm%206354%20part%201.pdf

Volume 2: http://www.ome.uk.com/downloads/SSRB%20pay%20review%20Cm%206354%20part%202.pdf

Review of the Parliamentary Pension Scheme, March 2001

http://www.ome.uk.com/downloads/pension.pdf

Pay for Select Committee Chairmen in the House of Commons, July 2003

http://www.ome.uk.com/downloads/Report%20on%20Select%20Committee%20Chairmen.pdf

Pay for Standing Committee Chairmen in the House of Commons, June 2005

http://www.ome.uk.com/downloads/Senior%20Salaries%20No%2060.pdf

Review of parliamentary pay, pensions and allowances 2007, July 2007

Volume 1: http://www.ome.uk.com/downloads/Review%20of%20Parliamentary%20Pay%202007%20Volume%201.pdf

Volume 2: http://www.ome.uk.com/downloads/Review%20of%20Parliamentary%20Pay%202007%20Volume%202.pdf

Written submissions from MPs and Peers

http:www.ome.uk.com/review.cfm?body=4

Appendix H

Previous Review Body reports on related matters

First Report:	Ministers of the Crown and Members of Parliament	Cmnd. 4836, December 1971
No. 5:	Members of Parliament: Allowances	Cmnd. 5701, July 1974
No. 7:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I	Cmnd. 6136, July 1975
No. 8:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part II	Cmnd. 6574, July 1976
No. 9:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part III	Cmnd. 6749, March 1977
No. 12:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I	Cmnd. 7598, June 1979
No. 13:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part II	Cmnd. 7825, February 1980
No. 15:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance	Cmnd. 7953, July 1980
No. 17:	Ministers of the Crown and Members of Parliament and the Peers' expenses allowance	Cmnd. 8244, May 1981
No. 20:	Review of Parliamentary Allowances: Volumes I & II	Cmnd. 8881, May 1983
No. 24:	Review of Parliamentary Allowances: Volumes I & II	Cm. 131, April 1987
No. 26:	Review of Aspects of the Parliamentary Pension Scheme and Other Members	Cm. 362, May 1988
No. 31:	Review of the Parliamentary Scheme and of Resettlement Grants for Members of Parliament	Cm. 1576, June 1991
No. 32:	Review of the House of Commons Office Costs Allowance	Cm.1943, July 1992
No. 36:	Review of the Parliamentary Pension Scheme	Cm. 2830, March 1995
No. 38:	Review of the Parliamentary Pay and Allowances: Volumes I and II	Cm. 3330, July 1996
No. 42:	Initial pay, allowances, pensions and severance arrangements for: Members of the Scottish Parliament, National Assembly for Wales, Northern Ireland Assembly	Cm. 4188, March 1999
No. 43:	Devolution: Salaries for Ministers and Office-holders and office support for Members; and Parliamentary Development Recommendations	Cm. 4246, March 1999
No.44	The Greater London Authority: initial pay, expenses, pensions and severance arrangements for the Mayor and Assembly Members	Cm. 4547, February 2000
No. 47:	Review of the Parliamentary Pension Scheme	Cm. 4996, March 2001
No. 48:	Review of the Parliamentary Pay and Allowances: Volumes I and II	Cm. 4997, March 2001

No. 49:	National Assembly for Wales: Review of Pay and Allowances	June 2001
No. 50:	Scottish Parliament: Review of Pay and Allowances	December 2001
No. 52:	Northern Ireland Assembly: Review of Pay and Allowances	May 2002
No. 53:	Greater London Authority: Review of Pay and Expenses for the Mayor of London and London Assembly Members	May 2002
No. 55:	Pay for Select Committee Chairmen in the House of Commons	Cm 5673 July 2003
No. 57:	Review of Parliamentary Pay and Allowances 2004: Volumes I and II	Cm 6354-1 Cm 6354-2 October 2004
No. 58:	National Assembly for Wales: Review of Pay and Allowances 2004	December 2004
No. 60:	Pay for Standing Committee Chairmen in the House of Commons	Cm 6566 July 2005
No. 61:	Greater London Authority: Review of Pay and Expenses for the Mayor of London and London Assembly Members 2005	July 2005

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5652265 12/07

Printed on Paper containing 75% recycled fibre content minimum.

Review Body on Senior Salaries

REPORT No. 64

Review of parliamentary pay, pensions and allowances 2007

Chairman: Sir John Baker, CBE

Volume 2: Independent studies on pay and allowances, and pension

Cm 7270-2 £33.45 net

Review Body on Senior Salaries

REPORT No. 64

Review of parliamentary pay, pensions and allowances 2007

Chairman: Sir John Baker, CBE

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

January 2007

Volume 2: Independent studies on pay and allowances, and pension

Cm 7270-2 £33.45 net
Two volumes not to be sold separately

Contents

31 March 2007

Report to the Review Body on Senior Salaries

Review of Parliamentary Pay and Allowances 2007

PricewaterhouseCoopers

Contents

Index of tables

Index of charts

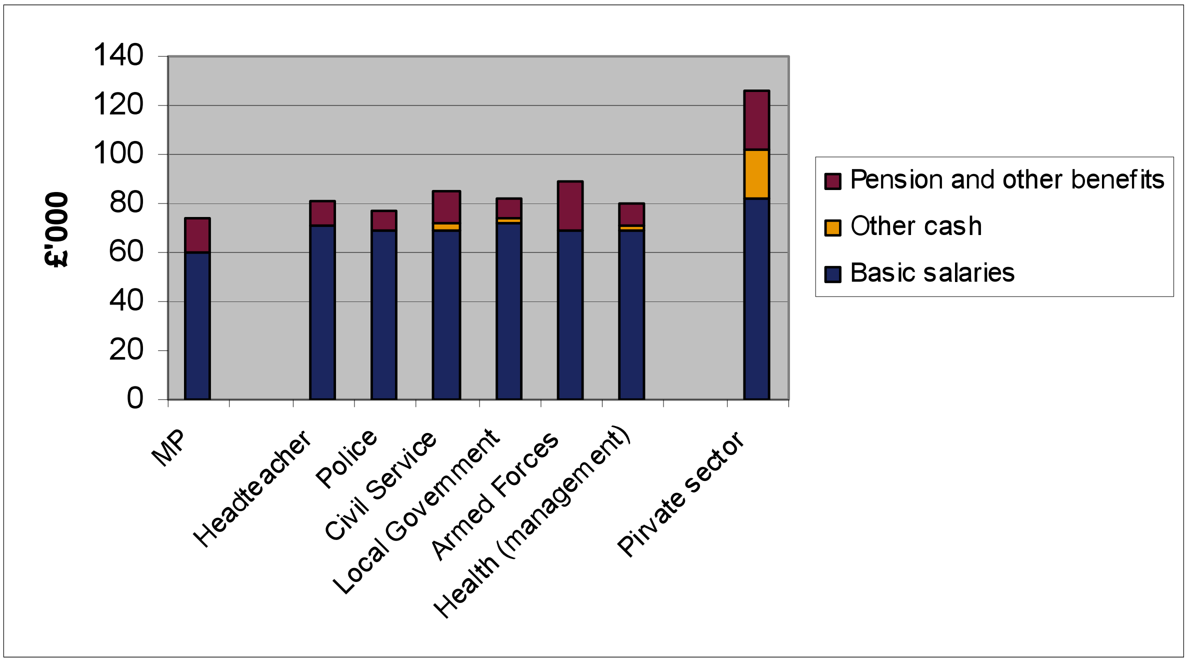
1. Management summary

1.1 This report sets out our findings on the review of parliamentary pay and allowances. We were asked to carry out a review of the levels of parliamentary salaries. We also reviewed the systems of allowances in both the House of Lords and the House of Commons to ensure that these continue to be fit for purpose.

Parliamentary salaries

1.2 We have reviewed the role of an MP and compared the salary with those relating to other jobs of comparable size in the public and the private sectors. Our review encompasses basic salary, total cash and total reward, including a valuation of pensions. Chart 1 shows how the remuneration for the role of MP compares with that of comparators in the public and private sectors:

Chart 1 Summary of benchmarking



1.3 The total value of an MP's package, including the values of pensions, bonus and other benefits is 90% of the average value for comparable jobs in the public sector and 58% of the private sector. Basic salary was found to be at 86% of the average basic salaries of comparators in the public sector and 73% of the private sector.

1.4 We have evaluated the post of Lord Speaker. Our finding was that the salary attached to this post is ahead of those of other parliamentary posts of comparable size. Nevertheless, this is a new post, its responsibilities and functions are evolving and it might be that over time the role does become commensurate with the salary that is attached to it. Therefore our recommendation would be that the salary should be retained at its current level, and that a further review should take place in two to three years time.

1.5 Our recommendation is that the public sector Average Earnings Index is used as the new uplifting mechanism for increasing Parliamentary salaries each year in between periodic reviews. If such an index is used, a full review of parliamentary pay might be carried out every five years, rather than every three years as at present.

Allowances in the House of Commons

1.6 Overall we believe the allowances system is working well for the vast majority of MPs. However, during the course of our work we identified several areas where improvements could be made:

- The London Supplement (which is available to Inner London MPs and Outer London MPs who do not claim the Additional Costs Allowance) should be increased to £4,000 a year to bring it into line with the additional London Weighting that is paid for other comparable jobs.

- Since 2004 there has been a single maximum amount for the Staffing Allowance, which applies without regard to whether staff are based in London. The market pay benchmarking undertaken on Staffing Allowance suggests that there should be a differential of around 6% between London and the rest of the country, and for this reason we believe there is a strong case for reintroducing a lesser maximum allowance in respect of staff outside London.

- It was clear from our fieldwork that the volume of constituency work has continued to grow. Consideration should therefore be given to increasing the staffing allowance so that three and half rather than three full-time equivalent staff can be employed.

- The varying costs of office accommodation in different parts of the country are a concern in the operation of the Incidental Expenses Provision. We believe it would be impractical to vary the allowance based on the location of constituencies, but we do believe that there is a case for splitting the allowance between the amount available for office accommodation costs and the amount used for other incidental expenditure. Linked to this is the proposal for a new communications allowance. We would therefore suggest that the IEP and the new Communications Allowance should be reconfigured to create two new categories of expenditure; one for Office Accommodation Expenditure and a balance will be a new allowance for Incidental and Communications Expenditure.

1.7 We have been asked to consider the Resettlement Grant in the context of Age Discrimination legislation. We suggest a new and simpler structure for the allowance under which 100% of salary is paid to MPs with more than five years of service who lose their seats at a general election. The Resettlement Grant should no longer be available to MPs who choose to leave the House.

1.8 We believe the presentation of some aspects of the allowances system could be improved to enable it to be better understood by the media and others. The word “Allowance” implies that the MPs are given a sum of money which they can choose to spend as they please. The reality is that it is an expenses system, designed to reimburse MPs for legitimate and necessary expenses, and within some overall limits and controls. We would suggest that in future Allowances should be referred to as “Expenses” and that reports and other communications should be clearer about the purpose of the system.

Allowances in the House of Lords

1.9 We also reviewed the system of allowances in the House of Lords and our finding is that the system is meeting its objective of reimbursing Peers for costs relating to House business. We do not therefore suggest any fundamental changes, especially in the context of the wider House of Lords Reform agenda.

IT Equipment

1.10 We have reviewed the provision of IT equipment in both Houses of Parliament. Some questions were raised by MPs as to the adequacy of technical support for IT in the House of Commons, but overall we believe that current levels of provision of IT are adequate and that no fundamental changes are needed.

2. Terms of reference

Terms of reference

2.1 As part of its three-yearly review of Parliamentary Pay and Allowances, the Senior Salaries Review Body (the SSRB) appointed PricewaterhouseCoopers to review and to report on the salaries paid to Members of Parliament (MPs), paid office holders and Ministers in both Houses, and on the allowances available to MPs and Peers.

2.2 Our review covers the following areas:

- A job evaluation of the role of MPs, and a levels check on the salaries Ministers and paid office holders in both the House of Commons and the House of Lords. This required us to carry out a job evaluation exercise for the role of MP to make comparisons with the remuneration of jobs of comparable size in the public and private sectors. We were also asked to provide a rank order of jobs of other paid office holders and Ministers to enable the SSRB to consider the overall pay structure;

- A review of the allowances available to all MPs of the House of Commons and the MPs of the House of Lords ("Peers") based on discussions and external research. This review considered the amount of each allowance and the extent to which they fulfil the purpose for which they are intended.

2.3 In contrast to previous reviews of parliamentary salaries we have been asked to consider how the value of the total package for an MP compares with that of comparator jobs. The total package includes bonus and incentives, and also pensions.

2.4 In addition we were asked to:

- Advise on an appropriate approach to the annual increase to parliamentary salaries between three-yearly reviews to replace the current automatic link to the Senior Civil Service;

- Carry out a job evaluation of the new post of Lord Speaker and to comment on the level of salary that has provisionally been allocated to this post;

- Consider whether MPs with Inner London constituencies should be allowed to choose between the Additional Costs Allowance (ACA) and the London Supplement, as is already the case for MPs with Outer London constituencies;

- Advise on whether the eligibility for spouses' travel costs should be extended to unmarried partners, and whether MPs with constituencies in Scotland, Wales and Northern Ireland should be eligible for travel allowance for journeys to the devolved assemblies;

- Advise on whether changes to the operation of the Resettlement Grant to comply with Age Discrimination Legislation are required (noting the legislation does not technically apply to elected office holders MPs but advising on the assumption that it does so apply).

- Examine the adequacy of the current provision of IT equipment and services for work performed by MPs in the House of Commons and in their constituencies and provide recommendations.

2.5 We would like to extend our thanks to all of those MPs, Peers, staff and officials who gave us their valuable time and provided many useful insights to help us to carry out this review.

3. Parliamentary salaries

Our approach to the review of salaries

3.1 We carried out a job evaluation exercise to establish how the job of an MP compares with jobs of comparable size in other parts of the public sector and in the private sector. To do this we conducted interviews with a representative sample of 30 MPs[1] to understand the work that they do and to obtain their views on the role of being an MP. The sample was selected at random by ourselves and we then notified the Whips' offices of the MPs who had been selected. Following this a few minor alterations to the sample were made for practical reasons, and details of the final sample, together with a comparison with the overall population of MPs, are in the Table 1:

Table 1	**MP sample profile**			
	Sample	**% of Sample**	**All MPs**	**% of all MPs**
Party				
Labour	15	50%	352	55%
Conservative	10	33%	196	30%
Liberal Democrat	3	10%	63	10%
Other	2	7%	34	5%
Gender				
Male	22	73%	519	80%
Female	8	27%	126	20%
Length of service				
0 to 5yrs	6	20%	128	20%
5 to 10yrs	18	60%	273	42%
10 to 15yrs	4	13%	90	14%
15+yrs	2	7%	154	24%

[1] This represents 4.65% of the total number of 645, although MPs who are members of the government were excluded from the sample frame.

3.2 We assessed the job size of each of the 30 jobs interviewed, using our proprietary job evaluation methodology known as the Monks Job Evaluation System. The Monks Job Evaluation system evaluates the generic skills and competencies that the job holder needs to carry out the job effectively; the system enables us to make comparisons with jobs in other professions which require a similar level of skills. These skills and competencies are measured and allocated to levels under the following headings:

- Knowledge;
- Specialist skills;
- People skills;
- Customer service / external impact;
- Decision making;
- Creative thinking;
- Physical environment / emotional demands.

3.3 We then made comparisons with jobs which we consider to be of similar size in:

- The public sector, and
- The wider private sector using the Monks Management Pay database[2].

MPs' views on salaries

3.4 During our interviews with 30 MPs we obtained views on their salary level as well as exploring what MPs saw as being the main aspects of the post. The most prominent message from MPs on the determination of salaries was the view that they should not vote on it. Many suggested that a basket of jobs made up of suitable comparators should be selected and approved by the SSRB, and

[2] The Monks Management Pay Database, which is the largest management pay database in the UK. It is an ongoing database on base salary, total cash, pensions, benefits and other allowances in respect of over 10,000 managerial and professional posts in over 650 subscribing UK organisations.

that the salaries should then be aligned / uplifted in line with this sample of jobs.[3]

3.5 There were mixed views on the appropriateness of the salary level itself. On balance, most MPs felt that the job was worth more in the market when compared to the salaries earned by other public sector professions, but many of the same MPs acknowledged that they had accepted the current salary knowingly when taking up office. Others also claimed that the salary did not reflect the demands of the job and/or the workload. Workload was a significant issue for many MPs and the numbers of hours worked each week whilst the House was sitting ranged from 60 to 90.

3.6 We discussed what career structures should be put in place in the House and a handful of MPs felt that a flat rate arrangement discouraged them from taking up additional responsibilities such as sitting on Select Committees. However, others challenged this view on the grounds that holding the government to account and scrutinising legislation was part and parcel of an MP's job and therefore there was no reason why it should be remunerated separately.

3.7 Approximately one quarter of the MPs interviewed expressed concern that the level at which the salary is currently set is preventing talented potential candidates from standing for parliament because of the financial difficulties they would face by taking a salary cut. Most MPs acknowledged that there is a balance to be achieved in setting the salary at the right level to reflect the range of skills and performance levels required. However, they urged that some consideration should be given to the calibre of candidates who can be attracted at the current salary level.

3.8 Another view was that MPs should be able to earn increments based on the number of terms they serve in office because they become more skilled in their role and operate more efficiently as each term passes. This would provide some recompense for the absence of a formal career structure for those who are unable to following the Ministerial career path. Our view is that an incremental

[3] We have carefully considered whether such an approach is feasible. The difficulty is that the selection of a limited basket of comparators would be sensitive to issues relating to those particular groups of employees. If an extensive basket of comparators is chosen this leads to the conclusion that it would be simpler to use one of the published earnings indices. This issue is considered in more detail in paragraph 3.27.

pay scale should not be adopted; this is because there is no objective process for assessing that added value that experience brings and such an approach would be contrary to the established principle that the basic salary "should continue to be the same for all MPs".

3.9 Many MPs highlighted that a number of other jobs in the public sector earn more than MPs, including Headteachers, Chief Executives of District Councils, Senior Police Officers, GPs, civil servants, military officers, etc, all of which are jobs that they regard as comparable to the role of an MP. Private sector comparators mentioned by MPs included junior partner of a law firm and manager of a small business.

Job evaluation

3.10 Table 2 below sets out each of the factors in the Monks Job Evaluation system and includes some notes commenting on how they have been applied to MPs.

Table 2 Application of job evaluation to MPs

Factor	Application to MPs
Knowledge This factor measures the breadth and depth of knowledge required to do the job. Knowledge is the information that the jobholder is required to use in carrying out his/her work. It can be acquired through experience as well as education and training.	The minimum level of knowledge required by an MP is equivalent to that which would be gained from a professional qualification or alternatively from practical experience that would typically be gained over a period of more than 10 years. MPs with additional responsibilities, such as frontbench spokespersons, Select Committee MPs and PPSs require additional knowledge. This is equivalent to the knowledge that would typically be gained from up to three years in a professional role. The breadth of knowledge that MPs require for their constituency work is extensive, requiring a basic knowledge covering all aspects of government (for example, asylum and immigration, housing, social security, taxation, etc). Additionally some MPs require specialist knowledge of particular areas, relating to a specialist interest, Select Committee membership or spokesperson roles.
Specialist skills Specialist skills are acquired through natural ability, training, experience or practice. Specialist skills are distinct from knowledge, although they involve the use of knowledge to produce outcomes.	MPs require specialist skills equivalent to those which would typically require several years of training and / or practice. These skills include letter and report writing skills, IT skills and a high level of presentation skills, including public speaking.

Table 2 Application of job evaluation to MPs	
People skills These are the skills required in getting things done with and through people. These skills are used when working within organisations, for example, in line management, team working and communicating with colleagues. They are also used in working with suppliers, customers, other partners, and with the media and general public. People skills include the skills required in selecting individuals to fill jobs or to join project teams, and for the management of performance.	The people skills required of an MP are equivalent to those individuals with managerial responsibility, requiring exceptional ability in building relations and working through people to secure outcomes. MPs require extensive political skills, which fall under this category. They need to build networks and relationships both in the constituency and in the House and to work with a wide range of people to pursue their goals. They also need to be approachable to constituents and be able to handle difficult issues with sensitivity. Additionally MPs are responsible for the management of all aspects of their offices.
External impact This is the extent to which the jobholder has an impact on customers, suppliers or others outside the organisation, distinguishing between jobholders who have a direct and an indirect external impact.	The responsibility that MPs have to serve the interests of their constituents is unique, but we believe that the impact of this responsibility is comparable to managers with responsibility for customer service functions.
Decision making The complexity of decision making, including the range of factors to be taken into account and the extent to which information is likely to be ambiguous or conflicting. In considering the responsibility for decision making, it is necessary to take account of the range of information that has to be dealt with by the jobholder, and the extent to which this information may be conflicting or unclear. The seniority of the jobholder in the organisation is also important; those in senior positions will generally have a higher level of responsibility for decision making than subordinates because they will be responsible for the decisions of their subordinates.	The decision making of an MP is considered to be equivalent to the complex decisions that might be made by professionals, such as engineers, doctors or lawyers. The primary decisions that MPs are required to make involve voting in the House, deciding on how to pursue particular issues and ways to resolve issues that particular constituents might have. The decision making of an MP is largely guided by professional precedent and much of it is routine and is directed party policy. However, there are occasions where an MP is required to make critical and highly sensitive decisions (for example, not following the "party line") and we believe that this is a similar level of decision making to those made by experienced professionals.
Creative thinking Thinking ahead, seeing the big picture and developing and implementing new ideas. This factor measures the extent to which the jobholder is required to be creative, rather than making choices within existing customs, rules and procedures.	The level of creative thinking required is generally equivalent to that of a job holder who needs to develop new ideas which impact on his or her own work area and in some cases on colleagues. As noted above much of the decision making of MPs is guided by precedent, but MPs also need to innovate in the ways in which they resolve constituents' problems and pursue particular issues.

3.11 Table 3 shows the job evaluation results for the 30 MPs we interviewed. The scores are differentiated by different roles within the House, with MPs with Select Committee, PPS or front bench spokesperson responsibilities attaining higher scores than those without these additional responsibilities. The large majority of MPs in our sample had some additional responsibilities, and those with front bench spokesperson responsibilities attained the highest scores.[4]

Table 3 Job evaluation results for MPs

	Factor 1 - Knowledge	Factor 2 - Specialist skills	Factor 3 - People skills	Factor 4 - External impact	Factor 5 - Decision making	Factor 6 - Creative Thinking	Total
Minimum	115	120	130	130	106	82	683
Lower Quartile	125	120	141	130	118	82	714
Median	131	120	141	130	118	82	722
Upper Quartile	131	120	141	130	118	82	722
Maximum	140	120	152	130	145	110	797
Average	130	120	141	130	120	86	726

3.12 Like all job evaluation systems the Monks Job Evaluation system measures the responsibilities of the job and the skills and competencies that are needed to carry it out effectively, but it does not measure volumes of work. Therefore, the evaluation results do not take account of the extensive working hours of an MP, and assume that they work a normal professional working week.

Market benchmarking

3.13 Having completed the job evaluation exercise for MPs we then matched the roles to jobs of comparable weight in other parts of the public sector and the wider private sector. The public sector comparisons are jobs for where we would be confident that the scores would fall between 700 and 750 job evaluation points, based on our knowledge and experience of these roles, and also taking into account the views of MPs on the appropriate comparators to be considered in this report. These comparators are shown in Table 5.

3.14 For the private sector comparison we matched to a sample of 78 board-level directors of subsidiary companies with turnover ranging between £50 million

[4] It is for this reason that the average score falls some way ahead of the median score.

and £150 million[5] in the Monks Management Pay Database. The quartile, median and average job evaluation scores for the private sector sample are shown in Table 4.

Table 4 Private sector job evaluations

	Total
Lower Quartile	679
Median	708
Upper Quartile	770
Average	733

3.15 For all of the benchmarked roles we have made comparisons between basic salary, total cash and total reward. These elements of pay are defined as follows:

- Basic Salary: basic salary and fixed fees and allowances.
- Total Cash: Basic Salary plus cash incentives / bonus and other variable pay elements[6];
- Total reward: Total Cash plus pension, medical benefits, company car benefits (including the value of cash alternatives), and the value of share options and performance share plans.

3.16 The pension scheme valuations for the role of MP and for public sector comparators have been provided to us by Watson Wyatt, and the assumptions underlying these calculations are provided in Appendix E to the separate report on the Parliamentary Contributory Pension Fund prepared by Watson Wyatt. We have calculated the value of pension schemes for the private sector comparators taken from the Monks Pay Database based on the method

[5] We selected board level posts reporting to the Chief Executive or Managing Director; i.e. those within the second tier of the organisation.

[6] Total Cash does not include allowances which are for the purpose of reimbursing expenditure and should not therefore be considered as part of the reward for carrying out the job.

suggested by Watson Wyatt. The Watson Wyatt method has been adopted to enable a consistency of valuation approach between the valuation of the MPs' pension scheme and the other public sector schemes.[7]

3.17 For our public sector comparators we have included estimated amounts for bonuses, where relevant, and the addition for the total reward element is the valuation of each of the pension schemes. Table 5 shows how the different elements of the package provided to an MP compare with each of the comparators we have selected.

Table 5 Results of market pay benchmarking

		Basic salaries	*MP as % of market*	Total Cash	*MP as % of market*	Total Reward	*MP as % of market*
		£		£		£	
MP	(Pension based on the 40th accrual rate)	60,277	*100%*	60,277	*100%*	73,538	*100%*
Public sector comparators (Jobs between 700 and 750 points)							
Headteacher - L31 - National - current actual		71,244	*85%*	71,244	*85%*	80,506	*91%*
Police - Chief Superintendent - pay point 3 - current actual		68,961	*87%*	68,961	*87%*	76,547	*96%*
SCS Grade 1 - 90% of the PTR		69,300	*87%*	72,072	*84%*	84,546	*87%*
County Council, 2nd Tier - National - current estimated		72,000	*84%*	73,800	*82%*	81,720	*90%*
Armed Forces - Colonel - pay point 1 – current		69,189	*87%*	69,189	*87%*	88,562	*83%*
Health - HR Directors and similar - national - current estimated		69,000	*87%*	70,725	*85%*	79,695	*92%*
Average		69,949	*86%*	70,999	*85%*	81,929	*90%*
Private sector sample of 78 directors of subsidiary companies with turnover £50 million to £150 million							
	Lower Quartile	70,040	*86%*	80,638	*75%*	96,164	*76%*
	Median	82,800	*73%*	91,670	*66%*	117,013	*63%*
	Upper Quartile	88,439	*68%*	118,978	*51%*	141,035	*52%*
	Average	82,187	*73%*	101,974	*59%*	126,201	*58%*

3.18 Our findings are that the value of the Total Reward for an MP is 90% of the average value of the identified public sector comparators and 58% of the private

[7] Further details of the approach to the valuation of pension schemes can be found in Watson Wyatt's Report on the Review of the Parliamentary Contributory Pension Fund.

sector comparators. The figures for Basic Salary are 86% and 73% respectively.

3.19 The equivalent figures from the 2004 review were that the MPs' salary was 88% of the public sector comparators and 85% of the private sector. The public sector differential is fairly consistent, but a wider gap has opened up between the MPs salary and those of jobs of comparable size in the private sector. This is because of the higher earnings growth relating to managerial and professional jobs in the private sector: the earnings growth in respect of the private sector jobs of this level in our database has been around 6% a year amounting to about 19% since 2003, whereas the MPs' salary has increased by 7.2% over the same period.

Other parliamentary roles

3.20 We were also asked to consider the roles of other paid office holders and Ministers, and especially to consider the appropriate salary to be attached to the new office of Lord Speaker. In order to do this we carried out a job evaluation interview with the Lord Speaker to better understand her role.

3.21 We then carried out a high-level job sizing exercise for each of the other parliamentary roles to enable the SSRB to review the salary that has been set for the Lord Speaker, and also to consider the relative levels of other parliamentary salaries. The findings from this job sizing exercise are in 0.

Table 6 Rank order of other parliamentary roles

Job evaluation scores	Post	Salary £
1,251 to 1,300	Prime Minister	187,611
1,201 to 1,250		
1,151 to 1,200		
1,101 to 1,150		
1,051 to 1,100	Cabinet Minister	136,677
	Attorney General	108,485
	Lord Chancellor	103,701
951 to 1,000		
901 to 950	Govt. Chief Whip	136,677
	Speaker	136,677
	Leader of the Opposition	130,312
	Solicitor General	126,846
851 to 900	Minister of State	99,908
801 to 850	Lord Speaker	103,701
	Government Deputy Chief Whip	99,908
	Opposition Chief Whip	99,908
	Chairman Ways and Means	99,908
751 to 800	Deputy Chairman of Ways and Means	95,108
	Parliamentary Under Secretary	90,358
	Govt. Whip / Asst. Govt. Whip	85,782
	Deputy Chief Opposition Whip	85,782
	Chairman of Committees	80,970
	Chairmen of Select Committees	73,777
	Chairmen of Standing Committees	73,777
700 to 750	Prin. Deputy Chairman of Committees	75,750
	MP	60,277

3.22 In the list above it should be noted that only the roles of Lord Speaker and MP have been formally evaluated. The other job evaluation scores should be taken as indicative, based on our previous work in 2004 and our wider knowledge of the posts.

3.23 The following conclusions can be reached from the overall list of job evaluation scores:

- The Lord Chancellor and Attorney General posts appear to be underpaid. This is because the additional money that is paid to Cabinet Ministers in the House of Commons for their additional role as a Minister is disproportionately low when compared with the amount they receive for their role as an MP;

- The salary of the post of Lord Speaker is ahead of those of other parliamentary posts of comparable size. The job score for this post is less than those of the other posts in the 801 to 850 band although the post has a higher salary;

- The role of Minister of State could be considered to be underpaid (although it should be noted that these are diverse roles). Alternatively/additionally it could be argued that the other jobs with the same salary of £98,928 are overpaid;

- There is a case for additional remuneration to be paid to Chairs of Standing and Select Committees. However, it should be noted that our evaluations assume a senior member of the Speaker's Panel of Chairmen, and refer to one of the larger Select Committees. We believe that the roles of some of the Chairs of Select Committees (and especially Chair of the Public Accounts Committee) are significantly larger responsibility than others.

3.24 In our review of the post of Lord Speaker it was very clear to us that this was a new role that could evolve significantly over the coming years. Our recommendation is that the salary should be retained at its current level, and that a further review should take place in the two to three years time to evaluate whether the role has become commensurate with the salary being paid.

3.25 In order to assist the SSRB in its review of differentials between the other parliamentary roles we have carried out a benchmarking of the post of Cabinet Minister with jobs of comparable size in both the public and private sectors. This information is shown in Table 7.

Table 7 Review of differentials

	Basic salaries	*Cabinet Minister as a % of market*	
	£		
Cabinet Minister	136,677	*100%*	
Comparable public sector posts			
Cabinet Secretary	222,500		
Metropolitan Police Commissioner	228,096		
Lord Chief Justice	225,000		
Average	225,199	*61%*	
Private sector sample of Executive Directors of FTSE100 companies (excluding Chief Executives)			
Lower Quartile	351,190		
Median	440,360		
Upper Quartile	540,228		
Average	451,441	*30%*	
	Parliament-ary System	**Public Sector**	**Private Sector**
	£	**£**	**£**
MP level jobs	60,277	69,949	101,974
Cabinet minister level jobs	136,677	225,199	451,441
Differential as a % of MP	***127%***	***222%***	***343%***

Notes

1. There is a wide range of Cabinet Minister posts and the post considered for this purpose would be equivalent to one of the larger government departments, such as Health or Defence.

2. For the Cabinet Secretary the middle of the disclosed pay band is taken.

3. The Metropolitan Police Commissioner and the Cabinet Secretary are also eligible for performance-related bonus.

4. The figures shown relate to basic salaries only. Bonus payments are not included

3.26 The conclusion to be drawn from this is that the parliamentary pay structure is significantly more compressed[8] than other pay structures in both the public and the private sectors. It is also clear that basic salaries for the larger public sector roles are substantially further behind those of comparable jobs in both the public and the private sectors.

Annual uplifting mechanism

3.27 The current mechanism for annual increments to Parliamentary salaries between triennial reviews is via an automatic link to the annual movement in the midpoint of the Senior Civil Service pay bands. This has proved to be an effective mechanism for many years, but it is no longer appropriate due to recent changes in the reward strategy for the SCS: recent developments have included a move to shift the balance of basic salary and performance-related pay for the SCS whereby annual increases to basic salaries are variable (typically from 0 to 9 per cent) and performance-related, with growing bonus opportunity. Since the reward arrangements for parliamentary posts do not include bonuses or performance-related increases, the link to the SCS pay scales may no longer be appropriate.

3.28 We have considered below two main alternatives to replace the link to the SCS. These are:

- The use of one of the Average Earnings Indexes published by the Office of National Statistics. The most appropriate of these would be the public sector index, which will ensure that the annual uplift in MPs salary is consistent with that of other public sector workers. The public sector Average Earnings Index includes annual increments and performance-related pay.

- Linking to an index of annual cost of living settlements for some of the main groups of public sector workers. The difficulty with this approach is that such settlements do not include growth in earnings due to annual increments or performance pay. Therefore, if a low settlement is agreed because of significant increases arising from other aspects of the pay structure this index

[8] By this we mean that the difference between the top salary and the bottom salary is significantly narrower than those in other pay structures.

will not reflect the full growth in annual earnings. For example, the median figure for settlements for the public sector in 2005 was 3.2%[9] whereas the whole economy Average Earnings Index (including bonuses) in that year was 4.3%.

3.29 Our recommendation is that the public sector Average Earnings Index is used as the new uplifting mechanism for increasing Parliamentary salaries each year in between periodic reviews. Table 8 shows how the overall index has moved in recent years, together with its breakdown into different components:

Table 8 Recent increases in the Average Earnings Index

Including bonuses and arrears (single month annual increases)

	Public sector	**Public Admin**	**Education**	**Health**	**Other Public Sector**	***Whole Economy***
Year to January 2005	5.2%	4.3%	5.8%	5.9%	3.6%	*4.3%*
Year to January 2006	3.8%	4.9%	1.2%	6.3%	3.2%	*3.1%*
Year to January 2007	3.3%	2.8%	3.7%	3.2%	4.2%	*5.0%*

3.30 We propose that the figure for the total Public Sector earnings in January each year is taken and used to uplift salaries as at 1 April. Our view would be that the figure including bonuses and arrears should be taken so that increments reflect the total cash earnings of other public sector earnings.

3.31 The use of such an index might remove the need for a regular tri-annual review of parliamentary pay, since it should ensure that increases in overall pay are kept in line with the rest of the public sector. In future a major review every five years might be more appropriate.

[9] Source: IDS Pay in the Public Services (2006).

4. Allowances in the House of Commons

Overview

4.1 This part of the review is designed to assess whether or not the current system of allowances in the House of Commons ensures that:

- All legitimate expenditure that is incurred in performing parliamentary duties is reimbursed, and
- MPs are provided with the resources required to carry out their roles effectively.

4.2 We consulted a variety of sources of data in carrying out the review of the allowances systems, including:

- Meetings with a representative sample of 30 MPs to gain an understanding of how well the current system is working in different circumstances;
- Meetings with some of the staff of MPs to obtain their views on staff salaries and office facilities, including meetings with staff representatives;
- A desk review of the published rules for the system of allowances, including a meeting with House officials regarding the operation of the system;
- A review of the published allowance data supported by further analysis of expenditure patterns using data provided by the officials in the Department of Finance and Administration;
- A comparison with market practice in the private and public sectors, including a telephone survey of allowances that are available to executives and senior management when working away from their principle place of residence.

4.3 Overall, our research suggests that the allowances system is working well for the vast majority of MPs. There are some specific issues that have been identified, such as regional differences in staffing and office costs, and more widely about the presentation / communication of expenditure. In general, however, it is our view that the system provides adequate resources for MPs to carry out their roles effectively.

4.4 Table 9 below sets out the current allowances that are available to MPs, the maximum amounts that can be claimed, and how the system operates in respect of each allowance, as at 1 April 2006:

Table 9 Summary of allowances

Allowance	Purpose	Maximum	Claim process
Additional Costs Allowance	To reimburse overnight expenses when staying away from the main home.	£22,110	Paid by the MP and claimed back; receipts required for expenditure over £250 and copy of rental agreement or mortgage interest statement must be provided.
Staffing Allowance	To meets the costs of employing up to three full-time staff to support the Member in carrying our Parliamentary duties.	£87,276	Staff salaries are paid through central payroll provided by the House.
Incidental Expenses Provision	Allowance designed primarily to meet the costs of running a constituency office.	£20,440	Can be paid by MPs and claimed back where receipts are required for expenditure over £250; alternatively, the House can pay the supplier directly; a copy of the lease must be provided.
London Supplement	To compensate for the additional cost of living in London.	£2,712	Paid automatically along with salary through central payroll.
Travel	To reimburse the cost of travelling between the main home, Westminster and the constituency, and also within the constituency whilst undertaking Parliamentary duties.	Car: 40p per mile up to 10,000 miles Further mileage: 25p per mile Motorbike: 24p per mile Bicycle: 20p per mile	Paid by the MP and claimed back through claim forms; alternatively, fares can be purchased using the House of Commons Corporate travel card; up to 350 miles' travel within the constituency can be claimed without declaration of journey details; standard journeys must be registered with the House.
Winding Up Allowance	To meet the costs of winding up parliamentary duties, closing down the office and releasing staff after retirement from office or defeat in a General Election.	One third of the sum of the annual staffing allowance and incidental expenses provision (i.e. £35,905)	Paid by the MP and claimed back on an as incurred basis, up to the maximum limit.
Resettlement Grant	Similar to a redundancy payment.	Between 50% and 100% of salary, depending on age and length of service at the date of dissolution	Claimed using the resettlement grant claim form once all outstanding liabilities to the House, suppliers and staff have been met.

Presentation of allowances

4.5 We believe the presentation of some aspects of the allowances system could be considerably improved to enable it to be better understood by the media and others. We would advocate the following improvements:

- The word "Allowance" implies that the MPs are given a sum of money which they can choose to spend as they please. The reality is that it is an expenses system, designed to reimburse MPs for legitimate and necessary expenses, and which has limits and controls on the amounts which MPs can legitimately spend. We therefore recommend that the word "Costs" or "Expense" is substituted for the word "Allowance" throughout the system.

- MPs should not be able to claim expenditure without having receipts to support this. This aspect of the system results in perceptions that it could be abused. Furthermore, it is normal practice for employers to only reimburse expenditure on production of receipts even for senior professional posts. Even if it proves impractical for all receipts to be submitted to the House authorities claims should be itemised and receipts retained so that they can be audited as necessary.

- We also believe that the publication of information on Allowances should be separate from the consideration of salaries and that for future reviews the SSRB should consider producing separate reports to cover these different issues.

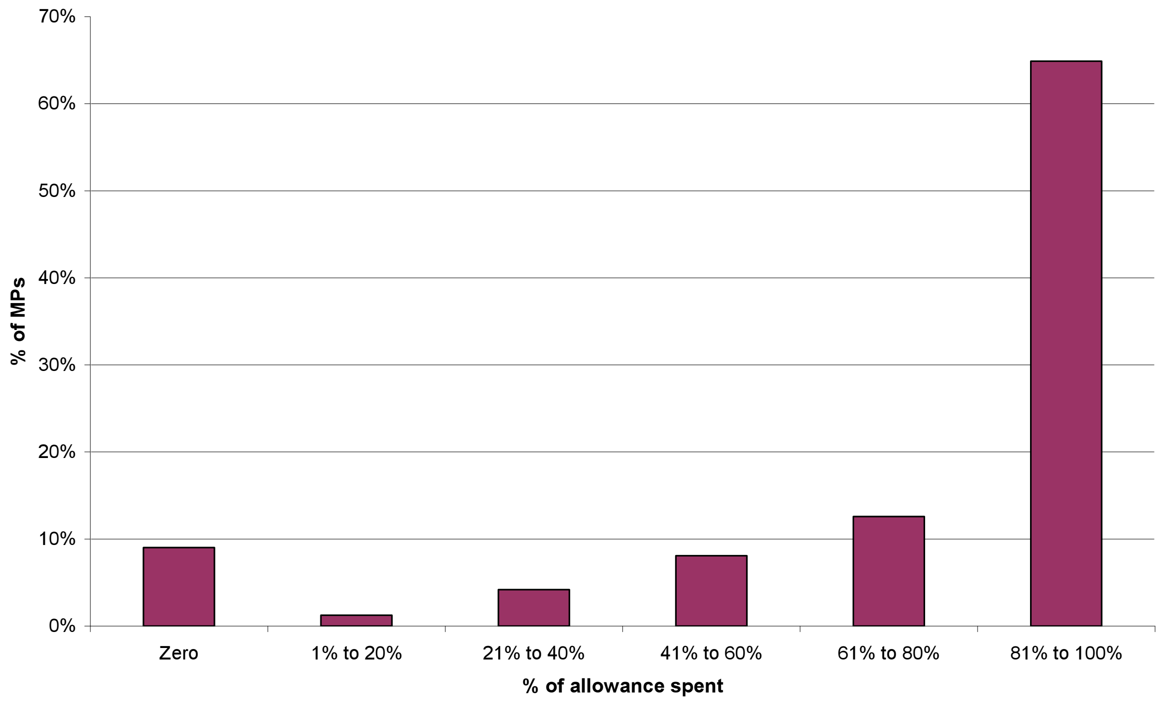
Additional Costs Allowance

4.6 The Additional Costs Allowance (ACA) is designed to reimburse the costs of overnight accommodation when MPs are required to be away from their principal residence whilst carrying out parliamentary duties. The allowance is currently capped at £22,110 and it covers necessary expenses such as rental fees, mortgage interest, hotel accommodation, subsistence, utility bills, insurance, security measures and any other reasonable costs related to maintaining a second home. MPs with inner London constituencies are not eligible for this allowance but can instead claim the London Supplement. MPs with outer London constituencies can choose between the ACA and the London Supplement.

4.7 In most cases, MPs will have their main residence within or close to the constituency and claim expenses relating to overnight stays in London. Those MPs who have their main home in London can claim costs of staying overnight in the constituency.

4.8 Of the 586 MPs who claimed the allowance last year, 343 (53% of the total) claimed over 90% of the maximum amount. The chart below illustrates the pattern of expenditure for 2005/06:

Chart 2 Use of Additional Cost Allowance



4.9 The majority of the MPs we met were satisfied that they were able to meet all of their overnight costs adequately at the current level of the allowance. However, three MPs said that whilst they were able to cover mortgage interest or rental costs, the current cap on the allowance did not enable them to cover all of their costs (e.g. bills and subsistence were often subsidised by themselves). Other observations from our fieldwork include the following:

- The current system does not encourage MPs to make repayments on mortgaged property to reduce the balance of the mortgage and therefore the interest paid on it;
- Additional funding for hotel accommodation would be welcomed by MPs who are not always able to reach their main residence on the same day that they depart from London (the green book says this is allowed already);
- The recent increases in London property prices mean that new MPs may find it more difficult to purchase property and will therefore have to pay higher rental prices than colleagues who have been in office for many years.

4.10 The overall average rental cost paid by MPs is £15,039 per annum whilst the average mortgage interest paid is £11,843 per annum for those who own a property in London. On average, this makes up 70% and 55% of the maximum ACA available, respectively. We have not been provided with a breakdown of the balance of the expenditure.

4.11 We have considered whether it might be sensible to add the ACA to basic salary, a suggestion that was made to us by a few of the MPs we interviewed. We believe this approach gives rise to several points:

- The ACA is in place to reimburse MPs for legitimate expense; i.e. the costs incurred whilst performing parliamentary duties away from their main residence;
- Salary would be taxable and have to be grossed up to provide the equivalent value of allowance in cash terms; whilst this is cost neutral for the taxpayer it raises some presentational issues;
- Adding the ACA to basic salary would result in a large pay increase for London MPs who are currently not eligible for the ACA or choose to take the London Supplement instead.

4.12 We have also considered the specific question of whether the Inner London MPs should be allowed to choose between claiming the ACA instead of the London Supplement on the same basis as Outer London MPs. Our view is that this would not be appropriate since there is no requirement for MPs who live in Inner London to have stay away from home to carry out their duties. If additional amounts need to be paid to MPs in inner London to reflect their higher living costs this should be dealt with through the London Supplement.

4.13 For these reasons we believe that the ACA should be retained as a separate allowance. It is and should be kept separate as part of the system to reimburse legitimate expenses. It is necessary that MPs with constituencies away from London should stay in London overnight and an allowance is required to reimburse this cost.

4.14 In order to reinforce the message that allowances are paid to MPs to cover the costs of expenses incurred in doing their job, we would suggest that the ACA is renamed “Overnight Expenses” to make the distinction between salary and expenditure more clear. We also suggest that receipts for all expenditure should be retained even where expenditure falls below the limit of £250. This should include expenditure on food, although MPs could be entitled to an un-receipted subsistence allowance of around £10 a night as an alternative. In line with normal practice such reimbursement should to cover the additional costs that would normally arise from staying away from home, rather than to cover subsistence expenditure that would arise if the MP was at his or her normal home.

4.15 It is difficult for us to comment on the overall structure of the ACA on the basis of what would normally happen in other organisations. Where employees are required to work regularly away from home, it is usual for the employer to provide accommodation, rather than to provide a cash payment which can be used to purchase accommodation of his or her choice. The best way to assess the appropriate level of allowance is to consider what an employer would reasonably spend to provide accommodation for an employee in central London. In this context an amount of £425 a week, which is equivalent to the current level of ACA, would pay for a furnished single room flat in central London. The actual patterns of expenditure suggest that most MPs spend rather less than this on rents and mortgage interest, and the level of ACA was not a major concern amongst the MPs whom we interviewed. For these reasons we do not believe that any more fundamental changes to the structure of the amount of the ACA are needed.

London Supplement

4.16 The London Supplement is payable to those MPs with inner London constituencies who are not eligible for the ACA and also to those MPs with outer London constituencies who choose to claim the London Supplement instead of the ACA. The London Supplement is currently set at £2,712. It is paid to MPs along with their salary and is subject to income tax and national insurance.

4.17 The MPs we met with London constituencies felt that the current level of the London Supplement was neither competitive with other public sector roles nor adequate for meeting the additional costs of living in London. Our own research supports the view that the current level of the London Supplement is lower than that offered in many other public sector professions where the rate ranges from £2,000 to £6,000 with most receiving £3,000 or above for roles that we would consider comparable to that of an MP:

Table 10 Comparison of London Supplements

Department / Agency / Profession	Location	London Weighting / Allowance
Audit Commission	Greater London Roseland (i.e. South East counties)	£5,269 £3,201

Table 10	**Comparison of London Supplements**	
Department for Work & Pensions	Inner London	£3,460 to £5,120
	Outer London	£2,220 to £4,180
Environment Agency	Inner London	£3,193
	Outer London	£1,583
Firefighters	London	£4,592
Health & Safety Executive	London	£3,615
Ministry of Defence	Inner London	£2,593
	Outer London	£1,367
National Audit Office	London	£4,739 to £5,409
National Health Service	Inner London	20% of salary (min. £3,383; max. £5,638)
	Outer London	15% of salary (min. £2,819; max. £3,946)
Police Officers	London weighting	£1,995
	London allowance	£4,338
Prison Service[10]	Inner London	£4,250
	Outer London	£4,000
Probation Service	London	£3,500
Teachers	Inner London	£3,936 to £6,558
	Outer London	£2,913 to £3,811
Source: IDS HR Study August 2006 and other publicly available information		

4.18 London allowances are paid primarily to reflect the relatively higher cost of living in London; however, for some public sector organisations including some of those in the table above, this is combined with a need to attract and retain key staff in the capital. The problems of recruitment and retention do not apply to MPs in the same way that they do to other professions, and we believe greater clarity as to purpose of the London Supplement is desirable. In our view it

[10] The Prison Service allowance is designed to address recruitment and retention as well as to reflect the additional cost of living in London.

should not be seen as an amount to cover the additional costs of living and travelling in central London, but should be considered as the amount of additional salary that would normally need to be paid to employees who work in London, paid as a market premium to reflect the additional housing and other living costs in London. The London Supplement should not be regarded as a smaller taxable alternative to the ACA, which is a separate payment to reimburse the costs of staying away from an MPs main home, as discussed in paragraph 4.12.

4.19 On this basis we believe the London Supplement should continue to be paid to provide a higher level of reward to London-based MPs to reflect the additional market salary that generally needs to be paid to recruit and retain staff in London. We believe that the range of public sector market supplements set out in Table 10 provides a guide as to the appropriate level of London Supplement and these data suggest that a London Supplement of £4,000 for MPs would be appropriate.[11]

Staffing Allowance

4.20 The Staffing Allowance is provided to MPs to meet the cost of employing staff to help them perform their parliamentary duties. The maximum amount available to each MP is £87,276. The allowance is designed to cover all employment costs, including salary, employer's National Insurance contributions, overtime, bonuses and severance payments as well as travel, subsistence and other expenses for staff or interns/volunteers. Reasonable cover for staff absences (of up to two weeks) must also be paid for through the staffing allowance. Up to 25% of the allowance in any given year may be used for bought in services (e.g. accounting services, consultancy, cleaning services, etc). All MPs who have a constituency office registered with the Department of Finance and Administration may also transfer money from the Staffing Allowance to the Incidental Expenses Provision (IEP). The sum transferred must be a minimum of £500 but no more than 10% of the relevant year's Staffing Allowance. The Staffing Allowance can also be supplemented by drawing on any surplus funds from the IEP or the MP's parliamentary salary. The Staffing Allowance is

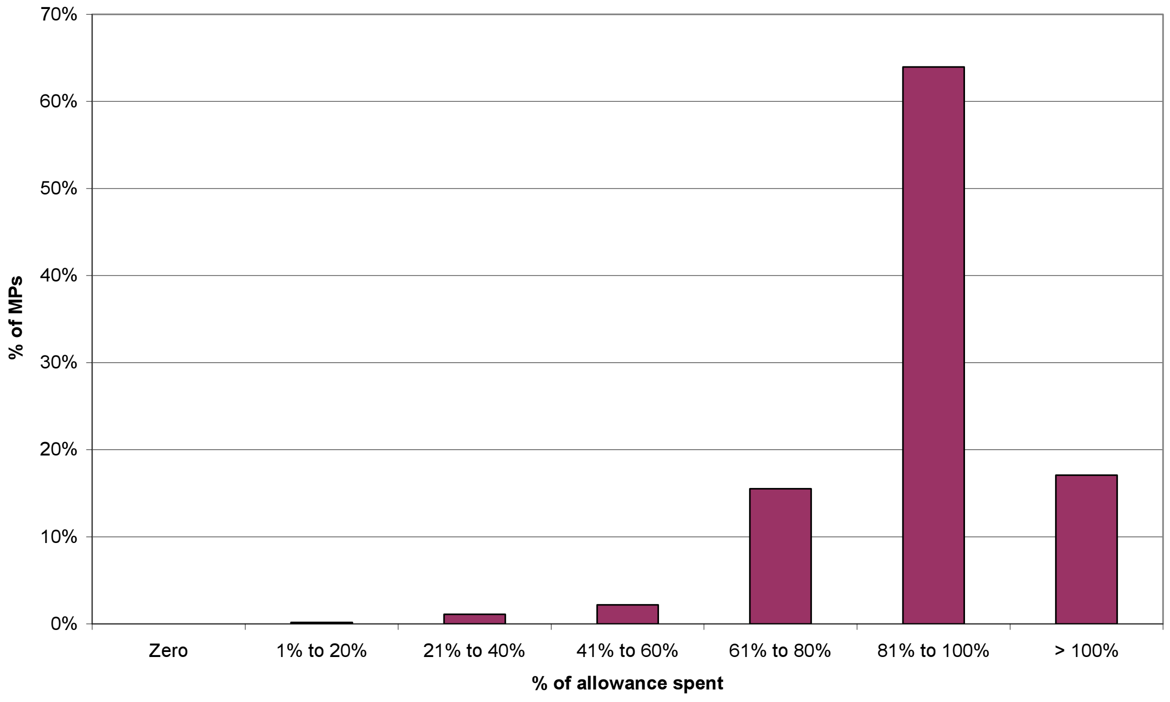
[11] If the midpoint is taken between outer and inner London, and the midpoint is also taken where there is a range of figures the average level of London supplement in Table 10 is £3,986.

increased each year in line with the Average Earnings Index for the whole economy (excluding bonuses).

4.21 Salaries for individual staff are paid centrally through the House payroll service. Employees must be paid in accordance with the pay ranges linked to the job descriptions and standard contracts prepared by the Department of Finance and Administration. Based on these pay bands, an MP should be able to employ up to three full-time staff.

4.22 Chart 3 illustrates the current expenditure patterns of MPs on the staffing allowance through an illustration of the percentage of the allowance that was used in 2005/06, which shows that 81% of all MPs spent more than 80% of the allowance:

Chart 3 Use of the Staffing Allowance



4.23 We also reviewed the staffing expenditure data provided by the Department of Finance and Administration and make the following observations based on this analysis:

- 87% of MPs employ three or more staff;

- On average, each MPs employs the equivalent of 2.9 full-time staff;
- As shown above, 17% of MPs claimed above the maximum suggesting that the allowance was supplemented using surplus funds drawn from either the IEP or the MP's parliamentary salary; records held by the House show that 18 out of 110 MPs used the latter facility to supplement the allowance in 2005/06 - based on this, we construe that the remaining 92 (or 14%) MPs transferred money in from the IEP.
- A regional analysis of full-time equivalent salaries indicates that the average salaries for constituency staff of those MPs with London constituencies (£23,843) and constituencies in the South-East (£23,661) are higher than in other regions such as Northern Ireland (£21,465) and Scotland (£22,655);
- In addition, salaries for staff who are based in Westminster are higher still at an average of £25,937; the regional analysis also suggests that there is approximately a £2,000 differential between Westminster and London constituency staff and approximately a £3,000 differential when compared with average salaries of staff based in the rest of England (excluding London and the South East);
- Bonuses were paid to 44% of staff in the year 1 November 2005 to 31 October 2006. Of these, 58% received awards of £1,000 or less, 21% received between £1,001 and £2,500 while the remaining 21% received more than £2,500;

4.24 Most of the 30 MPs we met with said that the current level of the Staffing Allowance was adequate for their needs, save for the inability to award increases to reward development of skills or exceptional performance and coping with increasing volumes of casework. Those MP's who would welcome an increase in the Staffing Allowance tended to be those with particularly high volumes of casework, where they felt that additional resource was required (rather than increased rates of pay).

4.25 Data on current levels of expenditure show that the average full-time equivalent salary for each of the seven roles carried out by MP's staff is as follows:

Table 11 Average staff salaries paid by role

Role	**Average full-time salary 2005/06 (£)**
	All staff
Office Manager / Executive Secretary	27,001
Senior Secretary / PA	26,212

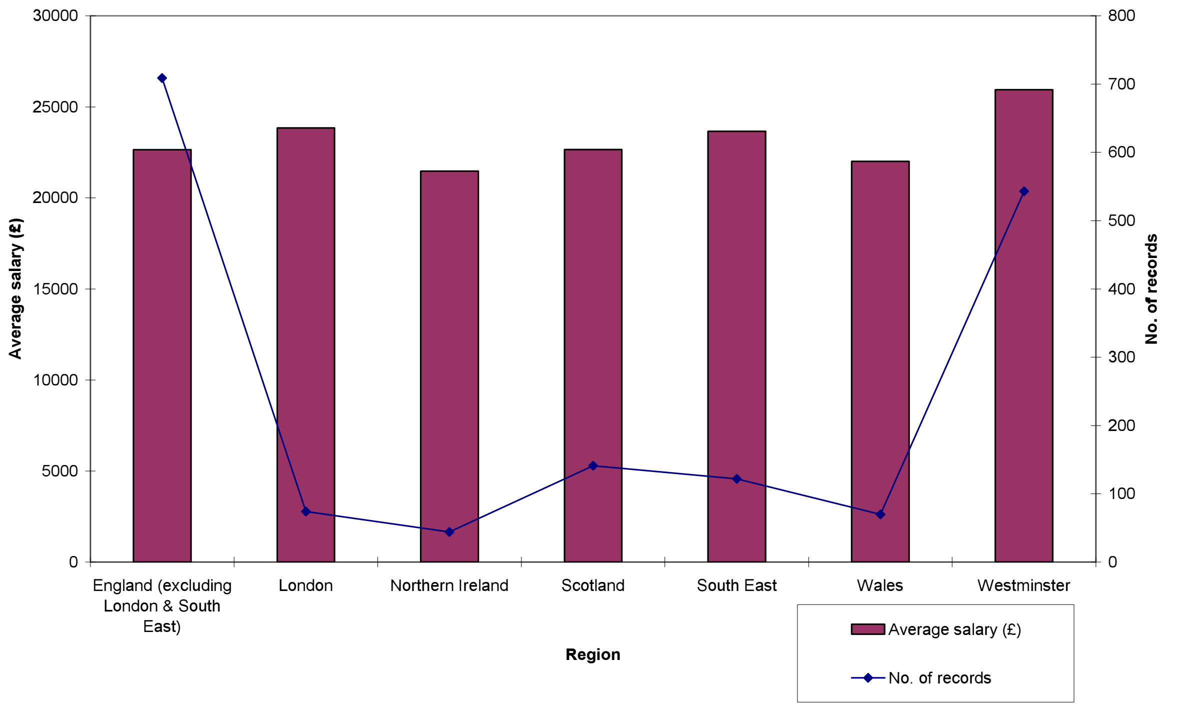
Junior Secretary / Admin Assistant	21,388
Senior Research Assistant	28,523
Assistant Researcher / Parliamentary Assistant / Constituency Assistant	23,212
Senior Caseworker	23,815
Caseworker	20,787
Sample size	*1,703*
Source: Department of Finance and Administration	

4.26 Data provided by the Department of Finance and Administration suggest that on average MPs employ 2.9 full-time equivalent staff. We heard a good deal of evidence to suggest that the volume of work has continued to increase since the last review through larger volumes of case work and the increasing use of e mail. There is every reason to suppose that this trend will continue.

4.27 MPs expressed some frustration that the amount of the allowance available is not adjusted based on the number of staff employed in Westminster where market rates are higher than in the regions. Similarly, it was felt that the current system was unfair to MPs with London constituencies who employ all of their staff in London and the South East. Generally speaking, despite the aforementioned comments, there were no reported staff retention issues, even where MPs claimed that they were not able to pay competitive salaries. The only exception to this was the experience of two MPs with constituencies in London who reported that, on average, many of their staff left after 18-24 months, particularly those based in Westminster. In addition, a small minority of MPs reported transferring money from the Staffing Allowance to the IEP.

4.28 Based on the salaries currently paid to MPs' staff, there is evidence to suggest that, on average, salaries of constituency staff are higher in London and the South East than other parts of the UK. Chart 4 below illustrates the regional differences in the average salaries of constituency staff:

Chart 4 Average salaries paid by region



4.29 As part of our research, we also interviewed staff from five constituencies to ensure we had a thorough understanding of the roles that they carry out. Based on this, we conducted a market benchmarking exercise to assess market rate movements for the roles that are carried out by MPs' staff. The seven posts were benchmarked against other similar posts in both the public and private sectors and the output of this analysis is summarised in Table 12:

Table 12 Market salaries for MPs' staff

Role	Benchmark roles	Current range (£)	National market		London market	
			Market average (£)	Market range (£)	Market average (£)	Market range (£)
Office Manager / Executive Secretary	Office Manager / Senior Office Administrator / Senior PA	19,825 to 37,245	29,000	26,500 to 33,000	31,000	29,000 to 35,000
Senior Secretary / PA	Director's Secretary / Senior Secretary / PA	16,221 to 28,235	21,750	19,000 to 26,000	27,250	23,000 to 29,000
Junior Secretary / Admin Assistant	Manager's Secretary / Senior Clerk / Clerical Assistant / Receptionist	13,216 to 23,429	18,000	15,000 to 21,000	21,000	18,000 to 25,000
Senior Research Assistant	Senior Researchers in public sector organisations	25,833 to 37,245	27,000	25,000 to 29,000	28,000	26,000 to 31,500
Assistant Researcher / Parliamentary Assistant / Constituency Assistant	Researchers in public sector organisations / Graduate level	13,216 to 31,840	22,500	19,500 to 25,000	23,500	21,000 to 25,500
Senior Caseworker	Senior Caseworkers in public sector organisations	16,221 to 27,634	26,500	22,500 to 30,000	28,000	24,000 to 31,000
Caseworker	Caseworkers in public sector organisations	12,615 to 23,429	19,000	16,500 to 23,000	20,500	17,500 to 24,000

Source: Croner – Clerical & Operative Rewards / Charity Rewards, recruitment postings and others

4.30 All MPs currently receive an allowance that is aimed to cover the cost of employing three full-time staff (or equivalent part-time staff) in London, regardless of where staff are based. Following the last tri-annual review of pay and allowances MPs voted to increase the Staffing Allowance, so that all MPs received the full allowance for London staff in response to claims that the previous arrangement, where the Staffing Allowance varied based on the number of staff that were based in London, was unfair due to inconsistent application in practice. Our analysis above would support that the current level of allowance is adequate for employing three full-time staff based in London. In addition, it opens up the debate as to whether the allowance is in fact overly generous for those MPs who have most of their staff based outside of London, creating the very same inequalities that were present prior to the last review.

4.31 Table 13 shows the costs of employing three staff inside and outside London.

Table 13 Overall staffing costs

	Ouside London	London
	£	£
Office Manager / Executive Secretary	29,000	31,000
Assistant Researcher / Parliamentary Assistant / Constituency Assistant	22,500	23,500
Caseworker	19,000	20,500
	70,500	75,000
Bonus provision at 5%	3,525	3,750
	74,025	78,750
National Insurance at 12.8%	9,475	10,080
	83,500	88,830

Note: Pension costs are funded separately

4.32 This shows that the allowance is in line with where it should be for London-based staff. The market data for staff salaries which we provide is for late 2006 and an annual uplift of around 3.5% in April 2007 to £92,000 would be bring the total allowance to where it needs to be. However, the allowance is excessive for regional-based staff and ideally we believe that two separate maximum levels of allowance should be reintroduced, based on the numbers of staff based in London. Overall a differential of around 6% is needed between the salaries in and outside London.

4.33 It will not be easy to reintroduce this differential because it appears from the evidence that many MPs with staff outside London are spending most of their staffing allowance. We believe that the SSRB could consider two alternative ways to reintroduce the change:

- The maximum allowance allocated in respect of staff outside London should be frozen at its current levels for two years to restore an appropriate differential; or

- Where new appointments of staff are made in outside of London there should be a reduction in the overall allowance available.

4.34 The first of the options will ensure that an appropriate level of Staffing Allowance is reintroduced within two years, but it is likely to be a controversial measure. The second option ensures that there is no negative impact on existing staff but has the disadvantage that it will take longer and be more complicated to implement. Overall we believe that the first option is preferable, especially if some additional IEP/Communications allowance is made available to MPs which could be transferred to alleviate any short term difficulties.

4.35 Aside from the issue of reintroducing the London differential the Staffing Allowance appears to serve its purpose well. We believe that it is adequate in enabling MPs to recruit up to three full-time equivalent staff of the required calibre. In addition, evidence suggests that the flexibility of the allowance is highly valued as it supports a range of resourcing models that suit the varying nature and level of support required by each MP. In view of the strong evidence of increasing workload there is the separate question of whether the staffing complement of three full-time staff is sufficient. Consideration should also be given to increasing the allowance on the assumption that three and half full time staff can be employed. Such a change would also ease the difficulties of transitioning to two separate levels of allowance for staff based within and outside London.

Incidental Expenses Provision

4.36 The Incidental Expenses Provision (IEP) is designed to meet the costs of facilities and services required in the course of carrying out parliamentary duties. The IEP is typically used by MPs to pay rent, rates and utility costs related to accommodation in the constituency that may be used as an office, for surgeries or other meetings and as a base for the MP's staff. The IEP may also be used for expenses such as equipment and supplies for the office or surgery, work commissioned or bought in services, security, communications (including printing and sending newsletters to constituents and maintaining websites), certain travel (e.g. for staff), internet or telephone charges and taxis and private hire cars for permitted UK travel. The IEP is currently set at a maximum £20,440.

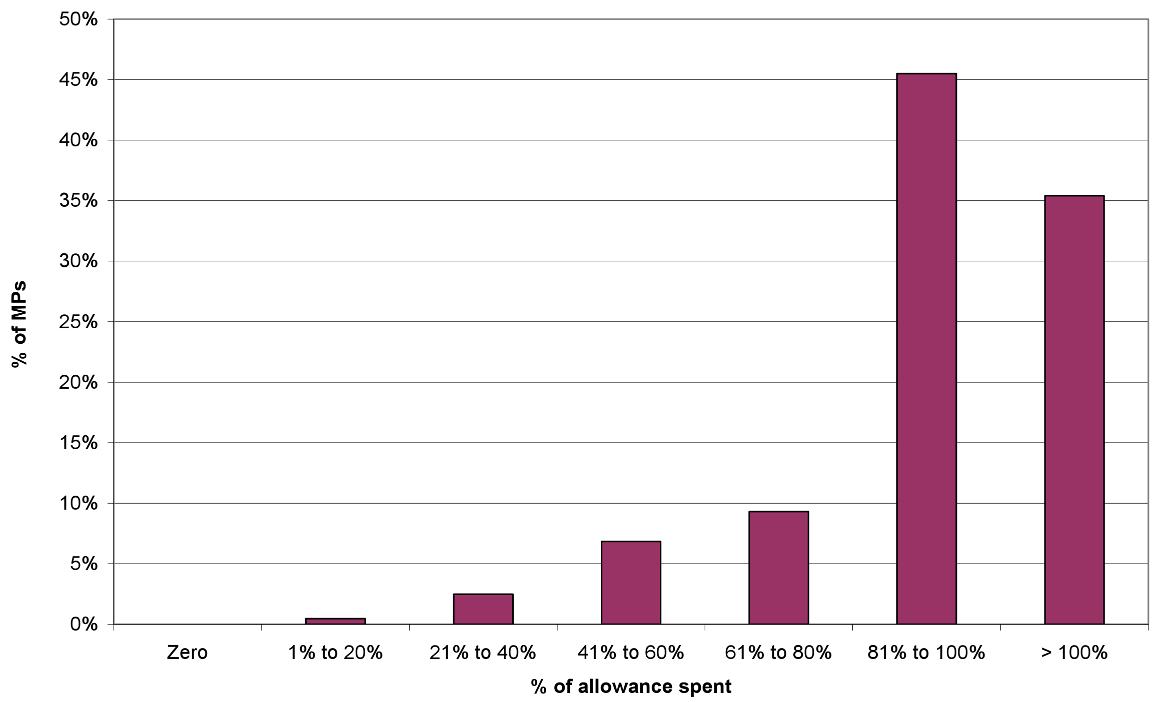
4.37 Expenses incurred under this category can be paid by the Member directly and reclaimed providing receipts / invoices for any expenditure over £250. Alternatively, the Department of Finance and Administration can pay the supplier directly or arrange for a regular payment arrangement to the member in line with the agreement / contract with the supplier. Monies from the IEP may also be transferred to the Staffing Allowance at any point during the allowances year.

4.38 IT is provided centrally with each MP receiving two desktop computers, one laptop, a printer and IT support services provided by the Parliamentary Communications Directorate (PCD). MPs do not pay for this equipment out of their IEP, but may purchase additional equipment to meet their needs.

4.39 Where an MP uses part of his or her home (or any other building they lease or own) as an office for the purpose of conducting parliamentary duties, they may claim for additional costs incurred (e.g. extra telephone lines, heating, lighting) but not leasing or mortgage costs.

4.40 The chart below shows the extent to which MPs claimed the IEP allowance during 2005/06:

Chart 5 Use of the Incidental Expenses Provision



4.41 81% of MPs claimed more than 80% of the IEP allowance last year, including 35% who claimed more than the maximum, suggesting that they needed to transfer funds from their Staffing Allowance in order meet the costs of running their constituency office. This is supported by the fact that of those who claimed more than the maximum of the IEP, 27% of the same MPs also claimed less than 95% of the staffing allowance. A sample of office costs extracted by the House officials suggests that the average office rental costs are approximately £5,000, with an average of around £7,000 being paid by MPs with offices in London.

4.42 The biggest frustration reported by MPs with the IEP was over regional differences in office rental costs which have in practice (in their opinion) resulted in a two-tier structure with respect to the amount of floor space and the quality of the office accommodation that can be afforded. In addition, nearly half of the MPs interviewed claimed that office rental costs have increased more than the rate of inflation in recent years, making it increasingly difficult to meet all expenses using the current level of allowance.

4.43 Further variation in office rental / rates costs incurred is determined by whether the MP uses his or her home as an office, rents space from the local party office or local authority, or rents space at the going commercial rate on the local high street / town centre of the constituency. For instance, one MP quoted paying annual rent of £2,000, whilst another said that if rent was not discounted by the local council for their existing premises, the going rate for a similar sized space would be £20,000 per annum.

4.44 The regional differences quoted by MPs are supported by an independent regional analysis of achieved office rents during quarter three of 2006 shown in Table 14:

Table 14	**Office rental costs by location**	
Area	**Rent (£/sq.ft./pa)**	**% of national average**
Basingstoke	18	78%
Bristol	26	116%
Coventry	16	71%
Edinburgh	28	125%
Hammersmith	34	150%
Leeds	25	112%
Manchester	28	125%
Milton Keynes	16	71%
Norwich	14	60%
Swindon	16	71%
National Average	***22***	***100%***
Source: Jones Lang Lasalle (2006)		

4.45 The differences evidenced above illustrate that the current system may be seen as unfair to those MPs with constituencies in the most expensive regions, who will consequently have less funding for expenses other than rent / rates, or alternatively will not be able to rent space to an equivalent size / quality to that which can be afforded by colleagues with constituencies in the less expensive areas. Other parameters that would have to be factored in include the number of staff that the constituency office would be expected to accommodate and the quality of accommodation that would be considered reasonable.

4.46 Overall we do not believe that it is appropriate to vary the level of allowance available for office costs by reference to area. This is because it is very hard to define what a more expensive area would be (costs differences are highly localised and depend a lot on the supply of office accommodation in a particular area). Such an approach would be further complicated by variations in the quality of accommodation and by the numbers of staff employed in the constituency.

4.47 Another inconsistency that MPs felt strongly about was the fact that some office costs such as postage, stationery, printing, heating, lighting, phone calls and rental, photocopying, etc are paid for centrally if the MP carries out most of his or her work from the Parliamentary Estate. Whilst this did not generally discourage MPs from running a constituency office, they felt that the current system does not encourage MPs to have a base in the constituency which is an important part of ensuring constituents have access to the MP's services.

4.48 Other comments from the MPs interviewed included the following:

- A number of MPs felt that sufficient funding was not available for security costs and expressed concerns for the safety of their staff; many suggested that security costs should be funded through a separate allowance;
- Some MPs appear to incur greater translation costs than others, depending on the English speaking abilities of their constituents; those MPs with large communities of this nature felt that additional funding should be made available for this purpose on an as incurred basis;
- Some new MPs reported that it was difficult to meet office set up costs as well as ongoing running costs during their first year in year; this is supported by the figure of 81% of MPs utilising more than 80% of the allowance for ongoing expenses illustrating that it is likely that little funding would be available for capital costs;
- Of those MPs that felt the IEP was particularly stretched, many said that this pressure would be alleviated by the new Communications Allowance (see next section) as expenses related to printing and distributing newsletters and parliamentary reports and/or maintaining a website will be funded separately, freeing up monies in the IEP for other expenses.

4.49 Our conclusion is that the current overall level of the IEP is reasonable but any changes need to be considered in the light of proposals to bring in the new Communications Allowance. We believe that there is a strong case for a separate amount for Office Accommodation Expenditure, set at a maximum figure with the balance of what is currently the in the IEP being combined with a proposed new Communications Allowance. This is considered further in paragraph 4.57.

Communications Allowance

4.50 The government put forward a proposal for the introduction of a new Communications Allowance, which is intended to address a number of issues about how MPs should pay for certain aspects of pro-active communication with their constituents. The House has agreed in principle that the new allowance will be established by 1 April 2007. The rules that will govern the allowance and the amount that would be available are currently being reviewed by the MPs Estimate Committee.

4.51 18 of the 30 MPs we interviewed expressed the view that they were not in favour of the introduction of the new Communications Allowance. The reasons given for this view by all but two of this group were focused on the principle of what the allowance was intended for and included the following comments:

- There is a perception that the proposal for the new Communications Allowance has partly been driven by the abuse (as it is seen by some) of the House postage facility. MPs who felt this was true felt very strongly that the House should address this problem more directly rather than providing an alternative facility to meet the same costs.

- Some MPs were also concerned that the allowance would encourage unsolicited correspondence, including material which some MPs believed should be financed from party funds, and therefore support incumbency.

- In addition, five MPs stated that they were able of cover the costs of communications adequately using the IEP and therefore the additional allowance was not necessary. It was also pointed out that for MPs in this position, the introduction of the allowance may enable them to free up more money within the IEP to buy additional equipment or services or indeed allow them to transfer more to the Staffing Allowance and reward their staff better.

4.52 The other two MPs, who were against it, supported the concept in that they believed that MPs should be permitted to communicate with their constituents as often as necessary in order to ensure they are well informed of developments on local issues and aware of the services that can be provided by the MP. They anticipated, however, that the introduction of the allowance will be accompanied by a cap of postage expenditure in the House, which they envisage will reduce the amount of correspondence they are able to send at the moment, and therefore, did not support the introduction of the allowance.

4.53 Almost one third of the MPs we met were in favour of the allowance and would welcome the additional funding. These MPs felt it would support them in keeping their constituents informed of their work both locally and in Westminster through more frequent newsletters and parliamentary reports, it would assist them in making themselves more accessible to their constituents through advertising of surgeries for example, and a number of them also mentioned that they would use the funds to improve the quality of their website.

4.54 A short survey of printing and distribution companies in a sample of UK cities suggest the following unit costs for producing and hand delivering three types of communication for 40,000 households:

Table 15 Leaflet costs

Item	**Leaflet**	**Flyer**	**Report / Newsletter**
Description	A4, double-sided, colour	DL, double-sided, black and white	A4, 3 pages, double-sided, colour
Quantity	40,000	40,000	40,000
Average print cost	£1,163	£345	£3,187
Average distribution cost	£2,077	£2,077	£2,077
Total unit cost	£3,240	£2,422	£5,264
Quantity	2	2	2
Total cost per item	£6,480	£4,844	£10,528

4.55 The decision on Communications Allowance should be based on the level of activity that is considered appropriate to enable MPs to communicate with the constituents. The new allowance is also intrinsically tied in with the IEP since this is the allowance that is already used by MPs to communicate with their constituents.[12] If it is decided that it is appropriate for each MP to print and distribute to constituents two three-page double sided leaflets each year, in addition to existing activities, then an amount of £10,000 could reasonably be added to the current IEP.

[12] Information provided by the House officials suggests that 237 invoices were received for costs of printing leaflets. The average amount of each invoice was £1,474 in the period from April 2006 to November 2006.

4.56 It should also be noted that, if successful the Communications Allowance will generate more constituency work for MPs. This could, over time result in additional pressures on other allowances, including the Staffing Allowance.

4.57 As stated in paragraph 4.49 we believe there is a strong case for a separate amount of expenditure for Office Accommodation. This will ensure that the MPs with lower accommodation costs (either because of low rental costs or because they use the House facilities at Westminster) do not have excessive amounts of IEP to spend on other activities. If the additional amount of £10,000 to be spent on Communications is accepted, the allowance should be increased to a maximum of £31,000 (include an annual uplift of about 2.5% in April 2007). This amount could then be split into two parts; an Office Accommodation Expenditure amount of around £15,000 and a balance of £16,000 which will be a new amount for Incidental and Communications Expenditure, with the flexibility to transfer an amount between the two. Office Accommodation Expenditure would cover office costs, including office rent, rates, heat and light with remaining expenditure falling into a new amount for Incidental and Communications Expenditure.

4.58 Further work would need to be done to consider the appropriate split of the overall allowance, based on current patterns of expenditure and there might be some difficulties in defining what should fall into each allowance, and for this reason we would suggest that there should be flexibility to transfer around £5,000 between the two amounts, with the effect that that the maximum that could be spent on Incidental and Communications Expenditure would, in this scenario, be £21,000, assuming that the spending on Office Accommodation is less than £10,000 a year and that there is no transfer to or from the staffing allowance.

4.59 There is also a case of considering a reduction on the maximum amount of IEP for each member of staff who is based on the Parliamentary Estate at Westminster. This will address the inconsistency identified in paragraph 4.47 under which MPs who draw heavily on the Parliamentary Estate potentially have additional amounts of IEP to spend.

4.60 If it proves impractical to introduce two separate allowances the Communications Allowance could be added to the IEP to create a new large single allowance. Although it might appear to be more straightforward to have a single larger amount we believe the better approach is to ensure that maximum limits are placed on the amounts that can be spent under the two different headings.

Travel Entitlements

4.61 The House will reimburse any reasonable travel and associated parking expenses that are wholly, exclusively and necessarily incurred in the course of carrying out Parliamentary duties, including the following:

- Attendance in the Chamber, in Westminster Hall or in committees of the House;
- Visits to constituents;
- Other visits to undertake constituency casework or where required for general constituency matters;
- Surgeries and advice sessions;
- Other issues relating to matters currently before the House or before a select committee on which the MP serves.
- All journeys between the three points of main home, Westminster and the constituency are allowable providing the travel is undertaken for Parliamentary duties. In addition, travel within a 20 mile radius of the constituency boundary is also permitted. Any extended travel within the UK or to Europe is permissible; however, advance authorisation is required from the Department of Finance and Administration.

4.62 MPs are reimbursed for travel by public transport, including sleeping berths for overnight journeys, through mileage for cars, motorbikes or bicycles, reasonable parking expenses and taxis and private hire cars at the car mileage rate only (the full costs of the latter may be claimed using the IEP if they are supported by receipts and journey details).

4.63 For the year 2005/06, 597 MPs claimed an average of 9,541 miles each. Of this group, 40% claimed more than 10,000 miles. The mileage rates that currently apply are shown in Table 16:

Table 16 Mileage rates

Mode of transport	**Mileage rate**
Car	40 pence per mile up to 10,000 miles 25 pence per mile for further mileages
Motorbike	24 pence per mile
Bicycle	20 pence per mile

4.64 MPs' spouses and children up to the age of 18 are permitted up to 30 single journeys each year for travel between the main home and Westminster or between the constituency and Westminster. MPs' staff are permitted up to 12 return journeys shared between all employees. These journeys must be between the constituency and Westminster and this entitlement can only be used for employees paid through the staffing allowance (i.e. travel for volunteers is not reimbursed, although this can be funded using the IEP).

4.65 21 out of the 30 MPs we met were content with the current travel allowance and how it operated. However, the following concerns were expressed by the others:

- Those MPs claiming more than 10,000 miles a year (40% of those claiming) felt that the limited higher mileage rate has meant that they are no longer able to cover the full capital costs of running their vehicles; this was particularly the case for those MPs with constituencies that covered a large geographical area and/or those MPs whose constituencies were farthest away from Westminster;

- A handful of MPs expressed frustration over not being able to claim the full cost of taxi fares to and from the airport as a travel expense, particularly where they were required to travel late at night;

- A handful of MPs felt that the 12 return journeys permissible for staff travel were not sufficient and additional trips had to be funded through IEP;

- One or two MPs also felt that having to claim staff travel within the constituency through the IEP was unfair and this should be reimbursed separately on an as incurred basis;

- A number of MPs highlighted that the current system does not encourage the use of public transport;

- Finally, London MPs noted that the current system does not encourage the most cost effective travel for staff travelling between London constituencies and Westminster; for example, a prepaid Oyster card for all staff travel would be far more cost effective than claiming individual journeys.

4.66 We conducted a telephone survey of 12 private sector companies (see the Annex to this report for details) within our Compensation Network. Of the 11 participants who responded to the question on mileage rates, nine stated that mileage was reimbursed at the HMRC rates for staff travelling on company business in a privately owned vehicle. One participant paid 35 pence per mile up to 18,000 miles whilst another 40 pence per mile up to 1,000 miles, after which a pool car had to be used. In addition, the civil service, local government and the vast majority of police forces also reimburse mileage expenses using approved HMRC rates. Based on this evidence, we believe that the HMRC rates are commonly applied in both the public and private sectors and should continue to be so for MPs.

4.67 We have also reviewed some of the evidence received which suggests that the HMRC car mileage rates do not reimburse the costs of using a car for the purpose of being an MP. The question of whether the costs are covered by the HMRC rates depends primarily on two things:

- The cost of the car, including fuel costs;
- The extent to which the car is used privately.

4.68 Table 17 shows how the costs of an average car are covered through the mileage allowance:

Table 17 Car mileage costs

Make and Model:	Volkswagen Saloon 2.0 FSI 4dr				
CO_2 emissions:	202 g/km				
Fuel Type:	Petrol				
List price:	£16,515				
Combined mpg :	33.6				
Cost of Diesel:	86.2 per litre				
Replacement Cycle	4 years/100,000 miles				
Mileage allocation					
Business mileage	5,000	10,000	15,000	20,000	25,000
Private mileage	20,000	15,000	10,000	5,000	0
	25,000	25,000	25,000	25,000	25,000
Annual costs of car provision through a personal lease plan:					
Finance Costs (including depreciation)	4,464	4,464	4,464	4,464	4,464
Repairs and Maintenance	698	698	698	698	698
Road Fund Licence	190	190	190	190	190
Insurance	455	455	455	455	455
Fuel costs	2,917	2,917	2,917	2,917	2,917
Total costs	8,724	8,724	8,724	8,724	8,724
Allocated to private use	-6,979	-5,234	-3,489	-1,745	0
Business costs	1,745	3,489	5,234	6,979	8,724
Mileage Allowance Payments Received	2,000	4,000	5,250	6,500	7,750
Saving/cost	-255	-511	-16	479	974

4.69 These numbers show that the costs of a car are covered by HMRC mileage rates, but this is only the case if there is a reasonable proportion of private mileage. Although many MPs may not use their cars extensively for private purposes, it should be noted that MPs who live in their constituency do not have to bear the costs of travel between their home and their normal place of work. This contrasts with most other employees for whom the costs of travelling to and from work are paid for out of taxed income and are categorised as private mileage. We believe that MPs are in an unusual position in that they do not have as much private use of their cars as many other employees, but this should be seen in the context of their unusual situation in that they do not usually have to pay the costs of travelling from home to work.

4.70 The most cost effective way of making single journeys on the London Underground is by using a pre-paid Oyster Card and where possible, staff should be encouraged to pay for travel between the constituency and Westminster using an Oyster Card.

4.71 We do not believe the number of journeys permissible for spouse and children, or for the MP's staff needs to be changed on the basis that the majority of MPs were satisfied with the current provision.

4.72 These arrangements have recently been extended to unmarried MPs with registered Civil Partners and the SSRB has been asked to endorse this and to consider whether it should be extended further. In our view spouse travel should additionally be available for any partner who is registered under the House of Commons pension scheme as the sole beneficiary. However, we do not believe that it will be practical for travel arrangements to be extended further because the reimbursement should only be applied to those who can be defined by reference to objective criteria.

4.73 Subject to the comments made above we believe that the travel entitlement provisions are fit for purpose and should continue to operate under the existing rules.

Winding Up Allowance

4.74 The Winding Up Allowance is designed to cover a wider range of costs including travel costs, office and staff costs necessarily incurred after retirement from office or defeat at a General Election. It is typically used to meet the costs of the following nature:

- Contractual liabilities for terminating office leases;
- Utility bills for the period while the office is being closed down;
- Salary and National Insurance Contributions for any staff supporting the MP during this period;

- Notice pay or redundancy/termination payments for staff;
- Costs for travel required in the completion of Parliamentary business;
- Postage, stationery and telephone costs.

4.75 The maximum amount of allowance that is made up is one third of the sum of the Staffing Allowance and Incidental Expenses Provision that the MP would have received for the year in question. For the year 2006/07 the maximum available is £35,905.

4.76 None of the MPs we interviewed had recent first hand experience of utilising the Winding Up Allowance but those who knew of colleagues who had retired or lost their seats reported that the current allowance appeared to be adequate for the purpose of winding up. The House authorities have also confirmed that they experienced no particular difficulties with the allowance following the 2005 General Election and we do not therefore suggest any changes.

Resettlement Grant

4.77 The Resettlement Grant is payable to those MPs who either stand down or lose their seat at a General Election. The amount payable ranges between 50% and 100% of salary, depending on the MP's age and his or her length of service at the date of dissolution. Any MPs who have served for less than ten years will receive 50% of their salary. For MPs who have served ten complete years or more, the amount increases based on age up to age 64 when it is 100% of salary, and thereafter it begins to decline again.

4.78 Whilst the MPs we interviewed did not have recent / first hand experience of this, many were of the view that MPs who serve two terms or more are increasingly likely to struggle to re-enter their former profession or career. They also felt that the most financial hardship would be faced by MPs in their 30s and 40s who have young families. Based on this, it followed that a number of MPs also felt that the Resettlement Grant was particularly generous for retiring MPs who would receive the maximum 100% of salary whilst an MP who lost his or her seat at the age of 50 after serving 15 complete years would receive just 60% of salary.

4.79 Private companies that took part in the telephone survey offered redundancy payments of between two weeks (i.e. statutory) and one months' pay for each year of service. These payments would generally be capped, but this was variable, ranging from 12 months to 25 years or £100,000. Market practice for senior management posts is more generous than for smaller jobs, although such payments are often agreed to protect commercial interests as well as to provide compensation.

4.80 We have been asked to consider the resettlement grant in the context of Age Discrimination legislation. Although the new regulations do not strictly apply to MPs because they are elected office holders [13] what follows assumes that the House would wish the regulations to be applied to MPs in the same way as they are for other employees. If this is assumed to be case, the current arrangements could be age discriminatory for two reasons: firstly the amount of the payment increases in line with age (up to 70) and secondly it increases with length of service (between 10 and 15 years). Hypothetical claims would be possible from a number of individuals who could argue they were being treated less favorably:

- Younger MPs, owing to the higher percentage paid for greater age;
- MPs over 64 as the percentage decreases;
- MPs with shorter service who would tend to be younger and get a smaller payment than those with longer service.

4.81 In defence of any such claim an employer would need to provide an objective justification for the arrangements. On reviewing the arrangements we find it difficult to identify such a justification and our recommendation is that the age related element should certainly be removed. The length of service element does have some justification, in that the longer an MP is in the House the more difficult it will be for him or her to find alternative employment on leaving. However, it is difficult to see a basis for distinguishing between MPs with more than five years service, and we see no justification for paying higher amounts to MPs who are likely to be closer to retirement age.

4.82 We have also been unable to identify a rationale for paying a resettlement grant to those MPs who leave the House of their own choice at a general election, either through retirement or to pursue an alternative career. If the purpose of the Resettlement Grant is to provide compensation for the loss of their seat, it is hard to justify payment for those who leave through their own choice, and payment is especially hard to justify for those who retire and are in receipt of pension. We therefore recommend that in future the Resettlement Grant should only be paid to those MPs who stand at a general election and are not re-elected.

[13] Employment Equality (Age) Regulations 2006 – Regulation 12(10)

4.83 Overall we would recommend a more generous level of Resettlement Grant to be paid only to MPs who leave the House having stood unsuccessfully at a general election. Recommended amounts are as follows:

- Less than two years continuous service in the House – no payment.
- More than two and less than five years continuous service in the House – 50% of salary;
- Five or more years continuous service in the House – 100% of salary (on the assumption that this is unlikely to be for fewer than eight years service, given the recent time period between general elections).

4.84 The effect of this will be that a lesser amount is paid to MPs who have been in the House for no more than one term. In the event of two general elections taking place within two years no Resettlement Grant will be available to an MP who is in the House only for that limited period of time. The Resettlement Grant will no longer be available to MPs who leave the House through their own choice.

Provision of IT Facilities

4.85 All MPs are provided with one laptop, four desktop computers and two printers as standard.[14] The majority of MPs we interviewed were satisfied with the quantity of IT equipment provided and those that have had to purchase additional equipment have been able to do so using the IEP. Longer serving MPs also recognised the improvement in the amount of equipment provided. The frequency with which the equipment is now upgraded was also considered reasonable by the vast majority.

4.86 We did, however, observe mixed views about the quality of the equipment including PCs, laptops and printers. Over 50% of the MPs we met stated they had experienced difficulties with the operation of the equipment at some stage since it was issued, albeit to varying degrees of inconvenience ranging from having no equipment for the first four months of being in office to delays caused by inability to access the network remotely.

[14] There is some flexibility in terms of numbers of laptops and computers - for example, a member may have thee desktops and two laptops if they prefer.

4.87 A number of MPs also brought to our attention that the centrally negotiated contract may not be cost effective in terms of the amount charged for additional equipment by the current supplier, and in many instances, cheaper equipment that is often of a better quality can be purchased on the high street. Similarly, many believe that the cost of peripherals is also uncompetitive with the high street. Many MPs, however, are unable to take advantage of this as unapproved equipment is not supported by the Parliamentary Communications Directorate ("PCD").

4.88 There were also very mixed views of the level and effectiveness of the support provided by PCD. Some MPs and their staff found the service to be very proficient, reporting that problems were resolved in good time. However, others were less complementary due to repairs not being processed in a reasonable time, support in remote locations not being responsive or replacement equipment taking too long to arrive. Many MPs were frustrated that no support was provided for any equipment that was not purchased centrally.

4.89 Overall, our observations suggest that the quantity of IT equipment provided is sufficient for the majority of MPs. A large proportion of MPs, however, reported technical difficulties with the equipment and problems with the level of support provided which the House may want to consider. We would not advocate allowing MPs to purchase unsupported equipment; this is not good practice and would in practice be difficult to manage.

5. Allowances in the House of Lords

5.1 In line with our approach to the allowances available to Members of the House of Commons, we have adopted three main methods in researching the suitability of the existing allowances system for Members of the House of Lords:

- Meetings with six Peers in the House of Lords to discuss each of the allowances available and whether or not they were fit for purpose in meeting the costs of them carrying out their duties in the House;
- A desk review of the rules relating to the allowances system and patterns of expenditure, and also through meetings with the officials responsible for the operation of the allowances system;
- A telephone survey in respect of allowances paid to non-executive directors in the private sector, including allowances relating to working away from home, the provision of office facilities and staff.

5.2 We summarise in Table 18 the allowances available, the maximum amount that can be claimed, and the basis for claiming these allowances:

Table 18 Summary of allowances in the House of Lords

Allowance	Description	Amount available	Claim process
Day subsistence	To meet the cost of meals and incidental travel	£79.50 per day	Payable for each day of officially recorded attendance at the House, through claim forms
Night subsistence	To meet the cost of overnight accommodation in London while away from the main home (e.g. hotel costs, rent or mortgage interest); Peers who maintain a second home in London may also claim a reduced rate maintenance allowance to meet the overnight costs of staying away from London on parliamentary business.	£159.50 per day £106.50 per day	Payable for each day of officially recorded attendance, through claim forms
Maintenance allowance	To meet the cost of overnight accommodation when away from London on select committee, parliamentary delegation or certain other official visits		Payable for each qualifying day away from the House / London on official duties, through claim forms

Table 18	Summary of allowances in the House of Lords		
Office & secretarial allowance	To meet the costs of secretarial support, research assistance & necessary equipment where appropriate	£69.00 per day Additional 40 days @ £69.00 per day (£2,760 per annum)	Payable for each day of officially recorded attendance & each qualifying day away from the House / London on official duties, through claim forms
Travel entitlement	To meet the cost of travel between the main home and Westminster; journeys made on parliamentary business within the UK; two European journeys made on parliamentary business; 6 return journeys for spouse & each named child	Car: 40p per mile up to 10,000 miles Further mileage: 25p per mile Motorbike: 24p per mile Bicycle: 20p per mile	Met directly if using Members' travel credit card, otherwise through claim forms. After 1 April 2007, receipts of vouchers will have to be supplied for ticketed travel in excess of £100 per return journey that is not purchased using the Members' travel credit card.

Day Subsistence

5.3 Day Subsistence is currently set at a maximum of £79.50 per day and is payable in respect of meals and refreshments at the House and for short distance travel within London (a five mile radius of Westminster, including incidental expenses such as taxi fares, tolls and car parking charges) for each day the Peer attends a sitting of the House of Lords or a select committee of the House at Westminster. If, on average, a Peer attended 150 sittings of the House, they would be entitled to a total of £11,925 per annum.

5.4 The Peers that we met were generally content that the current level of Day Subsistence provided was adequate in meeting the costs of meals and incidental travel expenses incurred within London. However, some of them felt it was unfair that day subsistence could not be claimed when they are away from the House on parliamentary business or invited to join a delegation for instance. It was also reported that, on occasion, the allowance might be stretched for Peers who incur car parking fees or taxi fares in order to reach their local railway station or airport (this is discussed further in the section below on travel expenses).

5.5 Overall, the level of the day subsistence allowance appears to be adequate in meeting the cost of meals and incidental travel expenses within London.

Overnight Subsistence

5.6 Overnight subsistence is currently set at a maximum of £159.50 for each night spent away from the main home in Westminster, as measured by the official attendance record. This can be used to reimburse hotel or rental accommodation. Also, if the Peer has his / her main residence outside London, and has a second residence in London which is acquired for the purpose of their Parliamentary business, expenses associated with maintaining this residence can be claimed using this allowance.

5.7 Since 10 November 2004, Peers who maintain a second residence in London for the purpose of attending sittings in the House are also entitled to overnight subsistence at a reduced rate of £106.50 (known as a maintenance allowance) for nights away from London whilst on parliamentary business, in order to reimburse the ongoing costs of maintaining the second home.

5.8 None of the Peers we met with expressed any concerns with the level of the overnight subsistence provided and anecdotal evidence suggests that the current level is adequate for a variety of arrangements including rental costs, lodging and hotel costs. The only other comment was that those members who do not have private financial means sometimes have to give up rental properties during the recess, particularly during election years.

5.9 It is our view that the current arrangements for reimbursing the costs of overnight accommodation in London are fit for purpose and set at an appropriate level to meet the costs necessarily incurred by Peers during the course of their parliamentary duties.

Office and Secretarial Costs Allowance

5.10 The Office and Secretarial Costs Allowance is currently set at £69.00 per day. It is designed to reimburse the costs of office and secretarial costs associated with attending a sitting or meeting at the House of Lords. These costs typically include secretarial support, research assistance, costs of providing equipment, the purchase of books or periodicals, professional subscription charges and certain other additional expenses that arise out of parliamentary duties. The allowance can also be claimed for up to 40 additional days when the House is not sitting or the House is sitting and the Peer does not attend (£2,760 per annum). In addition, members may claim the allowance to reimburse ongoing costs whilst he or she is away from the House on select committee, parliamentary delegation or certain other official visits.

5.11 All of the Peers we interviewed said that they were satisfied with the level of the office and secretarial costs allowance. Most Peers employ one or more part-time staff, some on a shared basis, which can be adequately funded through the existing allowance.

5.12 With respect to the office facilities themselves, there is some variation in the amount of office space that is available to each Peer and shared offices in the House are particularly crowded. Those who shared an office with more than one other Peer tend to struggle to accommodate staff on a full-time basis and also reported that noise levels can be unpleasant when the office is occupied by up to five Peers at the same time.

5.13 Of the 12 companies that took part in our telephone survey, none provided office accommodation or secretarial support to Non-Executive Directors, although one provided IT equipment and another supplied a blackberry. There were three exceptions to this where a secretary and/or an office were provided, however, this was only for the Chairman. Therefore, the provision of office facilities and secretarial support is not common in the private sector.

5.14 Overall, there were no reported issues with the office and secretarial costs allowance amongst the Peers we interviewed and therefore the current arrangements remain suitable. On the subject of office accommodation, we understand that the House is in the process of securing a lease for additional accommodation for Members of the House of Lords which should alleviate the overcrowding in due course.

Travel Entitlements

5.15 The House will fund reasonable travel expenses associated with Parliamentary duties, including the following:

- Fares incurred in travelling between the main home and Westminster for the purpose of attending a sitting of the House;
- Journeys made on parliamentary business within the UK;
- Up to two journeys a year on parliamentary business between the UK and any EU institution in Brussels, Luxembourg and Strasbourg, or national parliaments of EU nation states or candidate countries.

5.16 Public transport costs are met directly if the Members' travel credit card is used to purchase fares; otherwise they are reimbursed through regular submission of claim forms. Taxis are reimbursed at the car mileage rate only (although the full cost may be claimed as part of the day subsistence). Car mileage allowance is set at 40 pence per mile for the first 10,000 miles and 25 pence per mile in excess of this, in line with HMRC limits. Every mile travelled on parliamentary duties on a motorcycle can be claimed at a rate of 24 pence per mile whilst bicycle travel is reimbursed at 20 pence per mile.

5.17 Members are entitled to recover the costs of travel between the main home and Westminster incurred by their spouse or civil partner for up to six return journeys each year. In addition, they may also recover the costs incurred by any named children up, to the age of 18 (and children over 18 still in full-time secondary education until the end of the academic year in which their 18^{th} birthday falls) on the same basis.

5.18 One issue that was raised related to the costs of car parking fees at railways stations and taxi fares incurred in reaching the local railway station or airport. Peers who regularly incurred these costs reported that the day subsistence allowance was not always sufficient to meet all expenses related to meals and travel. Also, two of the Peers we met felt that the number of journeys permitted for spouses was low, particularly for those who attended on a full-time basis.

5.19 On the whole, the current arrangements are suitable in reimbursing the travel expenses incurred by Peers in the course of carrying out their parliamentary duties. The Review Body may, however, wish to consider two changes. The first is to bring the rules with respect to travel for spouses and children more in line with that provided for Members of the House of Commons by increasing the number of return journeys to 15. Secondly, extending the rules to include all travel expenses incurred during the journey between the main home and Westminster.

IT Equipment

5.20 The House provides each Peer with a loan of up to two PCs, including one laptop and one desktop computer, and a printer for use on parliamentary business. IT equipment is replaced every three years. Peers are also able to recover the costs of broadband installation and the associated line rental fee.

5.21 Peers were satisfied with the amount of equipment provided to them and there was widespread recognition in the improvement of this provision in recent years. However, there were mixed views on the level and quality of support provided in resolving technical difficulties (e.g. remote access) which have recently caused delays for some Peers.

5.22 Overall, we see no reason for changing the current provision of IT equipment.

Annex – Compensation Network Survey Questionnaire

Sample profile:

- 12 companies that are members of the PwC Compensation Network
- Companies that employ staff in various locations, including London
- Companies that employ staff who are required to travel as part of the job, including a requirement to stay overnight
- Companies that employ non-executive directors

Questionnaire:

1 What is your policy for London weighting?
  - At director level?
  - At manager level?
  - What boundaries apply (i.e. inner vs. outer London)?

2 Where staff are required to spend nights away from home (e.g. at another office or on business), what allowances do you offer them for meals, taxis, accommodation, etc?

3 Do you cap the reimbursement of receipts for accommodation? Is there a limit on the cost of nightly hotel accommodation?

4 Is there a policy for day subsistence? What is provided to cover the costs of working away from the base location for a day (i.e. no overnight stay)?

5 Do you have a cap on your mileage allowance? If so, what is this (or, if applicable, how many miles before the rate is reduced)? What are the rates – are they standard HMRC rates / more / less?

6 Where travel expenses are reimbursed for spouses, does this extend to unmarried partners? How is the latter defined (i.e. what are the rules)?

7 For those employees working regularly from home, what do you offer in terms of incidental costs, IT equipment, secretarial support, security and broadband?

8 For non-executive directors, what provisions do you offer in terms of office equipment, postage and other office related expenses? Do you have a secretarial allowance for NXDs?

9 Above the statutory requirements, what redundancy terms are / have been offered to professionals and managers in recent years?

Senior Salaries Review Body

Report on the Review of the Parliamentary Contributory Pension Fund

Prepared by:

Watson Wyatt Limited
(Actuaries & Consultants)
22 May 2007

Senior Salaries Review Body
Review of Parliamentary Contributory Pension Fund

To the Senior Salaries Review Body (SSRB)

This report (together with the technical appendices) sets out the results of our research work for the Senior Salaries Review Body (SSRB) in relation to the Parliamentary Contributory Pension Fund (PCPF). We have been asked specifically to:

- Describe the significant features of the PCPF
- Discuss the costs of the PCPF including comparing the costs against pension schemes for similarly weighted posts
- Consider whether the retained benefits restriction should remain
- Consider the implications of the increased Exchequer contribution from 1 April 2006
- Discuss the implications for members of the PCPF of the proposed reforms to public sector pension schemes, pressures to share pension costs and the White Paper on pensions
- Provide all necessary input on the PCPF to PricewaterhouseCoopers, the consultants on the Parliamentary pay and allowances project.

We have addressed all these points as part of our research work. Following discussions with the Office of Manpower Economics (OME) and the SSRB, we have also considered the extent to which, in the context of the changing UK environment, the PCPF continues to meet the needs of its members, at an acceptable level of cost to the Exchequer.

The main report contains the following Sections.

Our supplementary report comprises a number of technical appendices which cover some of the issues raised in this report in more detail.

1 Management Summary

1.1 This report sets out the results of our research work carried out for the Senior Salaries Review Body (SSRB) in relation to the Parliamentary Contributory Pension Fund (the PCPF). We have in addition liaised with PricewaterhouseCoopers (PwC) in respect of the pension aspects of their review of Parliamentary pay and allowances. We have costed the pension benefits in respect of the public sector comparators identified by PwC and provided PwC with factors to cost their private sector comparators on a consistent basis.

1.2 This report considers:

- The main features of the PCPF, whether the retained benefits restriction should be retained and the implications of the increase in the Exchequer contribution rate
- what has happened in the pensions environment since the last review in 2004 and what trends may be expected in future
- how the cost of the benefits provided by the PCPF compares with the benefits provided by selected public and private sector comparators, based on the assumptions made including the assumed Parliamentary career pattern
- the extent to which the PCPF provides retirement benefits that reflect the needs of its members given their career patterns and different circumstances.

1.3 In **Section 2** we review the PCPF summarising the main benefits provided and how these have changed since 2004.

1.4 We focus in particular on the issue of retained benefits and whether the benefits provided to members of the PCPF should continue to be adjusted to take into account benefits built up in previous pension arrangements. It could be argued that it is inequitable for members to accrue benefits at a different rate depending on what pension benefits they have previously earned and indeed unfair on members who have made prudent pension savings relative to those who have not. The absolute cost of removing the retained benefits restriction is significant (around 3.5% to 5% of pay plus a past-service cost), although the impact of the Exchequer contribution rate would be lower. It would be difficult to pass any additional cost on to members (who could argue that they have been paying contributions to date at a rate that was based on unabated benefits in any case) or to unaffected members (who would be seeing no change to their benefits). If the retained benefits restriction is to remain, an alternative possibility that could be explored, in the interest of fairness, would be to introduce a third tier of benefit accrual at a rate of $1/60^{th}$ with a lower member contribution rate (say 3% of pay). However, this would also lead to increased costs.

1.5 We have also been asked to look at the increase in the Exchequer contribution rate from 1 April 2006. The increase arises as a result of an increase in the past service shortfall of assets relative to liabilities (from lower investment returns than expected and changes in the assumptions), more than offsetting a reduction in the cost of accrual of benefits. In our opinion, it is difficult to argue that any increase arising as a result of past service (relating in large part to the benefits built up by pensioners and deferred pensioners) should be shared with the current active members. Consideration could in future be given to sharing any increase in the cost of accrual of benefits, although it would be necessary to identify which factors causing the increase should be shared.

1.6 We also consider the treatment of the outstanding cost of 1% of payroll in relation to the increase in the accrual rate from $1/50^{th}$ to $1/40^{th}$, identified at the 2004 review of Parliamentary pay and allowances. New calculations carried out by the Government Actuary, allowing for new information about retained benefits and for maximum benefit levels, show that this cost is reduced to a range from a cost of 0.5% of pay to a saving of 0.25% of pay. Given the uncertainties about any calculations of cost it seems to us that there is no longer any substantial difference (on average) between the accrual rate of $1/50^{th}$ on a 6% member contribution rate and an accrual rate of $1/40^{th}$ on a 10% member contribution rate. Therefore there is no need for the SSRB to take any further action in this respect (unless the retained benefits restriction is to be removed).

1.7 In **Section 3** of this report we outline the main changes in both the public and private sector pension provision since the last review of parliamentary pensions by the SSRB in 2004 and discuss our expectation of future trends in pension provision. The main features are:

- The main factors influencing pension provision have been an increased focus by sponsors on costs and risks in an environment of lower investment returns, increased longevity and increased public attention on pensions in general.
- In the public sector there has been (or will be in the near future) changes to retirement ages, more flexibility and, in the case of some unfunded schemes, capped employer contribution rates.
- In the private sector there has been a significant move from defined benefit to defined contribution schemes, especially for new hires. Where defined benefit provision has been retained, there has been a trend towards a reduction in the level of benefits provided and/or an increase in the level of member contributions.
- The Pensions Bill which is going through Parliament includes proposed changes to State benefits and the introduction of personal savings accounts.

We comment on the relevance of all these changes to the benefit structure of the PCPF. Many of the changes have already been made to the PCPF (for example phasing out earlier retirement ages). Others may be worth further consideration (for example sharing of member costs in relation to the accrual of benefits). The Pensions Bill changes are not directly relevant to the future of the PCPF.

1.8 In **Section 4** we set out the results of our valuation of the PCPF benefits and the cost of the benefits provided by public and private sector employers identified as comparator organisations by PwC. These costs have been calculated as equivalent to the contributions that might have to be paid by the Exchequer (in respect of the benefits building up to sitting MPs and Office Holders who are members of the PCPF) on the hypothetical premise that the PCPF benefits were replaced with those of the comparator pension schemes. This requires assumptions to be made about the future and these are explained briefly in Section 4 and in more detail in the technical appendices.

1.9 The costs quoted in Section 4 are specific to the method and assumptions adopted in this report for the purpose of allowing for pensions in overall remuneration. They should not be used for any other purpose.

1.10 The results in Section 4 show that, on the method and assumptions adopted, the cost of PCPF is around 20% of pensionable pay (before allowing for maximum benefits) for an average member. Our calculations suggest that the PCPF benefit structure applied to an MP's career pattern is in the upper quartile of costs that might result from applying the benefit structure of the public and private sector comparators identified by PwC. The cost of comparator benefit structures varies from under 5% of pensionable pay (for lower quartile defined contribution benefits in the private sector) to nearly 30% of pensionable pay (for benefits provided in line with the provisions of the Armed Forces' Pension Scheme) with a median of around 15% of pensionable pay. It is, however, important to recognise that pensions are only one element of employees' remuneration packages and this has been considered in a parallel project on Parliamentary pay and allowances carried out by PwC.

1.11 In **Section 5** we consider further the nature of the PCPF and whether the benefits continue to meet the needs of MPs at an acceptable level of cost to the Exchequer. In considering this point, we note that the results in Section 4 vary significantly by age and also by the length of time a member remains elected to parliament. At a broad level, we consider the different career patterns of members and how alternative benefit designs might interact with that career pattern. The purpose of Section 5 is not to identify a "best" pension arrangement for MPs, but to consider whether different arrangements might be advantageous to some (but not all) members.

1.12 We also briefly comment on the special pension arrangements for the Prime Minister, Speaker of the House of Commons and the Lord Chancellor.

1.13 Our conclusion is that the PCPF is operating in an environment of significant change to the pension arrangements in both the public and private sectors. Also, many of the complicated issues referred to the SSRB for consideration (such as retained benefits and the increase in the Exchequer contribution) arose due to the defined benefit final salary nature of the PCPF. We believe it would be appropriate for the Government and the Trustees of the PCPF to consider carrying out a fundamental review of the pension arrangements provided to MPs, Ministers and Office Holders since we anticipate that alternative arrangements could be put in place that:

- Are fairer to members across different career patterns, ages and backgrounds
- Are more transparent when subject to public scrutiny
- Will allow the Exchequer better to control costs

2 Features of PCPF

Overview of the Parliamentary Contributory Pension Fund

2.1 The PCPF provides benefits to MPs and Office Holders and their dependants in the event of retirement and death. A summary of the PCPF active membership at 1 April 2005 is provided in Appendix B of the technical appendices to this report. The PCPF benefits are specified in the Parliamentary Pensions (Consolidations and Amendments) Regulations 1993 as modified by subsequent statutory instruments. The main benefits provided to current MPs are summarised in Table 2.1 below. Further details are provided in Technical Appendix A together with a summary of the benefits provided to Ministers and Office Holders that are paid in addition through the PCPF.

Table 2.1

Benefit	Current provision
Accrual rate	1/40th (or 1/50th) whilst paying contributions. This is reduced to 1/60th when pension reaches 2/3rds of salary less pension equivalent of retained benefits.
Pensionable salary	MP salary (i.e. excluding allowances)
Normal Retirement Age	65 although members can continue to build up benefits after that age
Earliest age at which pension can be taken unreduced before normal retirement age	If leaving parliament, the later of 60 and the age at which service plus 20 is equal to 80. Otherwise 65. This "Rule of 80" is being phased out.
Member contributions	10% (6% for 1/50th) until maximum benefit reached
Maximum benefit	2/3rds of pensionable salary, although accrual can recommence if the member is older than 65
Benefits on death whilst an MP	Dependant paid a pension for life of 62.5% of the pension the member would have received if they had remained in service to age 65 but based on pensionable salary at death. A lump sum of 4 times salary is also paid.

2.2 Unlike many public sector arrangements, but in common with most private sector arrangements, assets are held to meet PCPF benefits as they fall due. These assets are invested and the current allocation is broadly 75% return seeking assets (predominantly equities but also some property) and 25% other assets (mainly government bonds).

Recent changes to the PCPF

2.3 The most recent SSRB review of Parliamentary pay and allowances was published in 2004. Since then, a number of changes have been made to the PCPF or will come into effect in the future. Some of these changes were in response to the SSRB's report and some were in response to changes in legislation (such as the Finance Act 2004). The main changes were:

- From 1 April 2009 (or the day after the next general election if later) members will no longer be able to receive all of their pension unreduced on retirement before age 65 (see below)
- The member contribution rate required for 1/40th accrual was increased from 9% to 10% of pay with this increase backdated to 1 April 2004
- Survivor pensions for unmarried and same sex partners payable on a member's death were introduced (previously benefits were only provided to married spouses).
- Pensions paid to partners are paid for life (rather than ceasing on remarriage)
- The lump sum paid on death in service was increased from 3 times to 4 times salary
- Members can choose to receive a larger lump sum than was previously permitted at retirement in lieu of pension
- Members can commence receipt of their pension whilst remaining an MP

2.4 The first bullet point will mean that if a member had more than 15 years' service at 1 April 2009 (or, if later, the day after the next general election), then the pension built up before that date will not be reduced if the member retires before age 65 (but after age 60) and their service up to 1 April 2009 (or, if later, the day after the next general election) plus age equals 80 at retirement. Otherwise the pension will be reduced on retirement before age 65.

The retained benefit restriction in the pension limit

2.5 The pensions payable from the PCPF are restricted by limits, which include making allowance for members' benefits built up in other pension schemes prior to joining the PCPF ("retained benefits"). Following changes in the legislation applying to most UK pension schemes, we have been asked to discuss whether this retained benefit restriction should be removed.

2.6 When considering what to do with this retained benefit restriction, we have focussed on trying to find the right balance between the following key criteria:

- maximising perceived equity among members

- meeting any additional cost of benefits in an acceptable way.

2.7 The retained benefit restriction in the pensions limit is described in Technical Appendix C, and examples of its implications are shown in Technical Appendix D. The restriction means that pensions for members with large retained benefits and long pensionable service are effectively reduced to 1/60th of pay for each year of pensionable service. Member contributions do not allow for retained benefits, and therefore payment of member contributions is inconsistent with rate of build up of pension. In addition, it can be difficult fully to appreciate the implications of transferring a retained benefit into the PCPF, which makes such a decision more difficult.

2.8 The main arguments for and against removing the retained benefits restriction are summarised in Table 2.2. We discuss the key points in more detail and then consider possible solutions below.

Table 2.2

	Should the retained benefit restriction be removed?	
Considerations	**Advantages of removal**	**Disadvantages of removal**
Equity among members	• The current limit treats members differently depending on pension provision prior to joining the PCPF. • The current limit results in periods where standard member contributions are paid but pension is built up at a reduced rate or not at all, due to inconsistency in the member contribution rule and pension limits (but the effect of this is reduced if a 1/60th tier is introduced). • Some members assumed that the limits would be removed and made decisions regarding rate of accrual and transfer-in of retained benefits accordingly.	• The current limit was designed so that members' combined benefits targeted a common proportion of final salary. • If contributions / benefits for all members were amended to meet the cost of removal of this restriction, it would not seem equitable to make such changes for all members so that a small number of members with large benefits would receive larger benefits. If this was done just for the affected members, this might be unfair as they have in effect already paid member contributions in the past for unrestricted benefits.
Financial implications	• Members with large retained benefits would receive higher pensions.	• Benefit levels for all members would need to be changed or contributions would need to increase for either members or the Exchequer (or both)

Administrative issues	• Benefit calculations would be simplified in the long term.	• There would be short-term administrative costs arising from any changes to benefits or contributions.
Miscellaneous	• Benefit calculations would be easier to understand, which would aid member decision making, particularly when choosing accrual rates and deciding whether to transfer-in a retained benefit (see Appendix D for an example).	• Some members with large retained benefits and long service may have to pay a tax charge under the Finance Act 2004 on removal of the retained benefit restriction. • The restriction could act as a disincentive for some individuals to enter parliament

2.9 There are different ways in which "equity among members" can be interpreted. The current pension limits were designed so that total pension scheme benefits for employees would be restricted to a common proportion of final salary. While this could be argued to be equitable when considering a member's combined benefits, it could be argued to be inequitable when considering a member's parliamentary benefits in isolation. It is arguably unfair that two members can pay identical contributions to the PCPF over identical parliamentary careers, but one will receive lower benefits because of pension provisions made before joining the PCPF. Indeed, because member contributions are paid until a pension of 2/3^{rds} of salary has been built up, a member may pay contributions at the standard level over a period of time in which benefits are built up at the rate of 1/60th of pensionable salary or even no additional pension is built up (see Technical Appendix D for an example of this).

2.10 Removing the retained benefit restriction in the PCPF's pension limit will result in additional costs that would have to be met by either the Exchequer or the members. The PCPF's Trustee adviser the Government Actuary's Department (GAD) has estimated that the absolute cost of removing the retained benefit restriction in pension limits including the removal of existing transferred-in benefits from the PCPF benefit limits is around 3.5% to 5% of pensionable pay each year, plus a £1m to £2m one-off cost (from the removal of the retained benefits restriction for past service).

2.11 We understand the GAD's most recent funding valuation did not allow in full for retained benefits, as only incomplete information was available at that time and prudent assumptions were made. Therefore, the valuation contribution rate is expected to be an overstatement of the cost under the current limits (and gains are expected to arise in the future when members retire with restricted pensions). This means that the cost of removing the retained benefit restriction would not simply be the valuation contribution rate plus the cost stated above. The GAD has estimated that the level of Exchequer contributions that would have been recommended at the 1 April 2005 funding valuation would have been in the region of 1% to 2% of pensionable pay higher if all restrictions around retained benefits had been removed including the removal of existing transferred-in benefits from the PCPF benefit limits.

2.12 The way that this additional cost is met impacts the level of equity among members. The Government has indicated that, if the retained benefit restriction were to be removed, any increase in cost would need to be met by members either through increased contributions or a reduction in benefits. It would seem unfair to ask members with large retained benefits to meet this additional cost, as they have already been paying member contributions based on an unrestricted rate of pension accrual. However, it would also seem inequitable for all members to pay higher contributions or receive lower benefits in order to fund higher benefits for those who already have some of the largest overall pension benefits. In addition, part of the cost of removing the retained benefits restriction is in respect of past service benefits, for which the current and future membership would be penalised. With these points in mind, arguably the only way that the retained benefit restriction could be removed which would not reduce equity among members is for the Exchequer to meet the cost, which may in itself not be acceptable.

2.13 If the retained benefit restriction was kept, the current problems stated above will remain. However, member contributions could be made more equitable if an optional $1/60^{th}$ tier of benefit accrual was introduced, for which members would pay contributions at a lower rate (for example 3% of pay). This would enable members to allow for large levels of retained benefits at retirement by paying a lower rate for what will be at retirement their effective rate of accrual of $1/60^{ths}$ of pensionable salary. However, this would reduce the savings to the PCPF that currently arise from the retained benefit restriction, and so contribution rates for members or the Exchequer would need to increase, although probably by a lower amount than if the retained benefit restriction was removed (again, this would arguably be inequitable among members unless the additional cost was met by the Exchequer). The introduction of an further rate of benefit accrual would complicate the Fund's administration.

2.14 In conclusion, we consider that:

- if the retained benefit restriction was to be removed, further inequity among members could be avoided only if the Exchequer met the additional cost
- if the retained benefit restriction were to be retained, equity among members could be improved by introducing a $1/60^{th}$ accrual tier, and, again, additional

inequity among members could be avoided only if the Exchequer met any additional cost.

Increase in Exchequer contribution rate

2.15 Following an actuarial valuation of the PCPF at 1 April 2005, the Government Actuary assessed that the Exchequer needed to pay 18.1% of pensionable pay to put in place assets estimated to be sufficient to meet benefits building up to sitting MPs and Office Holders in the PCPF. This was additional to the contributions payable by members which averaged 9.3% of payroll. In addition, for a fifteen year period from 1 April 2006 the Exchequer needed to pay 8.7% of pensionable pay to increase the level of assets so that by the end of that period the assets are expected to be sufficient to meet benefits as they fall due. This gave a total Exchequer contribution rate of 26.8% of payroll. A commentary on valuations and how they determine contributions paid by sponsors is provided in Technical Appendix E.

2.16 The overall increase in the Exchequer contribution rate from 24% of payroll to 26.8% of payroll comprises a reduction in the ongoing cost of accrual of benefits and an increase in the contributions required to meet the deficit, as shown in Table 2.3 below

Table 2.3

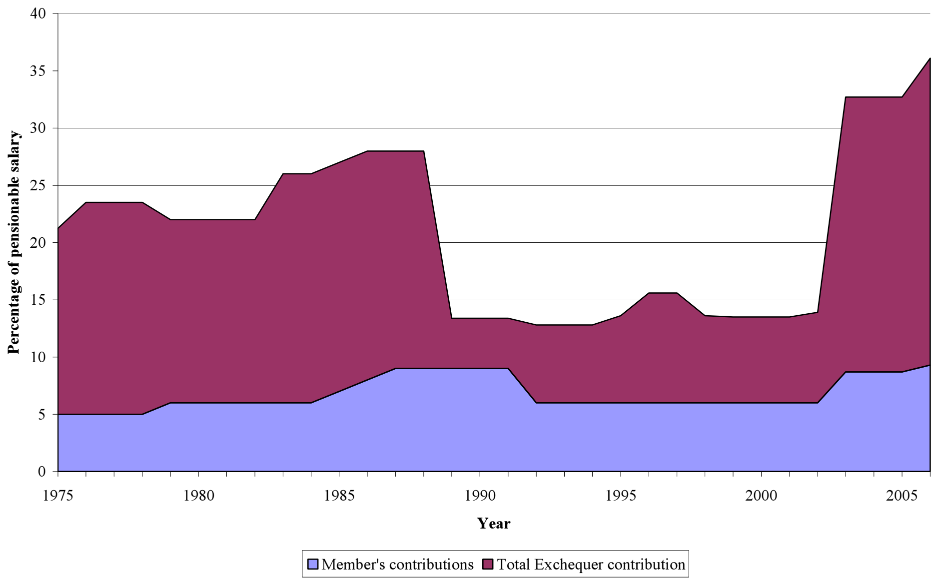
	2002 valuation % payroll	**2005 valuation % payroll**
Cost of accrual of benefits	19.3	18.1
Contributions required to meet deficit over 15 years	4.7	8.7
Total	24.0	26.8

2.17 We understand that the reduction in the underlying cost of accrual of benefits arises in part from the increase in members' contributions in 2004 and in part from the net effect of changes to the assumptions used in valuing the benefits. In particular, an increase in the average age at which members are expected to retire has more than offset increased life expectancy in retirement. It is possible that in future the trend in both these assumptions will continue as the changes to the early retirement terms take effect in respect of service after the later of 1 April 2009 and the day after the next general election and members continue to live longer.

2.18 The increase in the deficit arises as a result of a divergence in the experience of the PCPF since the previous valuation (primarily due to lower investment returns than expected) and changes to the assumptions (in particular when considering the PCPF as a whole, as opposed to just future benefits, the change in the longevity assumption has more impact than the change in the retirement pattern as the former affects all members and the latter only current active members).

2.19 This divergence of experience is a facet of defined benefit pension arrangements. This divergence can also result in the level of assets being larger ("in excess") of the amount expected to meet benefits as they fall due. For example, over the period from 1989 to 2003, the Exchequer contribution rate was reduced as a result of excesses built up by higher than expected investment returns during the late 1980s and 1990s. This is illustrated in Chart 2.1 below, where the proportion of total contributions that were met by the Exchequer to the PCPF was markedly lower between 1989 and 2003.

Chart 2.1 - Member and Exchequer contribution rates since 1975



2.20 Much of the divergence of experience is due to movements in value of the PCPF's investments. The current investment strategy of the PCPF is such that a high proportion (broadly 75%) is held in return-seeking investments. Whilst these assets are generally expected to achieve a higher rate of return than other investments over the long term, their value is likely to be more volatile in the short term. In the private sector many schemes are changing their investment strategy to reduce the investment risk, for example by investing more in "matching" assets such as bonds or by using alternative investments such as derivatives and other non-traditional financial products. This is, however, an area outside of the remit of the SSRB since investment allocation is decided by the Trustee of the PCPF who will take into account a number of different influences including the views of the Government (as sponsor).

2.21 The deficit is being amortised over a fifteen year period. Under the new scheme-specific funding requirements most private sector schemes are adopting recovery periods of ten years or less in accordance with the Pension Regulator's guidance that deficits should be eliminated as quickly as the employer can reasonably afford. The PCPF is not covered by guidance from the Pensions Regulator but, even if it was, it is possible that a longer recovery period would be justifiable due to the backing of the Government.

2.22 The Government has asked the SSRB to recommend an approach to funding the PCPF which ensures that the PCPF remains affordable and is fair to both the Exchequer and members. The Exchequer contribution rate has increased by 2.8% of pay but the underlying cost of accrual has reduced. In our opinion, while consideration could be given to sharing any increase in costs of the accrual of benefits, it would arguably not be equitable to adjust the contribution rate or benefit levels for current active members to reflect changes in the Exchequer contribution rate arising from changes in the past service deficit or surplus. Changes in the past service position relate largely to pensioners and former members and it seems unfair to penalise (or reward) existing active members to reflect such changes.

2.23 Sharing the cost of future increases in the contributions is being considered in a number of public sector schemes (the Civil Service, NHS and Teachers' schemes). A key difference between these schemes and the PCPF is that the other schemes are not funded while the PCPF is.

2.24 Increases in the cost of accrual of benefits can arise for many different reasons including changes in the profile of the scheme membership, changes to the demographic assumptions such as longevity and retirement age and changes in the financial assumptions. Some of these factors may be more appropriate to share with the membership than others - for example it may seem fair to share the impact of increasing longevity since this reflects the fact that members' benefits are being paid for longer. It may also seem equitable to share any increase in cost that arises from an increase in the average age of the membership which reflects the fact that the rate of members' benefits are increasing. However sharing any increase that is caused as a result of changing assumptions about the investment return on assets may be more debatable. Where public sector schemes are unfunded, the proposals suggest that this aspect of increasing cost is not expected to be shared.

2.25 It is also possible that in the future the costs of the PCPF may reduce. The changes in the early retirement terms discussed earlier are likely to lead to this although this may be offset in part by further improvements in longevity. The question then arises as to whether any reduction in costs should be shared.

2.26 On balance, there seems to us to be some merit in investigating further the possibility of some form of cost sharing between the Exchequer and MPs. We believe this cost sharing should only apply to the cost of the accrual of benefits. For example consideration could be given to a 2:1 sharing of any increase or decrease in cost from factors other than changes in financial assumptions when the combined Exchequer and member contributions goes above or falls below certain limits. The 2005 valuation showed the total cost of accrual (including member contributions) to be 26.8% of payroll. A possible approach would be to share any change in cost of accrual which causes the total cost of accrual to increase above or fall below this level.

The additional cost of the increase in the accrual rate from 1/50th to 1/40th

2.27 In its last review of the PCPF, "Review of Parliamentary Pay and Allowances 2004" the SSRB recommended that the contribution rate for MP's who opted for the 1/40th accrual rate should be increased to 10% with effect from 1 April 2004. The SSRB stated that, in its view the full cost of implementing the increased accrual rate should in due course be met by MPs on an ongoing basis and that the outstanding amount (at that time estimated by the GAD to be broadly an additional 1% of pay) should be taken into account at the next review of Parliamentary pay and allowances.

2.28 Since then, further calculations have been carried out by GAD that take into account new information relating to the retained benefits held by MPs. It should be noted that the information about MPs' retained benefits continues to be incomplete and GAD made an assumption about the extent of retained benefits based upon the partial information they received. The calculations have also been refined to reflect the fact that once MPs have reached the limit of their benefit accrual, they are no longer required to pay contributions. The net effect of these amendments has been to reduce the outstanding cost of the improvement from just under 1% of pay to a range from a saving of 0.25% of pay to a cost of 0.5% of pay. It may be possible for this range to be reduced once all the information on retained benefits has been collated but this exercise is not expected to be completed for some time.

2.29 The outstanding cost of the improvement in the accrual rate is uncertain because of the lack of full information about retained benefits but it is reduced by at least one half from the earlier costings and indeed there may even be a small saving. The figures shown above are average costs. The actual cost for an individual will depend on the extent to which that individual has retained benefits and the individual's age and service but to apply anything other than a uniform adjustment based on the average would be administratively complex and arguably discriminatory.

2.30 Given the reduction in the outstanding cost of the improvement in the accrual rate and the uncertainty in its calculations, in our opinion there is no further cost to take into account. The increase in members' contribution for 9% to 10% of pay in 2004 (in addition to the increase from 6% to 9% at the time of its introduction) can be considered to have borne the increase in cost in full. We recommend that the SSRB takes no further action with regard to this issue, unless the retained benefit restriction is removed.

3 UK pension environment

Introduction

3.1 Since the time of the previous review of pensions by the SSRB in 2004, there has been rapid change in occupational pension provision in the UK, both within the private sector and, more recently, the public sector.

3.2 Within the public sector, changes have been announced to a number of the main schemes. Key features of the changes have been increases in retirement ages (generally only applicable for new joiners), moves towards risk sharing and changes to member contribution requirements.

3.3 Increased focus on the risks and costs of providing defined benefits within the private sector has seen a continuation of the trend away from final salary provision towards defined contribution arrangements for new employees. Many final salary arrangements have also seen changes for existing members aimed at reducing the level of benefits and/or increasing the level of member contributions, with a growing number of schemes now closed to new benefit accrual for all members.

3.4 The purpose of this Section of the report is to provide further details and background to these changes and to consider the relevance to the PCPF.

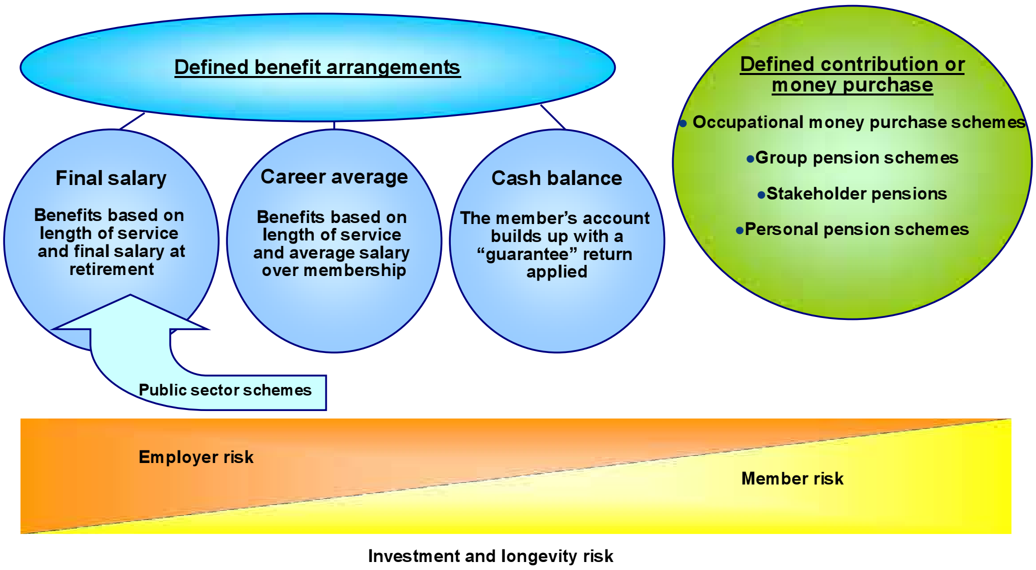
Economic and demographic changes

3.5 In the UK there is a very wide range of pension schemes provided to employees. These include:

- ***defined benefit final salary arrangements*** - benefits payable on retirement are based on a fraction of the member's final salary at retirement, typically related to the member's length of service. The PCPF is this type of arrangement.
- ***defined benefit career average arrangements*** - benefits payable on retirement are based on a fraction of the member's pensionable earnings (perhaps with some indexation for inflation) over their entire career.
- ***defined benefit cash balance arrangements*** - a percentage of salary is credited to a member's account each period. This accumulates over time and is available at retirement to purchase an annuity or, subject to restrictions, to take as a lump sum. Typically, the returns added to the account each period will be linked to an index (for example, RPI + 1%).
- ***defined contribution or money purchase arrangements*** - contributions paid by the company and/or member are accumulated with investment returns, with the balance at retirement being made available to purchase an annuity or, subject to restrictions, to take as a lump sum.

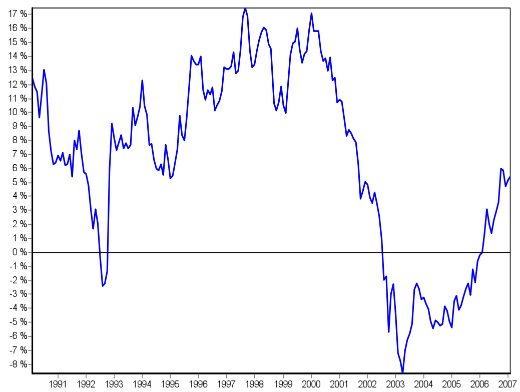
3.6 The various arrangements differ significantly in relation to the extent to which risks are shared between the sponsoring employer and the member, particularly in relation to investment performance and longevity. Under a final salary arrangement, the employer bears the risk (both upside and downside) in relation to investment performance and longevity. By comparison, within a defined contribution arrangement, these risks are borne by the member. The risk spectrum of the various types of schemes is illustrated in Chart 3.1 below.

Chart 3.1 - The move from final salary to defined contribution arrangements



3.7 Traditionally, defined benefit final salary arrangements provided the main form of occupational pension provision in the UK, both in the private and public sector. Within the private sector, the assets held by many of these final salary arrangements were invested heavily in equity markets and, as a result, during the late 1980s and 1990s the majority of schemes found themselves with substantial surpluses, allowing many employers to reduce contributions. Indeed, this situation occurred in the PCPF.

Chart 3.2 - Average annual real rates of return on UK equities over 5 year periods



3.8 However, the downturn in equity markets from 2001, combined with historically low inflation and gilt yields, led employers to focus far more carefully on the costs and potential risks involved in providing defined benefits.

Chart 3.3 - Yields on British Government index-linked Stocks

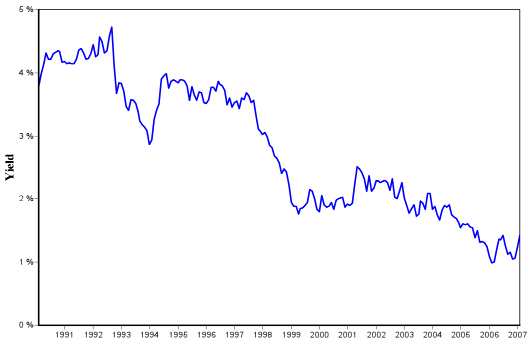
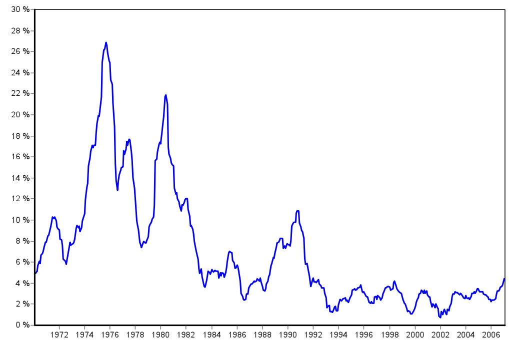


Chart 3.4 - rate of price inflation (RPI)



3.9 Charts 3.2 to 3.4 above illustrate the changing economic environment At a similar time, new research carried out by the Continuous Mortality Investigation Bureau (CMIB) has shown that people are living longer today than in the past, and that mortality rates are improving faster than previously thought. Table 3.1 below illustrates the significant increase in life expectation for a 65 year old male over the years. This shows that life expectation has potentially increased for a 65 year old by up to 60% since the early 70s.

Table 3.1

Mortality Table	Publication	Expectation of life (in years)	Value of £1pa payable for life from age 65	
			4% yield	2% yield
PA90	Early 1970s	14.6	£10.40	£12.20
PMA80 projected to 2010	1988	16.9	£11.70	£13.90
PMA92 projected to 2010	1998	19.0	£12.70	£15.40
PMA92 Medium Cohort	2002	21.7	£14.00	£17.20
PMA92 Long Cohort	2002	23.4	£14.60	£18.20

3.10 As life expectancy has increased, so has the expected cost to an employer of providing defined benefit pension benefits. This, when coupled with the effect of economic changes, has led to organisations reviewing the pension arrangements provided to their employees.

Public sector arrangements

3.11 Technical Appendix J provides a summary of the key features of a number of public sector schemes. There are differences in the member contribution requirements and retirement terms. The existing arrangements all provide for final salary benefits although civil servants have the option to join a defined contribution arrangement.

3.12 Changes to public sector schemes have been under consideration for a number of years and an increase to normal pension age from 60 to 65 was originally considered as part of the Pensions Green Paper of 2002.

3.13 In 2003/4 proposals were made to all of the major public sector schemes to make this change, along with other changes designed to modernise their benefits by allowing flexibility in relation to the lump sum payable at retirement and to make death benefits more relevant to current family structures. There were also proposals to change two of the major public sector schemes (Civil Service and NHS) to a career average formula that relatively speaking would have tended to favour lower paid, short service employees.

3.14 The proposals were abandoned in March 2005, but, following further consideration, changes have now been proposed to a number of public sector schemes and the key themes in this reform and the relevance to the PCPF are summarised in Table 3.2. Further details are provided in Technical Appendix K.

Table 3.2

Public sector changes	Relevance to the PCPF
Increasing normal retirement age to 65 for new entrants	No – the normal retirement age in the PCPF is already 65 and the ability to take an unreduced early retirement pension from age 60 is being phased out.
Increasing accrual rates, but members will need to commute pension in exchange for any lump sum benefits	No – the PCPF already features higher accrual rates, with members required to exchange pension for a lump sum
Providing survivor's pensions for unmarried partners	No – this change was already made in the PCPF in 2004
Introducing tiered member contribution rates by earnings	No – almost all members have the same pensionable salary. These reforms elsewhere in the public sector aim to ensure a sufficient level of retirement income for the lower paid and this is not relevant here.
Capping employer contribution rates in unfunded schemes	Perhaps - although the considerations differ as the PCPF is a funded scheme (this is explored further in Section 2)

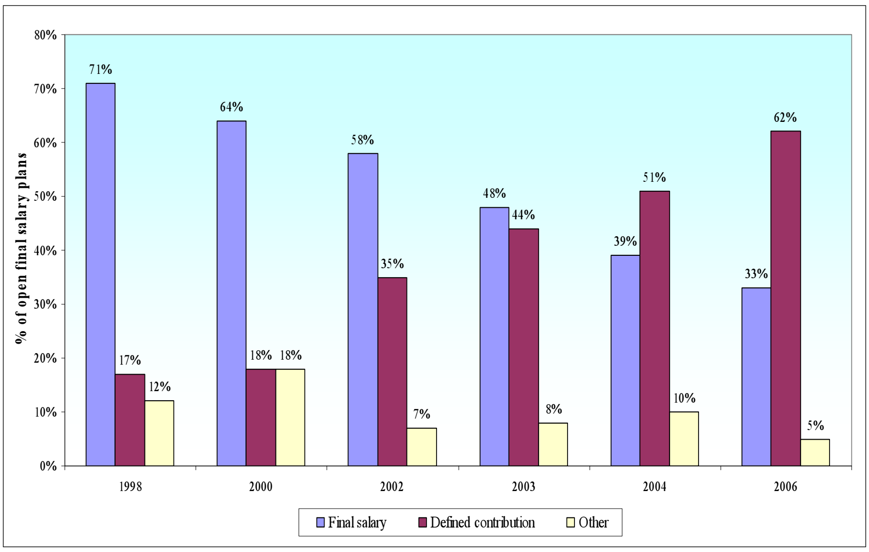
Private sector arrangements

3.15 In addition to the economic and demographic changes described above, additional factors have led private sector employers to reconsider defined benefit provision, including:

- changes to the accounting standards covering the recognition of pension arrangements in company accounts which provide a more direct link to the financial strength of the pension scheme in the accounts of the employer
- the move to more flexible remuneration, which is generally more difficult to achieve within a defined benefit environment
- changes in the regulatory framework governing pensions (in particular, changes to funding requirements and the burden falling on an employer when a scheme winds up).

3.16 The combination of these factors with the economic and demographic changes has led many private sector employers to reassess the pension arrangements they provide, resulting in a significant move away from defined benefit arrangements, at least for new joiners, in recent years as is shown in Chart 3.5 below which shows that in 2006 only 33% of open plans are final salary compared to 39% in 2004 and 64% as recently as 2000.

Chart 3.5 - Trends in pension provision for new joiners



Source: Watson Wyatt plan design survey 2006

3.17 At the same time, within many of the remaining final salary plans considered within the Watson Wyatt plan design survey 2006, the level of benefits has been reduced (for example, through increases in the retirement age) and/or member contribution requirements have increased, as is shown in Charts 3.6 and 3.7 below. For example, for those final salary schemes providing 1/60th accrual, the average member contribution rate rose from 4.6% to 5.2% between 2004 and 2006, with nearly half of plans now having a contribution rate in excess of 5%.

Chart 3.6 – changes in retirement ages

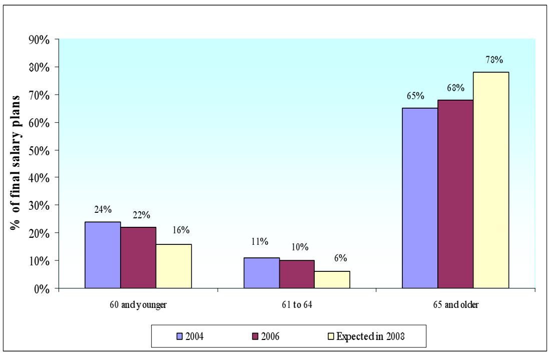
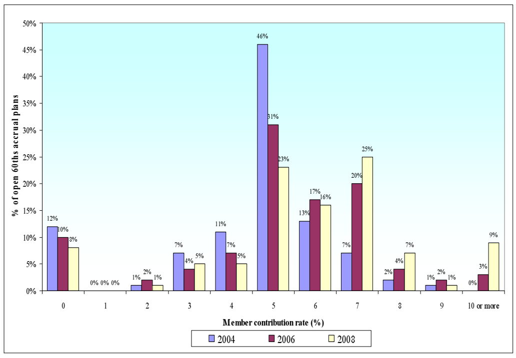
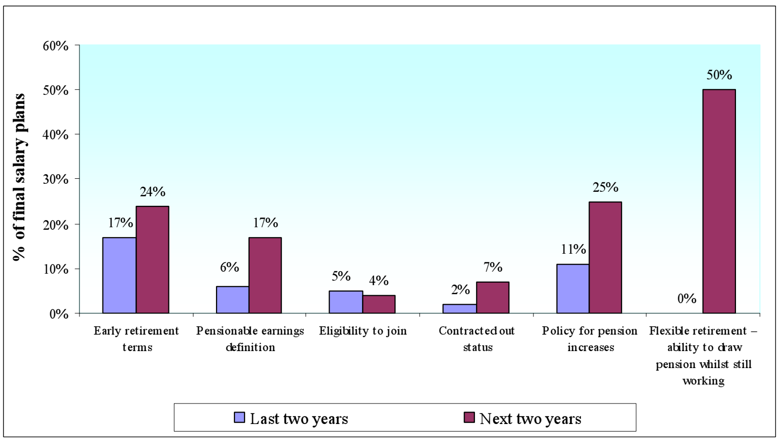


Chart 3.7 – member contribution rates (schemes providing 1/60th accrual)



3.18 As is shown in Chart 3.8 below, within the remaining final salary schemes further changes are planned for the near future. There have also been a number of high profile cases over the last year where large high street companies have announced an intention to close an existing final salary scheme to new accrual for existing members. Other companies are considering changes to the final salary scheme that reduce the level of risk borne by the employer.

Chart 3.8 – percentage of final salary plans planning or recently making changes



Source: Watson Wyatt plan design survey 2006

3.19 Table 3.3 below summarises the key themes in the changes within the private sector and considers the relevance to the PCPF:

Table 3.3

Private sector changes	Relevance to the PCPF
A move away from final salary provisions for new joiners and, increasingly, for future benefits for existing members as employers seek to limit the level of cost and risk.	Perhaps – Not all of the drivers for change in the private sector are relevant to the PCPF (for example, accounting changes and regulatory changes). However, the impacts of increasing longevity and low investment yields (the PCPF is funded) are relevant, particularly given the desire of the Exchequer to share costs – this was explored in Section 2. There is also a question as to whether the current design provides sufficient flexibility given the wide profile of members – this is considered in Section 5.
Increasing normal retirement ages	No – the normal retirement age in the PCPF is already 65 (there is little evidence that schemes are moving beyond this) and the ability to take an unreduced early retirement pension from age 60 is being phased out.
Increases to member contribution requirements and changes to accrual rates	Perhaps – member contributions were increased to 10% of pensionable salary for members choosing the 40th accrual option in the PCPF following the 2004 review. This was considered further in Section 2.

3.20 In considering the relevance of changes in the level or terms of benefits provided in the private sector to the PCPF, it is worth noting that the value of pension benefits are taken into account in the overall pay comparison exercise carried out by the SSRB. Therefore, changes in the private sector will indirectly impact upon the overall comparison through a lower value being placed on private sector pension benefits.

The Pensions White Paper

3.21 In May 2006, the Government issued the Pensions White Paper, in response to the three-year investigation by the Pension Commission. Following consultation, the Government published the Pensions Bill in November 2006. Some of the key proposals are as follows.

- The State Pension Age will rise from 65 in 2024 to age 68 from 2044.
- The Basic State Pension will be increased with average earnings, rather than inflation. No explicit date has yet been given for this but it is expected to be before the end of the next Parliament.

- A new system of retirement savings vehicles known as personal accounts will be established with effect from 2012. Employees will be enrolled automatically into the arrangement (with the option to opt out) unless they have access to a more generous occupational scheme. Companies will contribute at least 3% of salary to the scheme, with employees paying a minimum of 4% and the Government 1%.
- The State Second Pension will evolve into a flat-rate top-up pension by 2030.

3.22 Our experience to date suggests that the Pensions Bill will have a limited direct impact on pension provision for executives and senior employees and therefore, by comparison, on the PCPF. However, there may be some indirect effects of the Pensions Bill in that it may further increase the pressure to increase retirement ages in the private and public sectors, although again the immediate relevance for the PCPF is limited given that the normal retirement age is already 65.

4 Cost of the PCPF

4.1 In this Section we consider the cost of the benefits provided by the PCPF and compare this to the cost of benefits that would have arisen if the provisions of the PCPF were replaced by the provisions of arrangements offered by public and private sector employers identified as comparators for MPs.

What we mean by cost

4.2 For the purpose of this report, the expression "cost" has a specific meaning. It is the contributions, expressed as a percentage of pensionable salary, that a sponsor (in this case the Exchequer) would need to invest in addition to member contributions to establish a fund of assets expected to be sufficient to pay the benefits arising from the member remaining in service for a further year and (for final salary arrangements) for the benefit built up over that year remaining linked to increases in salary until the member leaves service. Further details are provided in Technical Appendix E.

4.3 The costs quoted in this Section are not intended to give any guidance on the contributions the Exchequer should pay to the PCPF. Those contributions are set following a funding valuation carried out by the PCPF Trustees' actuary (GAD) for which different assumptions about the future are likely to be appropriate (for example they are likely to include a margin to act as a buffer against actual investment returns being lower than assumed) and will take into account any additional contribution requirements should the assets held be less than those expected to be needed to pay benefits built up to date as they fall due.

4.4 The assumptions we use are best estimates, since we believe that the margins used in funding valuations are not appropriate when allowing for pensions in overall remuneration.

Assumptions used to determine cost

4.5 Calculating the cost requires a number of assumptions to be made about the future and these determine the expected level of benefit and the time at which the benefit is expected to be paid. They also introduce an allowance for future investment returns increasing the value of assets over time. For the purpose of this report we have set assumptions to be our best estimate of what is likely to occur over the long term (i.e. over periods of 10 years or more).

4.6 Table 4.1 provides a summary of the financial assumptions used in this report. These are explained in detail in Technical Appendix G.

Table 4.1

Description	Assumption (% pa)
Long-term investment return on assets	6.6
Salary increases	4.5
Price inflation (RPI)	3.0
Increases to deferred pensions	3.0
Pension increases	
- public sector	3.0
- private sector	2.75

4.7 It is also necessary to make statistical assumptions about the members under consideration. For example how long members are expected to be in parliament, how long members are expected to live, whether they will have any dependants when they die and how long those dependants are themselves expected to live. In general these "demographic" assumptions have been based upon those used by the PCPF's actuary for the 1 April 2005 funding valuation. Under these assumptions an "average" MP (who is around age 54) is expected to leave parliament at around age 63 and if they retire at age 65 to live for a further 20 years. Further details on the demographic assumptions are provided in Technical Appendix H.

4.8 Different assumptions will generally lead to different costs – for example assuming lower investment returns in the future means that more money has to be contributed now to have in place sufficient assets for payment of benefits as they fall due, thereby increasing the cost. Likewise assuming members will live for longer when they retire will increase the cost. Technical Appendix I illustrates the sensitivity of cost to the investment return and salary increase assumptions.

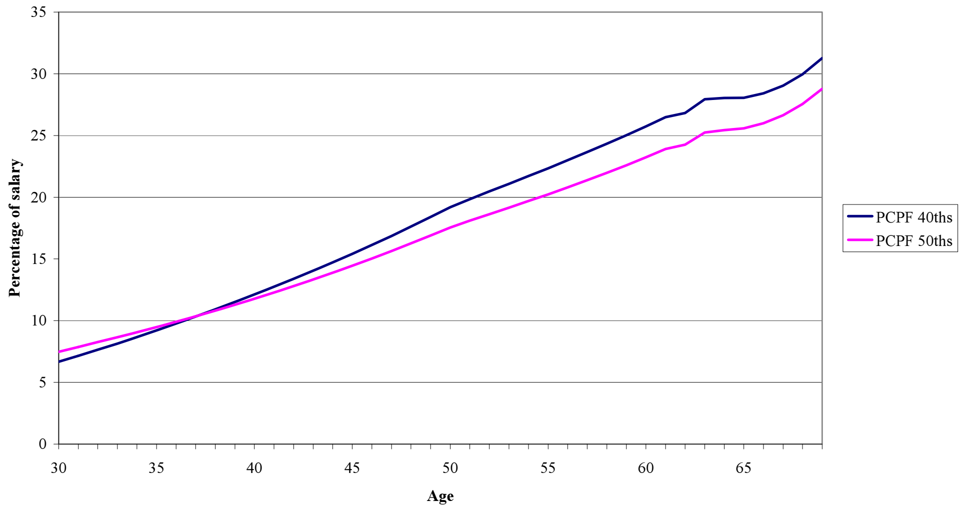
Cost of the PCPF benefits

4.9 Under the method and assumptions adopted the cost of the PCPF benefits for an average MP is around 20% of pensionable pay. Under the method and assumptions adopted, this cost is slightly higher for members who are building up benefits at $1/40^{th}$ of pay (paying 10% member contributions) compared to those building up benefits at $1/50^{th}$ of pay (paying 6% member contributions). A breakdown of the cost by age of member is provided in Technical Appendix I.

4.10 These costs do not allow for the effect of members having reached the maximum benefit nor for the effect of retained benefits. This is discussed further later in this Section.

The cost of PCPF benefits varies significantly by age, with the cost being lower for younger members due to the longer period over which investment returns can be achieved in excess of salary increases and price inflation. Also, the relative cost of benefits accruing at 1/40th or 1/50th of pay also varies with age, with 1/50th actually being of higher cost than 1/40th at younger ages due to the member meeting a greater proportion of the overall cost of the benefit through the contributions they pay. This is shown in Chart 4.1. (Note that this Chart shows the cost before making allowance for maximum benefit. Once allowance is made for maximum benefits the overall cost of 1/40th and 1/50th accrual is much closer as discussed in Section 2.)

Chart 4.1 - Cost of PCPF benefits as a percentage of pay



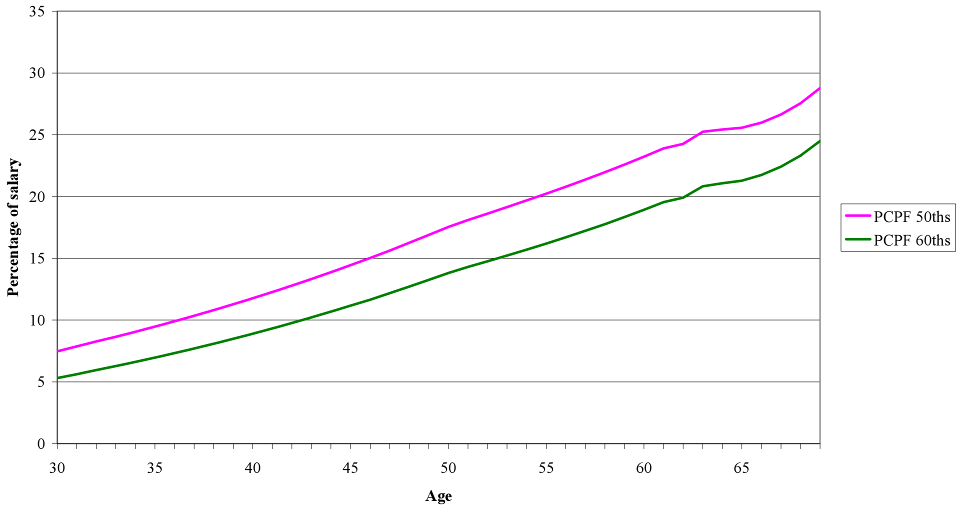
Effect of maximum benefits and retained benefits on cost

4.11 Under the PCPF, members cannot build up a benefit of more than 2/3rd of pensionable pay prior to age 65. This means that the service (including transferred in service and added years service) counted as pensionable is restricted to a total of 26 years 8 months for members building up benefits on 1/40th throughout their parliamentary career and 33 years 4 months for members building up benefits on 1/50th throughout their parliamentary careers. When this maximum benefit is reached members stop paying contributions and the pension at 65 would be 2/3rd of pensionable salary at that time. This means that the cost of PCPF benefits is nil for members who have reached the maximum benefit. Technical Appendices C and D gives more detail on how the benefit accrual and contributions interact.

4.12 When a member reaches age 65 they can recommence building up benefits and the cost becomes non-zero.

4.13 As noted in Section 2, benefits for members with large retained benefits and long pensionable service are effectively reduced to 1/60th of pensionable pay per year of service. The cost of the PCPF benefits is lower when built up at a rate of 1/60th as shown in Chart 4.2 below which assumes that such members pay 6% member contributions.

Chart 4.2 - Cost of PCPF - effect of retained benefits



4.14 Across all ages the effect of retained benefits is that the cost of benefits is around 3-5% lower than would have been the case if the member was building up benefits at a rate of 1/50th. Althought it might been expected that the majority of member with retained benefits would have opted to accrue benefits at 1/50th, , in practice we understand from the retained benefits information provided to the GAD by the secretariat to the PCPF, that many members with significant levels of retained benefits opted for 1/40th rate of accrual. The impact of retained benefits restriction for such members will be greater.

4.15 Taken together, members either building up no benefits or building them up at a rate of 1/60th of pay will act to reduce the cost of the PCPF benefits when averaged across all members. In relative terms this will have a larger effect for members with either significant retained benefits built up before entering Parliament or who entered Parliament at an early age and hold a safe seat. This is considered further in Section 5.

Comparative cost of PCPF benefits - Overview

4.16 Pensions are an element of the remuneration that employers provide to employees in respect of their service. It is therefore relevant to consider both pay and pensions together when comparing the remuneration of different roles, and the Government has therefore asked the SSRB to take into account the cost of pension benefits in conjunction with the review of Parliamentary pay and allowances.

4.17 For the purpose of the 2007 review, the SSRB has taken advice on Parliamentary pay and allowances from PwC. As part of that exercise PwC identified roles in both the public and private sector that they believe are comparable to those of MPs, Office

Holders and ministers. So that both the pay and pension benefits of those comparators can be considered together, PwC informed us of the public sector comparators it had identified. PwC's methodology for identifying comparators is explained in their report to the SSRB.

4.18 The public sector employers identified were those for the armed forces, civil service, local government, NHS, police and teachers. For the police and armed forces we were notified a rank of employee as this affects the benefits provided by those pension arrangements. Where applicable we have used the pension arrangements in place for members at the date of the last general election (as amended by any changes have been made and implemented by the time of the calculations). In particular, we have not allowed for the arrangements applying to more recent entrants or for arrangements that have been proposed but not yet implemented. A summary of the benefits provided by the public sector comparators is provided in Technical Appendix J.

4.19 We have placed a cost on the benefits that would be provided to members of the PCPF if the provisions of the PCPF were replaced with those of the comparator organisation's pension arrangements. It is in this narrow sense that the expression "comparative cost" should be interpreted (see below).

4.20 To ensure the advice provided to the SSRB is consistent, we notified PwC of the cost of the public sector arrangements. We also provided guidance to PwC so that they could calculate the cost of the pension arrangements of the private sector comparators it identified in a consistent way with the PCPF and the public sector arrangements. PwC carried out this analysis for reasons of client confidentiality as many of the details were held on their proprietary databases.

4.21 Further details are provided in Technical Appendix L.

Comparative cost of PCPF benefits – Interpretation

4.22 It is important to note that the costs quoted in this Section (and in PwC's report) only reflect the hypothetical situation where MPs, ministers and Office Holder's retirement and death benefits are based upon the provisions of the comparator pension arrangements rather than those of the PCPF.

4.23 This will not be the same as the cost of the comparator pension arrangement benefits to employees of the comparator organisations. Employees of other organisations will in general experience significantly different career and salary progression patterns to PCPF members – indeed employers will typically configure their pension arrangements to reflect characteristics of their workforce subject to any cost or risk constraints specific to that employer and it's industry. Career pattern, salary progression and other structural differences are beyond the scope of this report.

4.24 This means that it is not appropriate to use the results in this report to say that one employer provides "more generous" benefits than another based upon the costs in this Section. Such judgements depend entirely on the profile and career expectations of each workforce. Indeed, it is possible that for some of the comparators identified that PCPF benefits would be less valuable than those actually provided to employees of that comparator organisation. For example, if an employer provides a defined contribution arrangement with fixed 10% employer contributions at all ages and the workforce is young and experiences high levels of staff turnover, this would be more valuable than the PCPF for this profile.

4.25 We note that care is needed if these costs, when expressed as a percentage of pay, are used to adjust MPs pay. For example, consider an MP who is paid £69,000 and the cost of the PCPF benefits is 20% of pensionable pay. In total the remuneration as an MP allowing for pension benefits would be £82,800 (i.e. £69,000 plus 20%). If an alternative arrangement replaced the PCPF and the cost of those alternative benefits was 15% of pensionable pay, then pay would have to be adjusted to £72,000 to maintain the overall level of the MPs remuneration (since £72,000 plus 15% equals £82,800). This would represent an increase in pay of 4.35% rather than 5% that might be assumed from the difference in the two percentage costs.

Comparative cost of PCPF benefits – Results

4.26 Based upon the method and assumptions adopted, the cost (expressed as a percentage of pensionable salary) for an average member of the PCPF of providing PCPF benefits compared to the provisions of the pension arrangements of the comparator employers identified by PwC are shown in Table 4.2 below. For this purpose, an average member has been assumed to be age 54 based on data as at 1 April 2005 provided by the Government Actuary's Department.

Table 4.2

Arrangement	**Cost of associated pension benefits as a percentage of pensionable pay**	
	Defined benefit % pensionable pay	Defined contribution % pensionable pay
PCPF – 40th (before maximum benefits)	22	Not applicable
PCPF – 50th (before maximum benefits)	20	Not applicable
Armed Forces (Colonel)	28	Not applicable
Civil Service	18	13
Local government	11	Not applicable
NHS	13	Not applicable
Police (Chief superintendent)	11	Not applicable
Teachers	13	Not applicable
Private sector – lower quartile	13	4

Private sector – median	17	10
Private sector – upper quartile	20	13

4.27 For defined contribution arrangements, the above costs assume that the arrangement is contracted out of the State Second Pension (S2P). In practice, most defined contribution arrangements are not contracted out. The additional cost for contracted in defined contribution can be taken to be the employer National Insurance rebate for contracted out money purchase schemes, prorated to allow for the salary on which this rebate is applied. This would currently increase the above costs for defined contribution arrangements by around 0.5%. However, in the Pension Bill the Government proposes to cease allowing schemes to contract out on a money purchase basis from 2012.

4.28 Likewise, for defined contribution schemes no allowance is made in the above costs for death benefits (which may either be an additional lump sum and/or an additional pension for dependants). Allowance for these would be expected to add up to 3% of salary to the cost for defined contribution arrangements, depending on the level of death benefit provided.

4.29 Further details on the comparative costs are provided in Technical Appendix L.

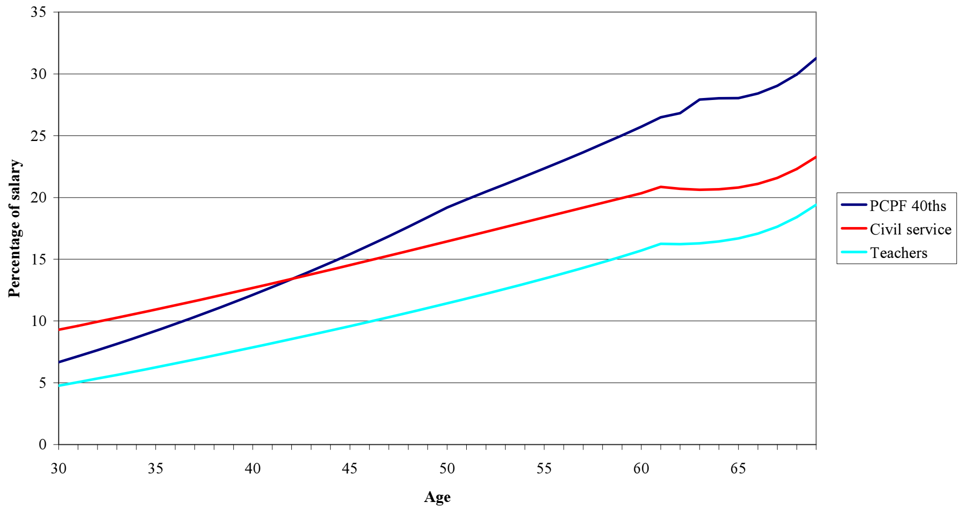
Comparative cost of PCPF benefits – Comments

4.30 The results in Table 4.2 and in Technical Appendix I show that, on the method and assumptions adopted, the PCPF benefits for an average MP have a cost of around 20% of pensionable pay (ignoring any maximum benefits) for an average member. As previously noted, the cost varies significantly by age.

4.31 Our calculations suggest that the benefits provided through the PCPF to MPs is in the upper quartile of costs that would result from applying the benefit structure of the private and public sector comparators identified by PwC. The cost of comparator benefit structures for an average MP vary from under 5% of pensionable pay (for lower quartile defined contribution benefits in the private sector) to nearly 30% of pensionable pay (for benefits provided in line with the provisions of the Armed Forces Pension Scheme) with most in the range of 10-15% of pensionable pay.

4.32 The comparative costs vary by age. To illustrate this variation by age, Chart 4.3 below shows the costs for the PCPF, teachers and civil servants by age, based upon the method and assumptions adopted for this report. The chart is extended to include all of the public sector comparators in Technical Appendix I.

Chart 4.3 - Comparative cost of parliamentary, civil service and teacher pension arrangements



4.33 In the calculations the same career and salary expectations apply to all of the comparator pension arrangements as for members of the PCPF. Therefore, the differences in cost are driven mainly by:

- For defined benefit arrangements:
  - The accrual rate (the higher the rate the higher the cost)
  - The level of member contributions (the lower the level the higher the cost)
  - The age at which members have the right to retire (the lower the age the higher the cost) with an unreduced pension
- For defined contribution arrangements:
  - The contributions paid by the employer

4.34 However, the interaction between these drivers can be complicated. Chart 4.1 showed for the PCPF that at younger ages the lower contributions paid to build up 1/50th benefits are more valuable than a higher accrual rate (1/40th) whereas the opposite is true in the PCPF at older ages. The variation in the cost of benefits by age and career pattern is considered further in Section 5.

4.35 In Section 3 we also discussed possible future trends in pension provision in the private sector and commented that there was an increasing move in final salary arrangements to reduce the level of benefits provided and/or increase the proportion of the cost met by members. This trend, if realised, would be expected to reduce the cost of private sector arrangements if a similar analysis is carried out at a future review of Parliamentary pensions by the PCPF.

4.36 Likewise over time the pension arrangements for new entrants will become a much greater consideration in future reviews of Parliamentary pensions carried out by the SSRB. In Section 3 we noted that in the private sector these are primarily defined contribution in nature and, based on the costs calculated by PwC using our method and assumptions, such arrangements would also expected to reduce the cost private sector pension arrangements. This effect would be amplified if more employers who offer final salary benefits to a closed population of employees begin to close those arrangements to future accrual and provide future benefits through defined contribution (or revalued career average arrangements which might also serve to reduce cost). As mentioned in Section 3 such changes in private sector provision for closed arrangements have already been implemented by a small number of employers.

4.37 Our analysis does not itself allow for the changes to the PCPF early retirement terms from 1 April 2009 (or the day after the next general election if later). This would also be expected to reduce the costs explained above – for an average MP by around 1% of pensionable pay. We understand this is intended to offset the cost of benefit improvements introduced since 2004 described in paragraph 2.3. This change might, however, mean that the relative cost of PCPF benefits compared to alternative private sector benefit structures are expected to move in the same direction whereas the cost of PCPF benefits relative to some alternative public sector benefit structures might be lower at the time of the next review.

4.38 We believe these trends in pension provision should be taken into account by the SSRB for the purpose of the current review to ensure continuity from one review to the next.

4.39 One further issue which we have not taken into account when looking at the comparative cost of pensions is the relative security of MP's pensions and those of other public sector pensions compared to private sector pensions. While private sector pensions are now, to some extent, more secure than in the past following the introduction of the Pension Protection Fund, this does not provide the full value of benefits.

4.40 The guarantee of their full benefits being paid is a significant advantage to MP's relative to members of defined benefit private sector schemes, especially those where the employer has weak financial covenant.

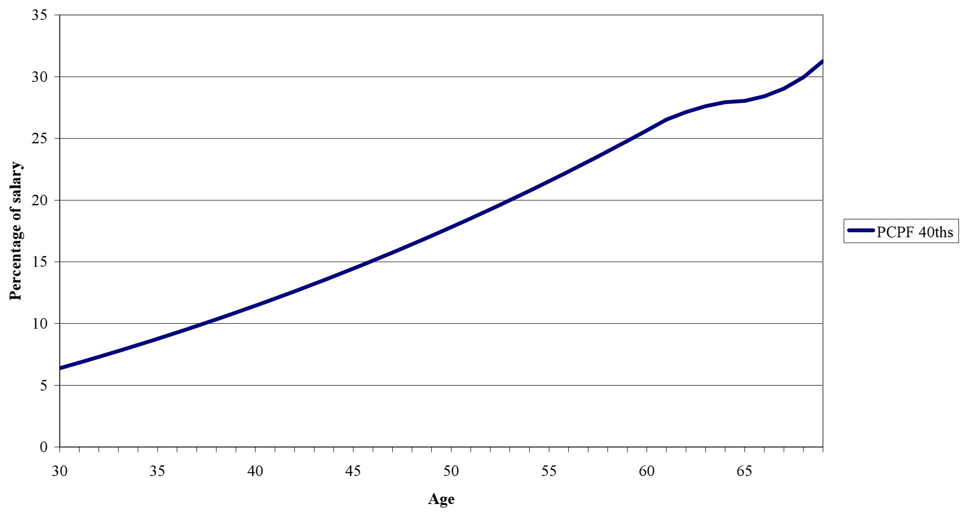
5 Meeting the needs of MPs

5.1 In this Section we consider the nature of the PCPF and whether the benefits continue to meet the needs of MPs at an acceptable level of cost to the Exchequer. The purpose of this Section is not to identify a "best" pension arrangement for MPs, but to consider whether different arrangements might better meet the needs of some (but not all) members.

5.2 The PCPF is a defined benefit final salary arrangement. This means that the benefits provided are linked by a formula based on service to salary close to the time of leaving parliament.

5.3 As explained in Technical Appendix I the cost of providing these benefits varies by age. In general the cost is lower for younger members since the assets held to meet the benefits are expected to be invested for longer until they are drawn upon to pay the benefits. This is illustrated in chart 5.1 below which shows the variation of cost (net of member contributions) for a PCPF member building up benefits at the rate of 1/40th of pay. For simplicity in this Section we have assumed that the earliest age at which an unreduced pension can be taken is age 65 (i.e. in line with the provisions applying from 1 April 2009 or the day after the next general election, if later).

Chart 5.1 - Variation of cost with age

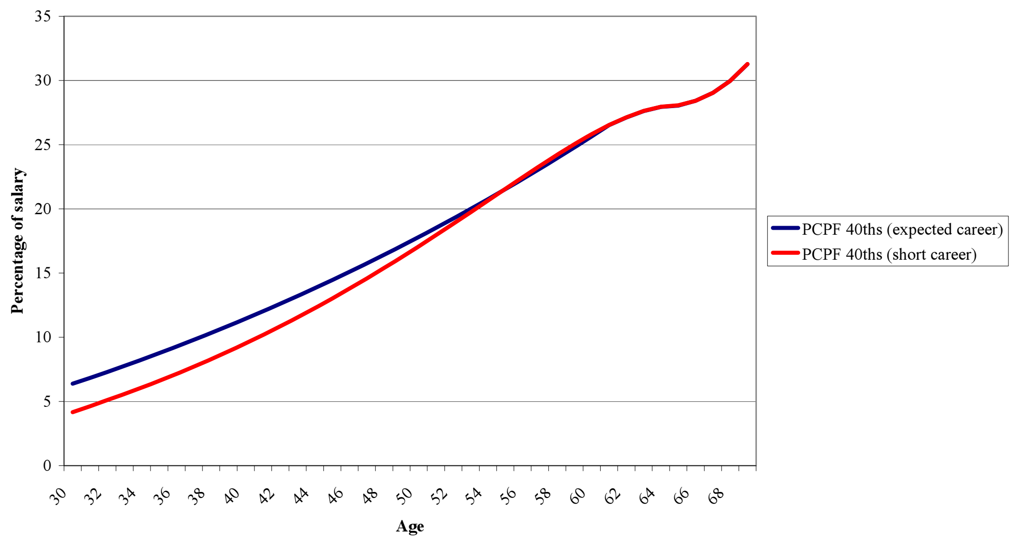


5.4 This variation by age means that whilst MP's pay is the same regardless of age and experience (which is a distinguishing feature from the wider UK working population) the total remuneration allowing for pensions is different depending on age of the member. This is an unavoidable feature of defined benefit pension arrangements with constant accrual.

5.5 The cost requires assumptions regarding how long the member is expected to remain in service and as described in Technical Appendix H this means that members in their 30s are expected to remain in parliament for around 15 years whereas members in their 60s are expected to retire within 5 years.

5.6 Whilst the current election system means that a significant proportion of MPs are expected to remain in parliament for a long time (e.g. those in safe seats) there are a class of MPs (particularly those in marginal seats) who might only expect to be in parliament for one term. The effect of this is illustrated in chart 5.2 below, where we replace the PCPF actuary's estimate of tenure (which we used in Section 4) with one where all members are assumed to retire within around 5 years of entering parliament (more precisely at each election 80% of all members are assumed to leave parliament with elections occurring every 4 years).

Chart 5.2 - Effect of different career patterns



5.7 This illustrates the variation of cost by assumed length of future service in the PCPF. In particular it shows that for young members expected to leave parliament after one term the cost would actually be lower than calculated using the PCPF actuary's best estimate of career pattern (which is an average expectation across the whole population of MPs and Office Holders in the PCPF). At most, however, this difference in cost is around 2% of pay (based upon the assumptions adopted).

5.8 A further classification of MP that could be considered by the SSRB is the group of MPs who entered parliament with significant pension benefits. We do not have statistics to consider this further for the purpose of this report, but note that this group is likely to be the one most significantly impacted by the retained benefit restriction in the PCPF.

Alternative benefit structures

5.9 The current PCPF provides a generous level of benefit to most members. In Section 4 this was illustrated by the PCPF benefits having a cost that is in the upper quartile of alternative benefit structures that could be used based upon those provided by comparator organisations.

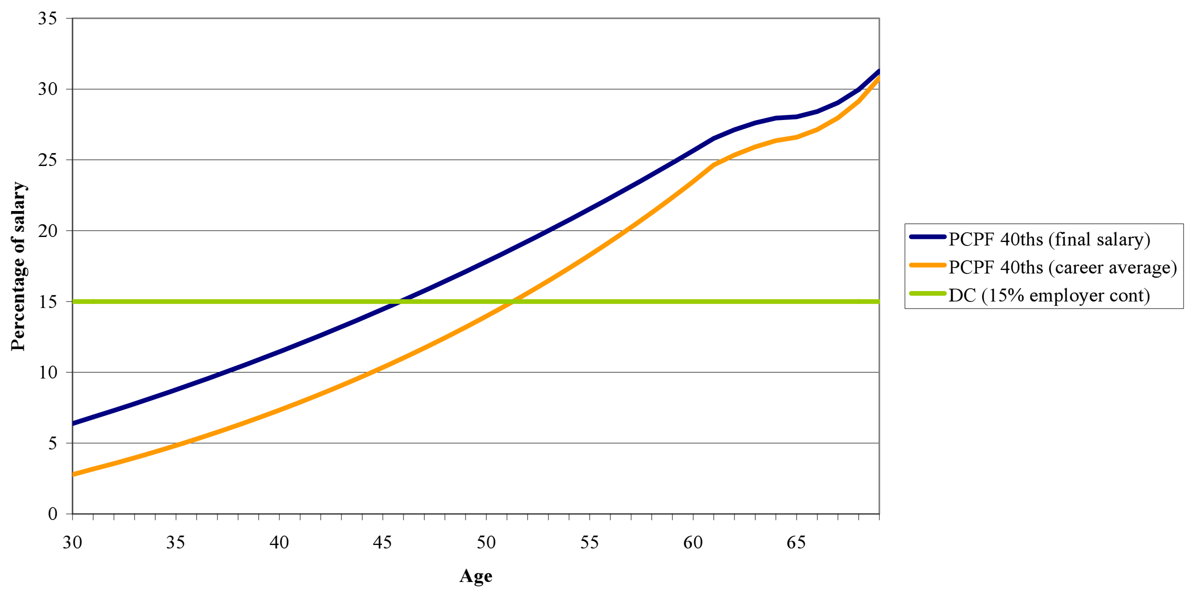
5.10 However, this is not necessarily the case for all members and with this in mind we briefly considered whether there are other benefit structures that might better reflect the career pattern of those MPs.

Chart 5.3 compares the cost of providing benefits to MPs under:

- The current arrangements (assuming 1/40th accrual)
- A revalued career average arrangement similar to that for Office Holders and Ministers but where the benefit entitlement built up in any one year is revalued in line with price inflation rather than increases in MPs salary.
- A defined contribution arrangement where the employer pays 15% of salary at all ages. This percentage corresponds roughly with the upper quartile defined contribution cost for an average MP in Section 4 based upon the arrangements offered by comparator organisations identified by PwC.

5.11 For this purpose we have assumed that MPs follow a career pattern in line with the PCPF actuary's estimate (ie consistent with our costings in Section 4).

Chart 5.3 - Comparison of the cost of providing final salary, defined contribution and career average benefits



5.12 Chart 5.3 (in conjunction with Chart 5.2) suggests that the benefit provided under the defined contribution arrangement is expected to be more beneficial to MPs who leave service sooner than expected and for younger MPs. Such an arrangement would also minimise the variation of the Exchequer contribution rate and would also mean that the total remuneration including pension benefits paid to MPs would be the same regardless of age in line with the treatment of MPs pay. It would also be consistent with the trend of pension provision in the private sector discussed in Section 2 although it would not be in line with the Government's consultations on public sector pension provision. It should be noted that defined contribution arrangements typically require more involvement from members in making investment choices and the level of benefit will depend on the investment choices made by members and how those investments perform. Also, unless employer contributions were set to a higher level than that typically provided in the private sector, this might mean that many MPs would receive a lower level of benefit compared to the current PCPF.

5.13 Chart 5.3 also demonstrates that the cost of providing a career average pension would be relatively lower for younger MPs and the variation by age is much more significant. However, the variation by expected tenure is eliminated since all members are effectively assumed to leave service at the end of each year. Under such arrangements, however, the sponsor can provide discretionary increases to the benefits built up to active members. For example, in a year where investment returns are particularly good the sponsor could enhance active members benefits to allow for an increase above price inflation (either for that years' benefit in isolation or on all benefits built up to date). This means that the sponsor, in this case the Exchequer, would have greater control on costs.

Flexibility

5.14 In the private sector there is a trend toward defined benefit schemes offering more flexibility to members in the benefits that they will receive. By flexibility we do not exclusively mean providing members with options at the point of leaving or retirement (such as receiving a lump sum at retirement in lieu of a pension). Instead we mean choices made by members whilst in service about the benefits they will receive in the future, with a consequent adjustment to the member contribution rate.

5.15 At present, the PCPF offers some flexibility when members enter parliament - the option to build up benefits at the rate of $1/40^{th}$ or $1/50^{th}$ depending with a consequent impact on the level of member contributions. As discussed in Section 2 we believe it would be appropriate to extend this choice to include 60th accrual in order to alleviate the impact of retained benefits on PCPF benefits. There is also an indirect flexibility for members to build up further PCPF benefits through the added years AVC facility.

5.16 Other options for increasing flexibility might be to introduce flexibility to:

- Vary the proportion of prospective service or the fraction of benefit used to determine the pension payable to dependants on death in service
- Vary the multiple of salary provided to dependants on death in service

5.17 We believe, however, that such additional flexibilities would increase the administrative requirements of the PCPF and might also serve to increase costs if members take advantage of the flexibility due to individual circumstances (for example they might only choose to increase death benefits if they are in poor health).

Pension arrangements for key office holders

5.18 The Government invited the SSRB to comment on the pension arrangements of the Lord Chancellor and the Speaker of the House of Lords.

5.19 We anticipate that this is related to the wider question of whether special arrangements should be put in place for key offices of Government. These special arrangements provide benefits in addition to those provided by the PCPF.

5.20 At present, three offices of Government benefit from special pension arrangements: the Prime Minister, the Speaker of the House of Commons and the Lord Chancellor. In broad terms, on taking office the holder becomes eligible for a pension on leaving office equal to 50% of salary at leaving, irrespective of length of service. This is based upon salary set by the Government rather than the salary to which he or she is actually receiving (which in some cases has been less than the full entitlement due to personal decisions). This special pension is not provided by the PCPF and is instead paid directly by the Government.

5.21 This special arrangement results in a very significant benefit, particularly if length of office is short. In addition to this, we understand benefits are also paid from the PCPF and that no adjustment is made in these special arrangements for any pension associated with previous periods of employment such as personal pensions or pensions provided by previous employers.

5.22 As part of its submission on Parliamentary pay and allowances the Government asked the SSRB to consider the benefits provided to the Speaker of the House of Lords, a role that was previously undertaken by the Lord Chancellor. On establishing this office a decision was taken that no special arrangements would be put in place and that the Speaker of the House of Lords could contribute to the PCPF in order to build up Office Holder benefits in that arrangement.

5.23 We believe that it would be appropriate for this question to be broadened out into a review of the special arrangements provided to key office holders. We envisage that this would entail identifying:

- What those key offices are
- Why it is appropriate that they receive special treatment
- How the benefits provided compare to comparators of similar job score in the public and private sectors
- Whether the current special arrangements should continue in their current form
- If changes are to be made, what changes might be appropriate:
  - Vesting over a longer period (say 5 years to mirror one parliamentary term)?
  - The level of pension expressed as a percentage of pay at leaving?
  - The form of benefit – should it also include a lump sum on leaving?
  - Mirror benefit paid in other arrangements (PCPF or Judicial Pension Scheme based upon a full career)?
- Whether it should continue to be paid outside the PCPF and if not then how these arrangements would be funded

Conclusion

5.24 Our conclusion is that the PCPF is operating in an environment of significant change to the pension arrangements in both the public and private sectors. Also, many of the complicated issues referred to the SSRB for consideration (such as retained benefits and the increase in the Exchequer contribution) arose due to the defined benefit final salary nature of the PCPF. We believe it would be appropriate for the Government and the Trustees of the PCPF to consider carrying out a fundamental review of the pension arrangements provided to MPs, Ministers and Office Holders since we anticipate that alternative arrangements could be put in place that:

- Are fairer to members across different career patterns, ages and backgrounds
- Are more transparent when subject to public scrutiny
- Will allow the Exchequer better to control costs

6 Conclusions

6.1 The curtailment of benefit accrual as a result of retained benefits is arguably an inequitable part of the PCPF design since it penalises those MPs who have built up significant pension provision prior to becoming MPs. However the cost of removal of the restriction is not insignificant and could be difficult to share equitably among MPs. If a decision is reached to keep the retained benefit restriction then consideration should be given to introducing a $1/60^{th}$ tier of accrual (with a lower member contribution rate) as an additional option for MPs.

6.2 Consideration could be given to sharing increases/decreases in the cost of accrual of benefits arising at future actuarial valuations (although specific factors giving rise to these increases/decreases should be identified).

6.3 The cost of the change in accrual rate from $1/50^{th}$ to $1/40^{th}$ can be considered to have been met in full by the increases in member contribution rate already made (6% to 9% to 10%) on the basis of new calculations carried out by the Government Actuary using recently obtained information about retained benefits (unless the retained benefit restriction is to be removed)

6.4 The PCPF provides a level of final salary benefits in the upper quartile of the benefits provided by private and public sector comparators when valued on the assumptions adopted in this report, as applied to a usual parliamentary career pattern. The cost of the PCPF on this measure is 22% of pay for an average age MP accruing at a $1/40^{th}$ level (not allowing for the effect of maximum benefits.)

6.5 It is appropriate for the SSRB to take the relative cost of MPs' pension into account when setting remuneration levels, but this is not straightforward. As discussed in this report, the relative cost of the PCPF varies by age, service and previous pension provision - none of which affects other elements of remuneration.

6.6 The cost of the PCPF relative to the private sector benefits is likely to change over time as the cost of private sector benefits will tend to decrease (as the benefits for new hires become the natural comparison and if, as anticipated, benefits for existing employees reduce). However, this will in part be offset by the reduction in cost of the PCPF as the early retirement terms change.

6.7 Consideration could be given to alternative forms of pension provision for MPs and/or increasing the flexibility of pension provision. There is no single benefit format which meets the diverse needs of all MPs. It may be appropriate for the SSRB to recommend to the Government that it should carry out a review of the pension arrangements provided to MPs, Ministers and Office Holders with the aims of ensuring that benefits are fair to all members and of allowing the Exchequer better to control costs.

Watson Wyatt Limited

Watson House
London Road
Reigate
Surrey
RH2 9PQ

22 May 2007

1\\\Wwp\data\Benefits Data Reigate CH\PENC\OME\SSRB Parlimentary Pension Scheme\SSRB Review of Parliamentary Pension Scheme report final.doc

Limitations and reliances

There are three important limitations to work that underlies this report. The first is that we have provide this report for the Office of Manpower Economics and the Senior Salaries Review Body and others should not rely on it or take action based on it without seeking their own independent advice. The second is that for our review we have been provided with information by third parties and we have relied on the accuracy of that information. The third is that the assumptions made about future economic conditions are just that - assumptions and not predictions or guarantees.

Third parties

We have prepared this report under the terms of the Framework Agreement with the Office of Manpower Economics dated 2 September 2004. We have prepared it to provide guidance to the Senior Salaries Review Body as input to this review of Parliamentary pensions. As such, it should not be used or relied upon by any other person for any other purpose. Watson Wyatt Limited does not accept any responsibility for any consequences arising from any third party relying on this report.

Data supplied

For the purpose of our review we were provided with information from third parties and we have relied on the accuracy of that information. In particular, the Government Actuary's Department bears the responsibility for the accuracy of membership profile data provided as at 1 April 2005 and PricewaterhouseCoopers bears the responsibility for calculating the cost of the private sector comparator pension schemes on the basis of the assumptions and methodology which we provided to them.

Investment assumptions

The investment and economic assumptions have been derived by Watson Wyatt Limited through a blend of economic theory, analysis and the views of investment managers. They inevitably contain an element of subjective judgement. There is no guarantee that the assumptions made will be borne out in practice.

Senior Salaries Review Body

Technical Appendices to the Report on the Review of the Parliamentary Contributory Pension Fund

Prepared by:

Watson Wyatt Limited
(Actuaries & Consultants)
22 May 2007

Senior Salaries Review Body
Review of Parliamentary Contributory Pension Fund

To the Senior Salaries Review Body (SSRB)

This is a set of technical appendices to our report dated 3 September 2007 on the research work we have carried out in relation to the Parliamentary Contributory Pension Fund (PCPF)

Appendix

A Summary of the main provisions of the PCPF

Table A1

	Members of Parliament	**Office Holders**
Normal Retirement Age	65 years.	65 years.
Pensionable Salary	MPs Salary.	Salary received as an office holder. For those who joined the scheme after 1989, the combined MP and office holder salary that can reckon for pension purposes is limited to the statutory pensions earnings cap, £108,600 pa for 2006/07.
Final Pensionable Salary	Average Pensionable Salary in last 12 months before service ends.	Not applicable (see Normal retirement pension below).
Member contributions	A member may chose to contribute at the rate of: either 10% of Pensionable Salary (for 1/40th accrual), or 6% of Pensionable Salary for (1/50th accrual).	As for MPs.
Normal retirement pension	1/40th of Final Pensionable Salary per year of pensionable service for period in which a member has contributed at 10%. 1/50th of Final Pensionable Salary per year of pensionable service for period in which a member has contributed at 6%.	1/40th (or 1/50th) of each year's Pensionable Salary for periods in which a member contributed 10% (or 6%) of Pensionable Salary, increased in line with increases to MPs' salaries whilst office holder service continues.
Normal retirement lump sum	Members have the option to exchange part of their pension for a lump sum.	As for MPs.
Early retirement	Members can currently draw their pension on leaving service without reduction at any age on or after age 60, if the member's age plus service as an MP totals 80. This only applies to service up to the earlier of 1 April 2009 and the next general election. Otherwise, members can draw the pension at any time after age 50 (55 from 6 April 2010), but at a level reduced for its payment before age 65.	Benefits earned as an office holder can be drawn without any reduction for early payment at the same time as any benefits accrued as an MP, but service as an office holder whilst not serving as an MP does not count towards the qualifying period for early payment.
Ill-health retirement	Pension is paid immediately, based on the service that the member would have accrued had they continued to serve as an MP until age 65. (There is no reduction for early payment.)	Pension is paid immediately, based on accrued service only, and without reduction for early payment.
Withdrawal benefits	A deferred pension payable from age 65. If the member has less than 2 years' service, they can opt for a refund of contributions. A dependant's pension of 5/8th of member's pension revalued to the date of death is payable on death before retirement.	As for MPs.

	Members of Parliament	Office Holders
Qualifications for dependant's pensions	Spouse, and civil partner if member was entitled to a pension based on service on or after 6 April 1988. Also qualifying unmarried partner if member did not leave service before 3 November 2004.	As for MPs.
Death in service lump sum	4 x salary.	As for MPs.
Death in service dependant's pension	5/8th of member's ill health pension entitlement (pension ceases if the dependant remarries or cohabits and the member left service before 3 November 2004). A temporary pension at the rate of Pensionable Salary is payable for 3 months after death. Children's pensions are also payable.	As for MPs.
Death after retirement	5/8th of member's pension before any reduction made for commutation to lump sum at retirement (pension ceases if the widow(er) or partner remarries and member left service before 3 November 2004). If the member dies within 5 years of retirement, the dependant's pension is payable at the rate of the member's pension for the remainder of the 5 years. If the member dies outside that period, a temporary pension at the rate of the member's pension is payable for 3 months after the member's death. Children's pensions are also payable.	As for MPs.
Additional benefits	Additional contributions can be paid to increase benefits by means of: - purchasing added years of service at rates determined by the actuary; - contributing to the Additional Voluntary Contributions scheme with funds to be invested with an insurance company and used to purchase extra benefits on retirement.	Office Holders may contribute to the Additional Voluntary Contributions scheme, but are not able to purchase added years of service (except in relation to service as an MP).
Contracted-out status	Contracted out of the State Second Pension.	As for MPs.

B Summary of PCPF active membership

The following data (as at 1 April 2005) was provided by the Government Actuary's Department:

Chart B1 - Number of active members by age and accrual rate

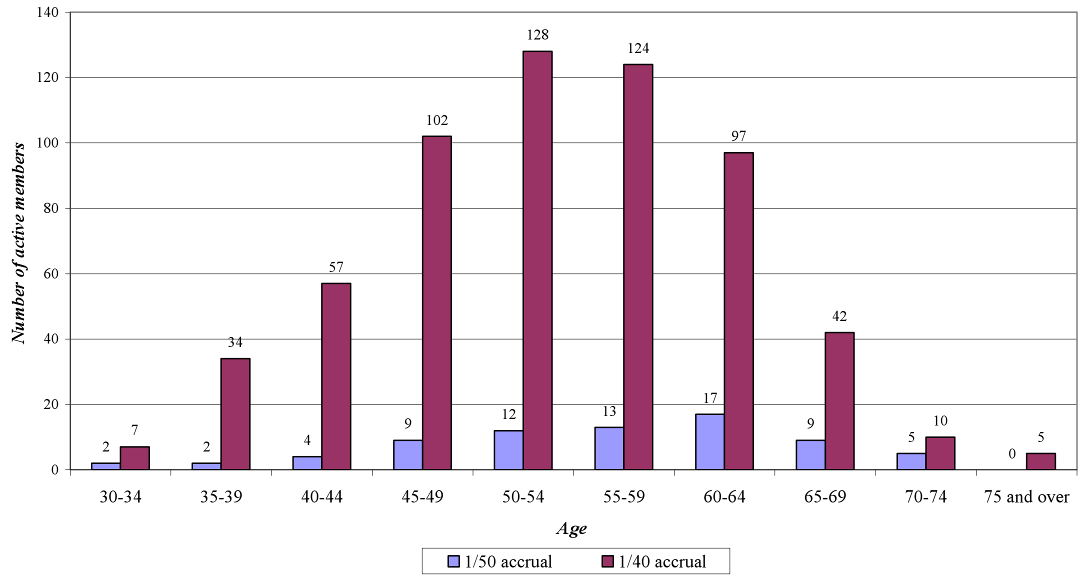


Chart B2 - Active members' pensionable pay by age and position

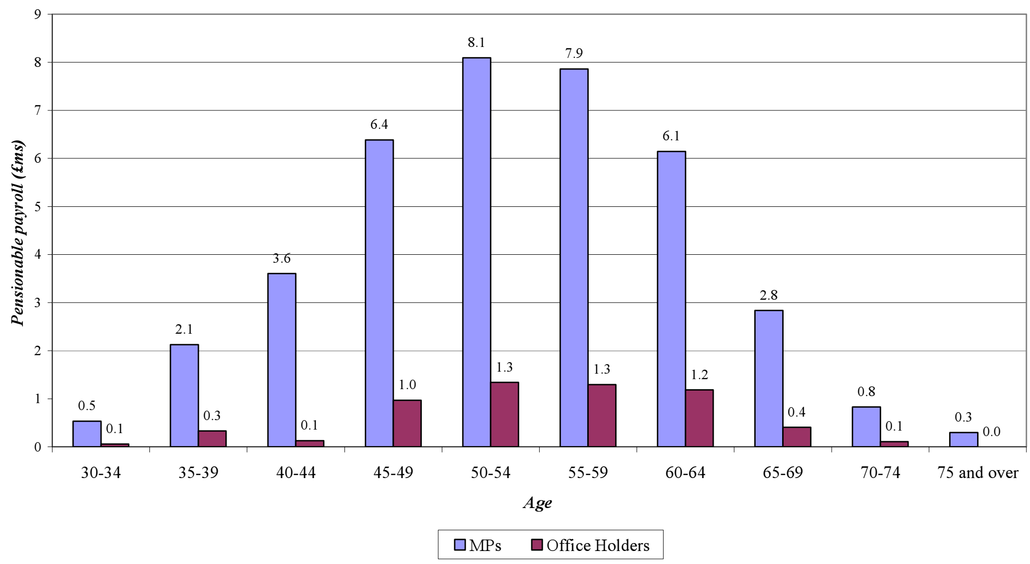
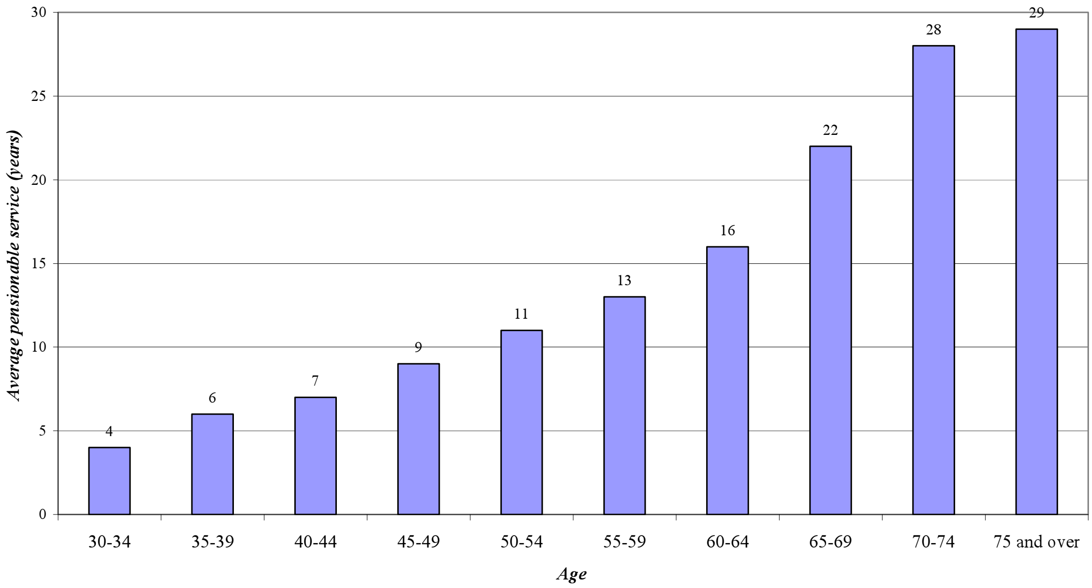


Chart B3 - Active members' average service since entering parliament by age



C Retained benefits - background information

Retained benefits are pension benefits built up by members in other pension schemes prior to joining the PCPF.

Members' pensions from the PCPF are restricted by limits set out in the governing regulations, which are currently the greater of:

- 2/3 of Final Pensionable Salary, less (the pension equivalent of) retained benefits from other arrangements ("2/3 limit"), and
- 1/60th of Final Pensionable Salary per year (up to 40 years) of pensionable service ("1/60th limit").

Once a member has built up a pension of 2/3 of Final Pensionable Salary, member contributions cease to be paid. When a member retires, the pension is restricted to the limits set out above, and the existence of retained benefits may result in a reduced pension. An illustration of this, together with an illustration of the effect of a member choosing to transfer a retained benefit into the PCPF, is shown in Technical Appendix D.

The cost of removing retained benefits from the pension limits

The Government Actuary's Department issued a note dated 24 November 2006 on the cost of removing retained benefits from the pension limits in the Parliamentary Pension Scheme. Retained benefit data was collected for around 60% of MPs and assumptions were made in respect of the remainder. The report concluded that the total cost of removing retained benefits from limits would be around 3.5% to 5% of annual pay, plus a one-off cost of £1m to £2m.

The funding valuation as at 1 April 2005 carried out by the Government Actuary's Department was based upon limited retained benefit information and made a prudent allowance for the effect of retained benefits on pension limits. Therefore, the cost quoted above is not in addition to the contributions currently being paid, but is rather an absolute cost.

The effect of retained benefits for other pension schemes

Most other pension schemes in the public and private sector are approved, ie benefits are subject to limits set out by HM Revenue & Customs. Maximum pensions similar to those for the PCPF set out above applied to all such schemes until 6 April 2006, from when schemes had the option to remove all or part of these limits.

Based on our experience, pension schemes have not removed retained benefits from limits where such removal would result in a significant increase in cost. Indeed, a Watson Wyatt internal survey carried out in January 2007 of schemes which provided benefits more generous than 1/60th pension accrual showed that 70% of such schemes had retained all limits and the remaining 30% had removed the limits but at negligible additional cost to the scheme.

D Retained benefits - examples

This appendix provides illustrations of the effects of the 2/3 limit and 1/60th limit described in Technical Appendix C.

An example of the effect of retained benefits

Consider the following two members, both of whom are retiring at age 65 having paid 6% contributions for 1/50th accrual over identical parliamentary careers:

	Member A	Member B
Final Pensionable Salary	£60,000 pa	£60,000 pa
Pensionable service	30 years	30 years
Retained benefits	nil	£20,000 pa

Member A's parliamentary pension = £60,000 x 30 / 50 = £36,000 pa
Member B's parliamentary pension is restricted to the maximum of:

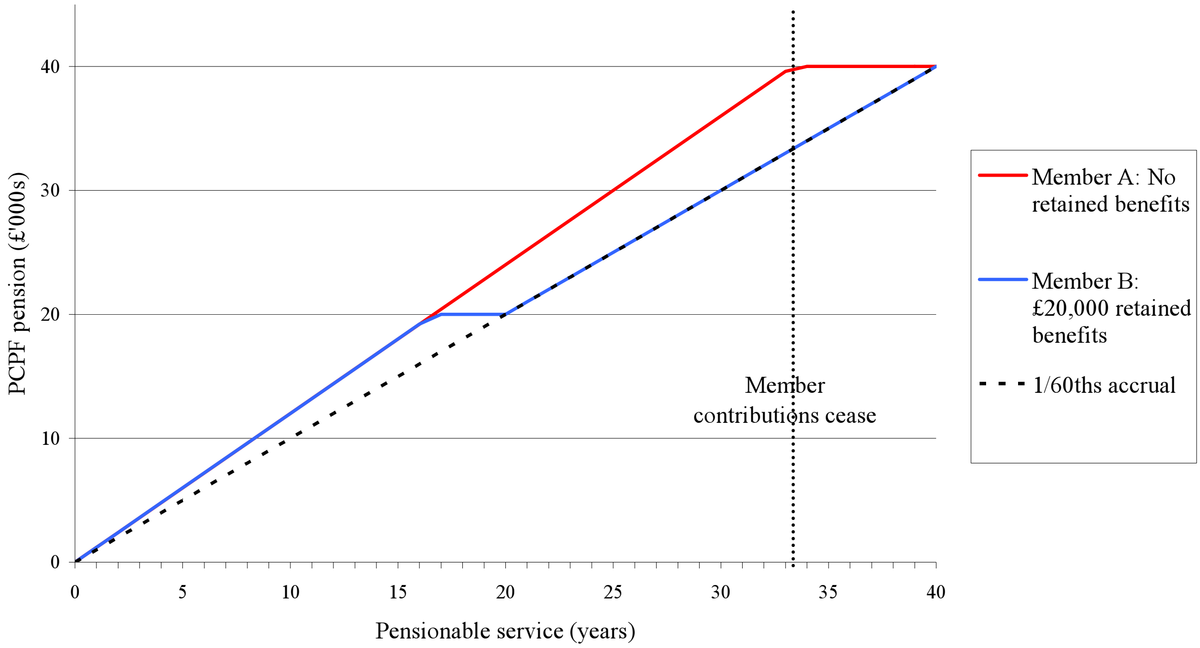
- 2/3 x 60,000 – 20,000 = 20,000 pa, and
- 60,000 x 30 / 60 = £30,000 pa,

ie £30,000 pa.

Therefore, Member B receives a pension £6,000 pa less than Member A, due to his retained benefits, even though he has paid the same amount of contributions.

However, the above example is only a snapshot of the effect of retained benefits. What if the members left service at an earlier or later date? The following chart illustrates how the effect of retained benefits varies with pensionable service at leaving. (For simplicity, accrued pension is expressed in real terms and salary increases are assumed to be in line with inflation.)

Chart D1 - The effect of having retained benefits



As can be seen from the Chart D1, Member A builds up pension at a uniform rate of 1/50th salary per year until 33⅓ years when contributions and pension accrual cease. Member B has a period of where no pension is built up from 16⅔ years to 20 years due to the 2/3 limit, and then a period of 1/60th salary per year build up of pension when the 1/60th limit becomes greater. Member B continues to build up pension after member contributions cease at 33⅓ years until year 40, when the ultimate limit is reached.

In this example, Member B's retained benefits did not affect the pension until 16⅔ years of pensionable service had been reached. After this point, Member B's pension quickly became less than Member A's. There was a 3⅓ year period where Member B paid member contributions for no additional pension.

This example illustrates that the inconsistent treatment of retained benefits in assessing member contributions and assessing maximum pensions is not equitable. The effect would be stronger if the members had paid for 1/40th pension accrual over their careers.

An example of the effect of transferring-in a retained benefit

Members with retained benefits have a choice of whether to transfer the retained benefit into the PCPF, for which they would receive additional service. This transferred-in service is allowed for in assessing when a member's pension has reached 2/3 of pay, and so the point at which a member's contributions cease is brought forward. However, the transferred-in service is subject to the 2/3 limit on retirement, and so a member may receive a lower total pension on eventual retirement.

This can be illustrated by the following example. Consider a member, with retained benefits of £20,000 pa, who retires at age 65 having accrued benefits at the rate of $1/50^{th}$ of salary per year over his/her parliamentary career:

	Scenario 1	Scenario 2
Final Pensionable Salary	£60,000 pa	£60,000 pa
Pensionable service	30 years	30 years
Additional transfer-in service	nil	16⅔ years
Retained benefits	£20,000 pa	nil

In Scenario 1, the member chooses not to transfer his retained benefits into the PCPF.
At retirement, the PCPF pension = £60,000 x 30 / 50 = 36,000 pa,
restricted to the greater of:

- 2/3 x 60,000 – 20,000 = 20,000 pa, and
- 60,000 x 30 / 60 = £30,000 pa,

ie £30,000 pa.

So the total pension payable (including retained benefits) is £50,000 pa. The member will have paid contributions of 6% of salary over their parliamentary career.

In Scenario 2, the same member chose to transfer his retained benefits into the PCPF on joining. In exchange for this was a service credit of 16⅔ years (which results in the same pension at age 65 from the retained benefits, before allowing for pension limits and assuming the retained benefit increases in line with salary increases).
At retirement, the PCPF pension = £60,000 x (30 + 16⅔) / 50 = 56,000 pa,
restricted to the greater of:

- 2/3 x 60,000 = 40,000 pa, and
- 60,000 x min(40, 30 + 16⅔) / 60 = £40,000 pa,

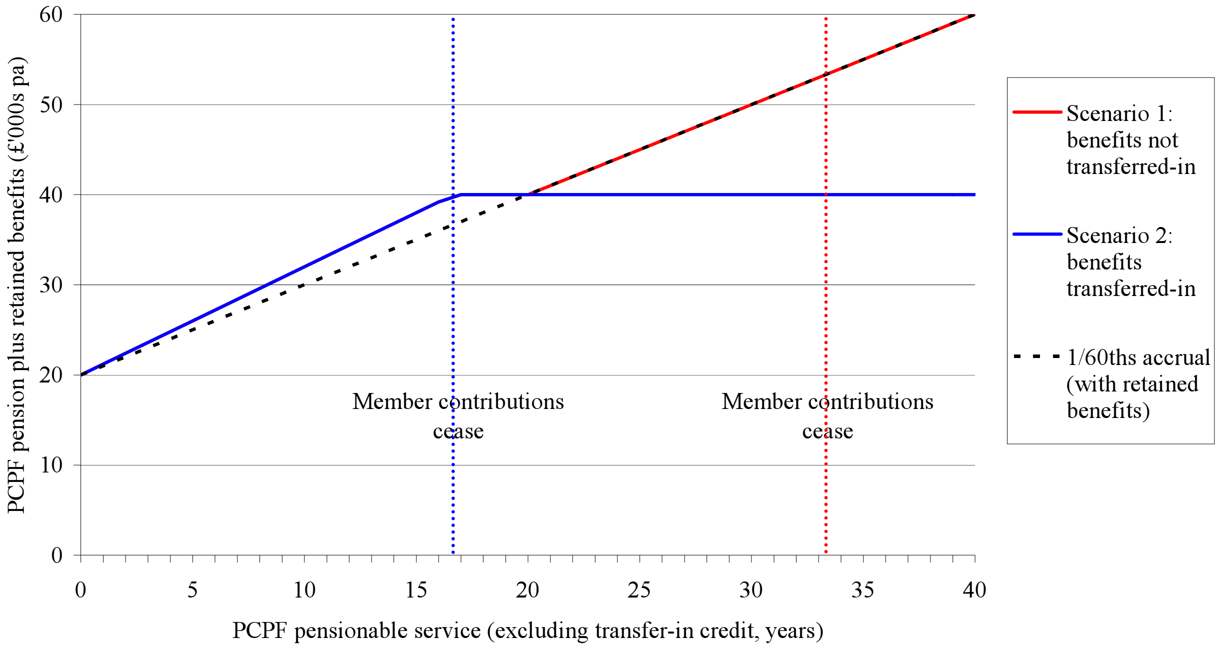
ie £40,000 pa.

So the total pension payable is £40,000 pa. The member will have paid contributions of 6% of salary for 26⅔ years, at which point the 2/3 of salary maximum will have been reached.

Therefore, the member receives a total pension £10,000 pa more under Scenario 1, where retained benefits are not transferred into the PCPF. The member ceases to pay contributions earlier under Scenario 2, where retained benefits are transferred into the PCPF.

However, the above example is only a snapshot of the effect of transferring-in retained benefits. What if the member left service at an earlier or later date? The following chart illustrates how the effect of transferring-in retained benefits varies with pensionable service at leaving. (For simplicity, accrued pension is expressed in real terms and salary increases and retained benefit increases are assumed to be in line with inflation.)

Chart D2 - The effect of transferring-in retained benefits



As can be seen from Chart D2, under Scenario 2, the member builds up pension at a uniform rate of 1/50th salary per year until year 16⅔, when the combined pension reaches the 2/3 of salary limit and contributions and pension ceases to build up. Under Scenario 1, the member has a period where no pension builds up (from 16⅔ years to 20 years) due to the 2/3 limit (during which member contributions are still being paid) and then a period where pension builds up at the rate of 1/60th salary per year when the 1/60th limit becomes greater than the 2/3 limit. Under this scenario, the member ceases to pay contributions at 33⅓ years once the 2/3 limit has been reached, but continues to build up pension after this until year 40, when the ultimate limit is reached.

In this example, the member received the same level of total benefit on leaving with less than 16⅔ year's service. However, if the member left service in the period 16⅔ years to 20 years, the member would have been better off transferring the retained benefits into the PCPF, as member contributions would cease after 16⅔ years. If the member left service after 20 years, he/she would receive a greater total pension if the retained benefits had not been transferred-in, as the member would be able to benefit from the 1/60th limit becoming greater than the 2/3 limit.

This illustrates that, when benefits are transferred-in to the PCPF, the member contribution limit and 2/3 limit are the same and so build up of pension and payment of member contributions are consistent. When benefits are not transferred-in to the PCPF, member contributions and build up of pension are inconsistent. The effect would be stronger if the member had paid for $1/40^{th}$ pension accrual over his/her career.

This also illustrates that, under the current rules, the decision of whether to transfer retained benefits into the PCPF can be a confusing and difficult one to take.

E Costing pension schemes

Costing defined benefit pension schemes

When costing a defined benefit we need to consider not just the level of that benefit but also when, and for how long, it is expected to be paid. This involves making assumptions about the probability of the timing of the payment of the benefits, the amount of each payment of that benefit and the rate of investment return.

In order to explain how we cost benefits, we illustrate the process below with three examples, beginning with the simplest type of benefit - a lump sum payable from a fixed age.

Example 1

Suppose, we want to calculate the difference in cost of providing lump sum of £1,000 and a lump sum of £1,100, both payable today. The difference in cost is clearly £100.

Example 2

Suppose, we want to calculate the difference in cost of providing a lump sum of £1,000 payable today and a lump sum of £1,100 payable in five years time. The difference in value is not readily apparent since the two benefits are payable at different times. In order to compare them, we need to estimate how money needs to be set aside at the current time to meet the benefits. How much is £1,100 in five years' time worth now? To calculate this, we need to make an assumption about the rate of investment return expected to be earned over the next five years on money set aside now.

Suppose we assume a rate of return of 10% per annum can be earned. Then in order to achieve a lump sum benefit of £1,100 in 5 years' time, we need to set aside £683 since in five years time this amount plus investment returns is expected to equal £1,100 in 5 years' time. Consequently the cost of providing this benefit is £683 under the assumption adopted. This is shown in Table E1 below.

Table E1

Year	Amount held at start of year	Investment return added over the year	Amount held at end of year
1	£683	£68	£751
2	£751	£75	£826
3	£826	£83	£909
4	£909	£91	£1,000
5	£1,000	£100	£1,100

Example 3

Suppose we want to calculate the difference in the cost of providing a lump sum of £1,000 in 20 years' time and a lump sum of £1,100 from a comparator pension scheme payable in 25 years' time. Suppose, in addition, that the lump sum amounts increase in line with price inflation between now and the date of payment. Furthermore, suppose that the lump sums are only payable if the individual concerned is still alive at the date of payment.

For this example we need to make three assumptions:

- the expected rate of return – suppose this is assumed to be 10% pa
- the expected rate of price inflation – suppose this is assumed to be 5% pa
- the likelihood that the individual will be alive in 20 or 25 years' time - suppose these are assumed to be 90% and 85% respectively

If the individual will definitely survive to the end of the 20 year period then at that time the benefit payable will be £2,653 (this is the £1,000 increased by 5% every year). Assuming investment returns of 10% a year means that the amount that would need to be invested if the benefit of £2,653 will definitely be payable is £394 (since this amount plus 10% every year will result in a lump sum of £2,653). However, there is only a 9 in 10 chance (90%) that the payment will be required and so investing 90% of £394 (i.e. £355) would be a sensible provision for the cost of providing this benefit under the investment return and benefit increase assumptions adopted.

Following the same argument for the second lump sum payable in 25 years time suggests that £292 would be a sensible provision for the cost of providing this second benefits.

The difference in cost is then £63, with the cost of the first lump sum being greater since it is more likely to be paid and there is also less time on which investment returns can be achieved in excess of the rate at which the benefit increases.

Pension Benefits

A pension benefit can be thought of as a series of lump sum benefits and to cost these we calculate the present value of each lump sum payable, making allowance for increases, the probability of each one being paid and the rate of investment return. The sum of the cost of providing these individual lump sums represents the cost of the pension.

Effect of member contributions

In many benefit arrangements the member will meet part of the cost of providing the benefit by paying member contributions that are invested. The balance of the cost is then paid by the employer, typically as an additional contribution invested alongside the member contribution.

Cost for members currently building up defined benefits

For the purpose of our report we have focussed on the cost to the sponsor of providing benefits currently building up to current MPs and Office Holders. In particular no allowance is made for benefits built up in the past to all members of the PCPF and the adequacy (or otherwise) of contributions paid in the past to meet those benefits.

By focussing on the cost of providing benefits currently building up to current MPs and Office Holders we need to allow for:

- The additional benefit building up over a future period. For this purpose we have taken the period to be the next year.
- Increases to the benefits in line with the member's salary whilst they remain in service
- Increases to the benefits in line with price inflation once the member has left service but they have not yet retired (in pensions jargon, they are deferred members)
- Increases to a pension once it comes into payment
- The likelihood that the member will live long enough to receive a pension and the length of time the member is expected to live once that benefit comes into payment
- The likelihood that benefits will be paid to dependants when the member dies and the length of time those benefits paid to dependants are expected to be paid (that is, how long dependants are expected to outlive the member).
- How any pension paid to dependants will increase once it comes into payment

The resulting cost is expressed as a percentage of salary net of member contributions. For example, in example 2 above if the member's salary is £10,000 and the member contributes 5% of pay to meet a benefit of £1,100 payable in 5 years time then the balance of cost for the employer is:

Monetary employer cost: £683 less 5% of £10,000 (i.e. £600 - £500 = £183)

Employer cost as a percentage of pay: £183 divided by £10,000 (i.e. 1.83% of pay)

We have valued the cost of the benefits payable only, and so have made no allowance for future administration expenses.

Cost of defined contribution benefits

As discussed in Section 3 of our report, a significant proportion of pension arrangements in the United Kingdom provide defined contribution benefits. Defined contribution schemes are likely to represent a growing proportion of the pension schemes offered by private sector comparator employers in the future.

The simplest interpretation of cost to an employer providing defined contribution benefits is contribution paid by that employer. In general this is the extent of an employer's obligation to providing the benefit since the accumulated pot of assets resulting from these contributions (and those made by employees) net of expenses is typically used to provide a lump sum at retirement which may be converted to a pension on non-guaranteed conversion terms.

We believe that in order to compare the benefits offered by a defined contribution arrangement against a defined benefit arrangement, the value of a defined contribution arrangement should be based around the employer contribution rate relevant at the age of the individual. This should, however, be adjusted (downwards) to reflect the terms under which members can purchase a pension with their accumulated pot ("annuity conversion terms"). These terms are generally offered on more expensive terms than the assumptions used in valuing the defined benefit alternative, mainly due to the profit margin and buffer against adverse experience used by companies offering to convert money purchase funds into pension. We have assumed that the annuities available to defined contribution members are priced in line with the assumptions which are mandated for use in the Statutory Money Purchase Illustrations provided to individuals with defined contribution benefits each year as this is a convenient measure on which to estimate future open market conversion terms.

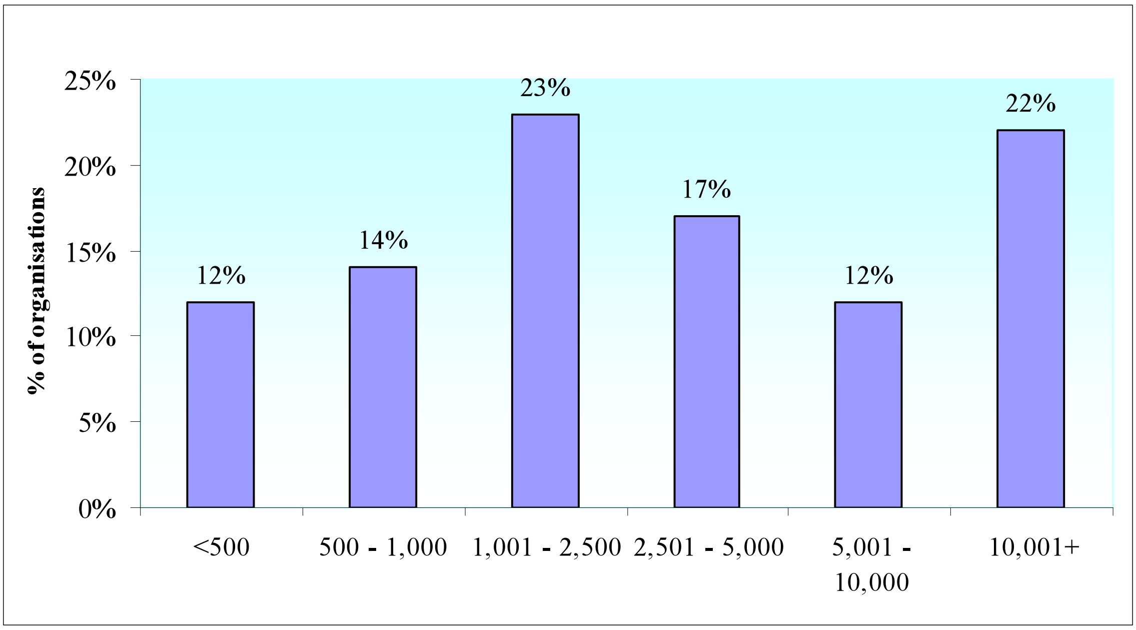
F Watson Wyatt plan design survey 2006 extract

Background to the Watson Wyatt pension plan design survey 2006

The information on private sector schemes presented in Section 3 of the report is based on the results of the Watson Wyatt pension plan design survey. The survey was carried out in January 2006 and was completed by 159 organisations.

The survey included 23 FTSE 100 companies which, when added to the number of other large organisations not listed in the London Stock Exchange, means that the sample tends to be biased towards larger employers compared with the UK as a whole (75% of respondents had more than 1,000 employees in the UK).

Chart F1



A wide range of organisations is included within the survey. The data identify more than 40 separate activities in which survey respondents were involved.

G Financial assumptions

In projecting the future level of benefit payments to be valued, the most significant financial assumptions concern the rate of earnings escalation and the rate of pension increases, both measured relative to price inflation.

A long-term investment return assumption is then needed in order to place a present value on the benefits to allow comparison between different schemes.

Financial assumptions used

The rate of price inflation

The Bank of England's inflation target for the Consumer Prices Index (CPI) is broadly consistent with RPI price inflation (the usual measure for setting pension increases) of around 2.75% per annum. However, market expectations for inflation, as measured by the spread between fixed interest and index linked gilt yields, have recently risen above this target and are now a little over 3% per annum.

Bearing in mind that this assumption itself does not have a major impact on the results (it is the gap between the inflation assumptions and the other financial elements which is more significant), we have adopted an assumption for retail price inflation of 3.0% per annum, in line with market expectations.

Real rate of pension increases

Pensions provided by the PCPF increase in line with the increase in RPI each year. For comparator schemes, the increase policy may differ from this. A similar practice is followed in the pension arrangements of the public sector employers identified as comparators, as described in Technical Appendix J. The pension increases applied in the private sector also include a mixture of:

- schemes providing increases in line with RPI up to a maximum of 5% each year
- schemes providing increases in line with RPI up to a maximum of 2.5% each year (only allowable since 6 April)
- schemes providing fixed increases or a minimum fixed increase (for example, 3% each year)

Where a maximum or minimum pension increase applies, the pension increase assumption should take into account both the level and the volatility of assumed inflation. For example, in the case where the pension increase is RPI up to a maximum of 2.5% each year, we would use a pension increase assumption of 2.25% per annum. This is because even with a long-term inflation assumption of 3% per annum, the inflation rate is volatile and there will be particular years when it falls below the 2.5% maximum.

Given the wide range of possible pension increases in the private sector, we have assumed that a "typical" private sector pension arrangement will provide pension increases of 2.75% per annum on average, which is 0.25% per annum below our assumed rate of RPI price inflation of 3% per annum. For public sector pension schemes we have assumed pension increases in line with our assumed rate of RPI price inflation.

Real rate of earnings escalation

The assumption regarding earnings escalation is most significant when comparing the value of the PCPF and other final salary schemes (which directly link the growth in benefits to salary) and defined contribution schemes (where the growth in benefits depends on investment returns).

We have based our real earnings growth assumption on that adopted by the Government Actuary for the most recent actuarial funding valuation of the PCPF as at 1 April 2005. The assumption adopted is therefore 1.5% per annum growth in earnings in excess of price inflation.

Future investment returns (the discount rate)

There is an argument for adopting a lower discount rate for public sector schemes (which have Government backing) compared to private sector schemes to reflect the different levels of security for members. This is particularly true of arrangements for which benefit payments are paid directly out of government expenditure rather being met from an invested fund held for this purpose (such as is the case for the PCPF).

We recommend that a single discount rate approach adopted. We believe that this is appropriate given the objective of the comparative valuation (to compare differences in benefit design rather than benefit vehicles) and the introduction of the Pension Protection Fund, which narrows (but does not remove) the difference in the risk attached to pension benefits in the private and public sectors.

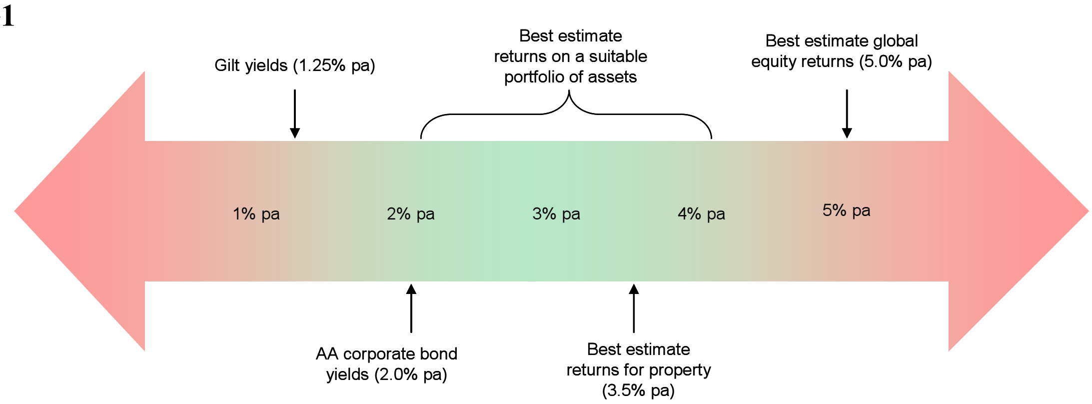
In relation to the rate of future investment returns to be assumed, there are a number of approaches we could take including:

- **By reference to accounting requirements** – this approach implies the use of a high quality corporate bond yield. Corporate bond yields have been volatile over the year to date, but were around 2% above inflation at the time of carrying out our calculations.
- **By reference to an investment strategy designed to match the liabilities to the extent possible** – this approach might suggest considering gilt returns, with an appropriate margin reflecting the term and specific nature of the liabilities. Gilt yields were around 1.25% above inflation at the time of carrying out our calculations.

- **By reference to the best estimate rate of return one might expect to achieve on a suitable portfolio of assets (which would include a combination of bonds, property and equity) were the scheme to invest over the long term to provide for the liabilities** – Watson Wyatt's Global Asset Model suggests that the median return over 10 years on a 50/50 mixture of overseas and UK equities might be around 5.0% per annum above inflation and the median return on property might be around 3.5% per annum above inflation at the time of carrying out our calculations.

Based on these options, the range of real discount rates (ie in excess of price inflation) which could possibly be justified for the valuation of the PCPF and comparator schemes is shown in Chart G1 below:

Chart G1



We believe, given that the cost of providing benefits on the PCPF scale is to be compared against the alternative provisions of comparator organisations' pension schemes, it is appropriate to base the investment return assumption on a best estimate of the long term return expected on a portfolio of assets that allows for investment in both return seeking assets (equities) and matching assets (bonds).

The results of the 1 April 2005 actuarial funding valuation indicated that around 60% of the PCPF's total liabilities were in respect of benefits built up to date by non-pensioners and 40% were in respect of the benefits built up (and therefore being paid) to pensioners. The approach we have taken is to assume that this split of liability will continue to be reflected in the long-term (i.e. that it is stable). We have further assumed that return seeking assets (equities) with a long-term rate of return of 5% per annum above price inflation will be held in respect of non-pensioners. We have assumed that matching assets (bonds) with a long-term rate of return of 1.25% per annum above price inflation will be held in respect of pensioners. This notional allocation means that we have calculated the cost assuming investment in a portfolio of equities and bonds that is expected to achieve a rate of return of 3.5% per annum in excess of price inflation (that is 6.6% per annum where price inflation is assumed to be 3% per annum).

Note that our notional portfolio used to determine the investment return assumption for costing the PCPF benefits is not the same as the asset benchmark decided upon by the Trustees of the PCPF. That benchmark has a higher allocation to return seeking assets (around 75%). Note that the approach we have adopted is not intended to indicate that we believe the actual asset allocation of the PCPF is in any way inappropriate.

Table G1 - Summary of recommended financial assumptions

Assumption	% per annum	
	Absolute	Real
Rate of price inflation	3.0	-
Rate of return on investments	6.6	3.5
Rate of salary increases	4.5	1.5
Rate of pension increases	3.0	0.0
- public sector	3.0	0.0
- private sector	2.75	(0.25)

H Demographic assumptions

Our starting point for the demographic (or statistical) assumptions has been the assumptions adopted by the Government Actuary for the 1 April 2005 funding valuation of the PCPF.

The key assumptions which need to be set are the rates of:

- withdrawal from service
- retirement on incapacity grounds
- retirement with immediate pension in normal health
- death in service

Other assumptions required to place a value on benefits are:

- mortality rates for members and spouses who have left with preserved pension
- mortality rates for members and spouses who have retired in normal health
- mortality rates for members and spouses who have retired on incapacity grounds
- proportions married
- age differences between husbands and wives

Rates of exit from service

We were provided with details of the assumptions adopted by the Government Actuary for the 1 April 2005 funding valuation of the PCPF. These were:

- That an election would occur every four years
- At an election, 20% of members who are under age 63 will leave parliament
- At an election, 80% of members who are age 63 or more will leave parliament

We have adopted a similar assumption in our valuation of both the PCPF and other defined benefit pension arrangements. Ignoring other possible ways of leaving service, this results in members being expected to remain in service for the following periods:

Table H1 - Age at which members are expected to leave parliament

Current age	Age at which expected to leave service
30	47
40	55
45	59
50	62
55	63
60	65
65	70

As members are expected to serve in parliament for a minimum term of 4 years (under the assumption about election frequency) all members would leave parliament with either a deferred pension or an immediate pension.

For the purpose of this exercise we have assumed that members will leave parliament with a deferred pension if they are younger than the earliest age at which they could receive an immediate unreduced pension. Otherwise they are assumed to leave with an immediate pension. This assumption effectively assumes that any early retirement reduction applied on early retirement before that age would be of equal value to the corresponding deferred pension.

In addition, we have allowed for the possibility that members die whilst being a member of parliament (or an office holder in the House of Lords). We have not been provided with statistical information in order to analyse the most appropriate mortality table for this purpose and, also, we believe that such an analysis might be distorted by the relatively small number of active members in the Scheme. Instead, we have adopted a mortality table typically used for private sector funding valuations. The same assumption has been used for members who die after leaving service with a deferred pension but before retirement.

Finally, we have not allowed for the possibility that members will leave parliament on grounds of ill health.

Marital statistics

We have assumed that 80% of members who die at normal pension age will leave behind dependants to whom pension benefits are payable. Where a pension is payable, the member is assumed to be 3 years older than their partner.

Age at entry

An assumption is made in order to determine at what age members of certain arrangements reach certain "trigger points" (for example, the earliest age at which members can retire early without reduction or the age at which the rate at which benefits build up changes). This has been based upon the average length of service of members to the current time, as summarised in Technical Appendix B.

Rates of retirement mortality

We have adopted retirement mortality tables that are consistent with those adopted by the Government Actuary for the 1 April 2005 funding valuation. An approach consistent with the funding valuation has also been used when allowing for future improvements in mortality. We have assumed that mortality rates will improve in line with the model implied by the "92" series (without allowance for cohort effects) published by the actuarial profession in Continuous Mortality Investigation Report 17. The effect of these improvements on male and female longevity (based on the assumptions we have adopted) is shown in Table H2 below.

Table H2 - Life expectancy of pensioners

	Assumed life expectancy (years)			
Age	Current		In 20 years time	
	Males	Females	Males	Females
25	61.0	64.0		
30	55.8	58.8		
35	50.6	53.6		
40	45.4	48.4	46.3	49.3
45	40.1	43.1	41.2	44.1
50	34.9	37.9	36.0	39.0
55	29.7	32.7	30.9	33.9
60	24.5	27.6	25.9	28.9
65	19.7	22.7	21.0	24.0

I Cost of PCPF

Table I1 below details the cost of the PCPF benefits for MPs under the assumptions described in Technical Appendices G and H. These costs were shown in Section 4 of our report. The highlighted row at age 54 represent the median age of the active membership of the PCPF based upon the membership profile summarised in Technical Appendix B.

Table I1 - Cost of PCPF benefit as a percentage of pensionable pay

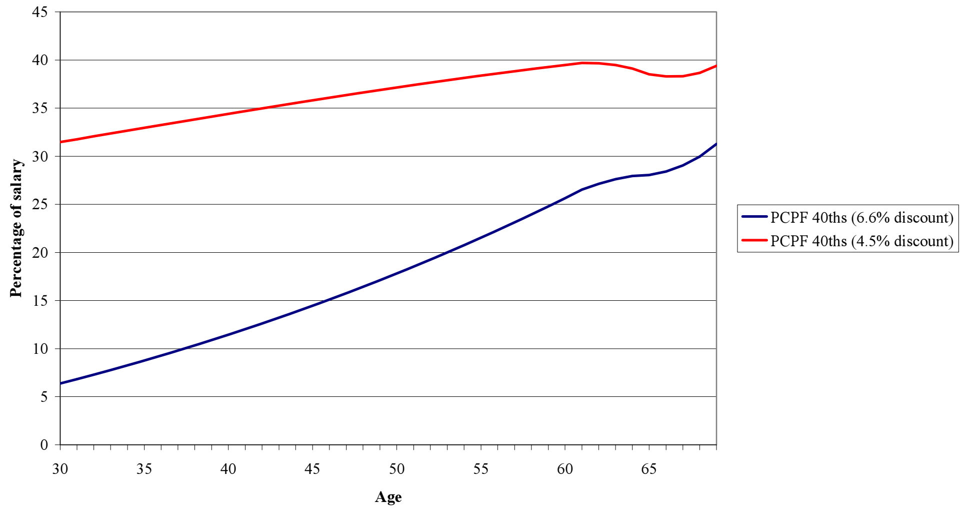
Age	Cost of PCPF benefit as a percentage of pensionable salary		
	40th accrual	50th accrual	60th accrual
30	7	7	5
35	9	9	7
40	12	12	9
45	15	14	11
50	19	17	14
54	**22**	**20**	**16**
55	22	20	16
60	26	23	19
65	28	26	21
69	31	29	25

Sensitivity of cost

The above costs are sensitive to the assumptions adopted. Chart 5.2 in Section 5 highlighted the sensitivity to the assumed career path of MPs. The results are also sensitive to the financial assumptions adopted meaning that it is possible for different commentators to estimate a different cost for the same benefits depending on the view that they take of the future.

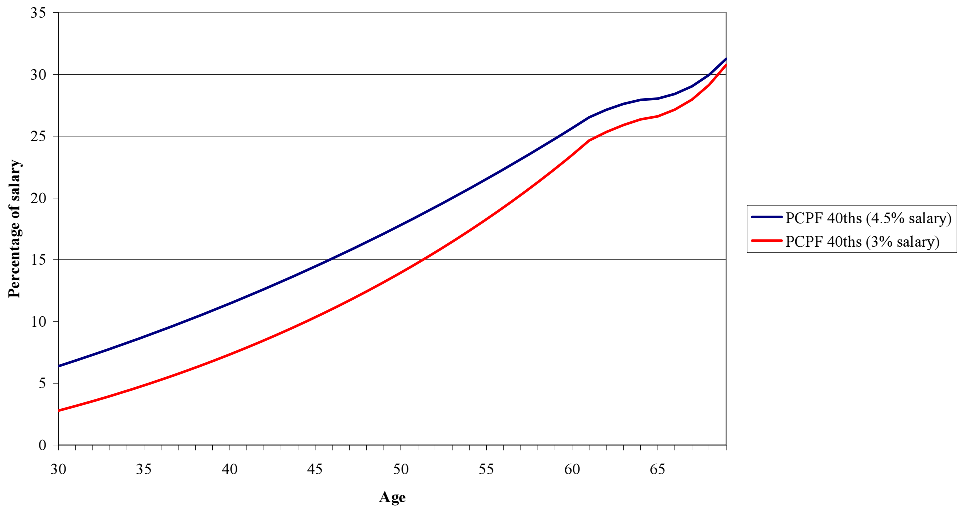
For example Chart I1 below illustrates the sensitivity of the costs that we have calculated to the assumption about the returns that will be achieved on assets in the future. For this purpose we have considered a return of 4.5% per annum which is the same as the salary increase assumption used. It is coincidently just above our best estimate of the investment return that would be achieved on a portfolio of UK government bonds. For simplicity we have considered the benefits that will be provided from 1 April 2009 (that is assumed the earliest age at which a member can receive an immediate unreduced pension on leaving parliament is 65) and where the member is building up benefits based upon an accrual rate of 40th.

Chart I1 - Sensitivity to investment return assumption



Similarly there is a sensitivity to the salary increase assumption used. Chart I2 below illustrates this sensitivity assuming that future salary increases are awarded in line with price inflation (i.e. 3% per annum) rather than at 4.5% per annum as described in Technical Appendix G.

Chart I2 - Sensitivity to salary increase assumption



J Summary of public sector comparator arrangements

The tables in this appendix are summaries of the key features of the benefits payable from the defined benefit pension arrangements of the six public sector employers identified by PwC as comparators for members of the PCPF. The costs of the public sector defined benefit schemes set out in Section 4 and Technical Appendix L have been based upon the benefits as summarised in this Appendix.

The benefits summarised are those which:

- are applicable for a member who joined the public sector scheme at the time of the last general election (May 2005)
- members would have been entitled to for service over the next year
- are applicable for the grade of employee identified by PwC (for example we have summarised the benefits payable to a Colonel for the Armed Forces, and a Chief Superintendent for the Police)
- we understand are applicable for the majority of such members.

The summaries are intended to provide a comparison of the key features of the pension schemes, and are not intended to describe all benefits payable from the schemes under all scenarios.

Table J1

Scheme	Armed Forces Pension Scheme	Principal Civil Service Pension Scheme (Premium)
Benefits for	**Officers who joined before 6 April 2005**	**All members**
Earliest point at which member can retire without reduction to pension	On retirement from active service, the earlier of age 55 and when the member has 16 years of service. On retirement after withdrawal from service, age 65.	Age 60.
Final pensionable salary (FPS)	Rate of pay determined by rank.	Usually the last 12 months of basic salary and some other specified elements of pay.
Rate of accrual of member's benefits	On retirement from active service, a pension of 28.5% of FPS accrued uniformly over the first 16 years of service, increasing uniformly to 48.5% of pay over 34 years of service. Plus a lump sum of 3 times pension. On retirement after withdrawal from service, a pension of 1.455% of pay for each year of service up to 34 years, plus a lump sum of 3 times pension.	A pension of $1/60^{th}$ of FPS for each year of service.
Spouse's benefits on death in service	(On death not due to service), a pension of half of the member's pension, usually with some additional service, plus a lump sum of 3 times FPS.	A pension of 3/8 times the member's pension (often with enhanced service), plus a lump sum of 3 times pay.
Spouse's benefits on death after retirement	Half of the member's pension.	A pension of 3/8 times the member's pension, plus, on death within 5 years of retirement, the remainder of the member's first 5 years of pension.
Increases to pensions in payment	Price inflation from age 55. No increases are awarded before age 55, but on reaching 55 the pension is increased with price inflation since retirement.	Price inflation.
Member contributions	Nil	3.5% of pay.

Table J2

Scheme	Local Government Pension Scheme	NHS Pension Scheme
Benefits for	**All members**	**Members other than manual workers**
Earliest point at which member can retire without reduction to pension	Age 65, or, on retirement from active service, the earliest point at which age is at least 60 and age plus service is at least 85.	Age 60.
Final pensionable salary (FPS)	Usually the last 12 months of basic salary and some other specified elements of pay.	Usually the last 12 months of basic salary and some other specified elements of pay.
Rate of accrual of member's benefits	A pension of $1/80^{th}$ of FPS for each year of service, plus a lump sum of 3 times pension.	A pension of $1/80^{th}$ of FPS for each year of service, plus a lump sum of 3 times pension.
Spouse's benefits on death in service	A pension of half the member's pension (often with enhanced service), plus a lump sum of 2 times pay.	A pension of half the member's pension (often with enhanced service), plus a lump sum of 2 times pay.
Spouse's benefits on death after retirement	A pension of half the member's pension, plus, on death within 5 years of retirement, the remainder of the member's first 5 years of pension.	A pension of half the member's pension, plus, on death within 5 years of retirement, the remainder of the member's first 5 years of pension.
Increases to pensions in payment	Price inflation.	Price inflation.
Member contributions	6.0% of pay.	6.0% of pay.

Table J3

Scheme	The Police Pension Scheme 1987	Teachers' Pension Scheme
Benefits for	**Officer ranking above Chief Inspector, who joined before 6 April 2006**	**Pre-1 January 2007 joiner**
Earliest point at which member can retire without reduction to pension	Age 60.	Age 60.
Final pensionable salary (FPS)	Usually the last 12 months of basic salary and some other specified elements of pay.	Usually the last 12 months of basic salary and some other specified elements of pay.
Rate of accrual of member's benefits	On retirement from active service, a pension of $1/60^{th}$ of FPS for each year of service up to 20 years, plus $1/30^{th}$ of FPS for each year of service from 20 to 30 years. On retirement after withdrawal from service, a pension based on service to 65, pro-rated to allow for actual service.	A pension of $1/80^{th}$ of FPS for each year of service, plus a lump sum of 3 times pension.
Spouse's benefits on death in service	A pension of half the member's pension plus a lump sum of 2 times pay.	A pension of half the member's pension plus a lump sum of 3 times pay.
Spouse's benefits on death after retirement	A pension of half the member's pension.	A pension of half the member's pension, plus, on death within 5 years of retirement, the remainder of the member's first 5 years of pension.
Increases to pensions in payment	Price inflation from age 55.	Price inflation.
Member contributions	11.0% of pay.	6.4% of pay.

K Changes to public sector arrangements

A number of changes to the public sector defined benefit pension arrangements summarised in Technical Appendix J have been proposed and have either been implemented or are proposed to be implemented in the next year or so. The changes to civil service, local government, teacher and NHS arrangements are shown in Table K1 below.

Table K1

	Civil Service	**Local Government Pension Scheme**	**Teachers' Pension Scheme**	**NHS Pension Scheme**
Who will be affected	New members only	All members	All members	All members
Proposed timing for changes	From July 2007	From April 2008	From 1 January 2007	From 1 January 2008
Normal retirement age	Increased from 60 to 65.	Remains at 65, but the "rule of 85" (allowing an unreduced benefit when the sum of age and service equals 85) will be removed for service from April 2008	Increased from age 60 to age 65 for new members	Increased from age 60 to age 65 for new members
Accrual of benefits	New members will enter a career average arrangement with an accrual rate of 2.3%, revalued in line with prices.	Changed to 1/60th of final salary. Pension may be given up in exchange for a lump sum. (currently the accrual rate is 1/80th of final salary plus a 3/80th lump sum).	Changed to 1/60th of final salary for new members. Pension may be given up in exchange for a lump sum at an exchange rate of £12 per £1 pa of pension. Existing members continue with an accrual rate of 1/80th of final salary plus a 3/80th lump sum.	Changed to 1/60th of final salary for new members. Pension may be given up in exchange for a lump sum at an exchange rate of £12 per £1 pa of pension. Existing members continue with an accrual rate of 1/80th of final salary plus a 3/80th lump sum.

	Civil servants (changes apply to new members only)	Local Government Pension Scheme	Teachers' Pension Scheme	NHS Pension Scheme
Member contributions	Cost sharing has been proposed for the future (see below). New entrants will pay 3.5% contributions.	Introduction of a tiered contribution rate of 5.5% on earnings up to £12,000 and 7.5% for earnings above £12,000 (overall average is expected to rise by ½%).	Increase from 6% to 6.4%.	Introduction of a tiered contribution rate from 5% on earnings up to £15,107 rising to 8.5% for earnings above £100,000.
Cost sharing between the employer and members	Changes in the cost of providing benefits are to be shared on a 50:50 basis. The intention is to limit the employer's contribution rate to no more than 20% of pay on average – if it rises, further benefits changes may be considered (post 2012).		The 2008 Actuarial Valuation will include, for the first time, a ceiling on employer contributions of 14% of pay, with an equal division between members and employers of any cost increases that may result from future valuations.	Employer contributions are to be capped at just above 14% of pay. If increases are required above that (and the increases result from factors other than changes in financial assumptions), then the cost will be shared with members.
Other changes	The arrangements for existing civil servants may be amended to permit some of the flexibilities that are now available, such as the facility for paying higher lump sums on retirement.	Lump sum death benefit is increased from 2 to 3 times salary. Flexible retirement options to be extended.	Lump sum death benefit is increased from 2 to 3 times salary. Flexible retirement options to be introduced. Spouses' pensions will be payable to 'partners' in respect of service from 2007 and survivors' pensions will no longer cease on remarriage	Spouses' pensions will be payable to 'partners' (backdated to service from 1988). Survivors' pensions will no longer cease on remarriage. Flexible retirement options to be introduced.

Armed Forces

New arrangements were introduced for armed forces personnel who entered service on or after 6 April 2005. These new arrangements simplify the way in which benefits build up whilst a member remains in service. The main differences compared to the previous arrangements are:

- Rather than having an accelerated rate of benefit accrual up to age at which the member has 16 years service, a member builds up pension at the rate of 1/70th of pensionable pay (and a lump sum is payable of 3 times this pension).
- Deferred pensions build up at the same rate as retirement pensions.
- The definition of dependant is wider and the proportion of pension paid to dependants on death of a member is higher.
- The lump sum on death in service (not due to service in the armed forces) is 4 times pay.
- Armed forces personnel in the new arrangements can receive an income and separate lump sum on leaving service after age 40 provided they have 18 years service. However, the income is initially at a lower level and is provided from a separate arrangement (the Early Departure Payment Scheme). This income stops at age 65, at which age a deferred pension comes into payment from the pension scheme.

Police

The Government laid legislation before parliament on 21 December 2006 to introduce the 2006 Police Pension Scheme (NPPS). This arrangement applies to all new police entrants from 6 April 2006. The main changes compared to the previous pension arrangements for police are:

- member contributions are 9.5% of pay
- benefits build up at the rate of 1/70th of pay for each year of service. In particular there is no accelerated accrual rate after 20 years service
- A fixed lump sum of 4 times the pension is provided at retirement
- Only service up to 35 years is pensionable so the maximum pension is 50% of pay
- Members can retire from service with a pension and lump sum from age 55
- Members leaving service before age 55 become entitled to a deferred pension payable from age 65
- On death in service dependants receive a lump sum of 3 times pay

L Cost of comparator arrangements

Public sector arrangements

Charts L1 and L2 compares the cost of the benefit arrangements of public sector employers when applied to the profile of the PCPF in Technical Appendix B. These comparators were identified by PwC in their review of Parliamentary pay and allowances. The costs have been determined using the assumptions detailed in Technical Appendices G and H. No allowance has been made for the effect of maximum benefits (including the impact of retained benefits) or the effect of any earnings cap.

Chart L1 - Comparative costs of local government, teacher and civil service benefit arrangements applied to MPs

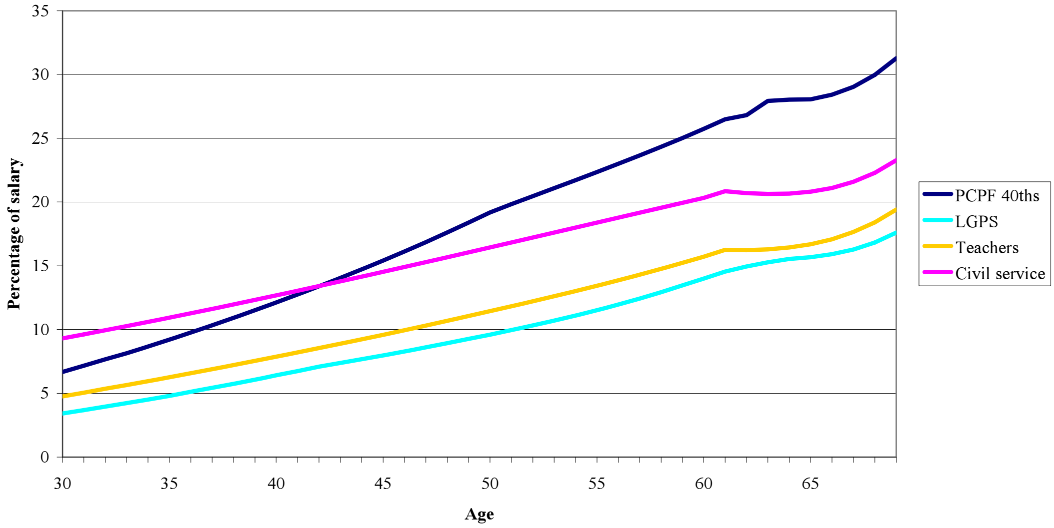


Chart L2 - Comparative costs of armed forces, police and NHS benefit arrangements applied to MPs

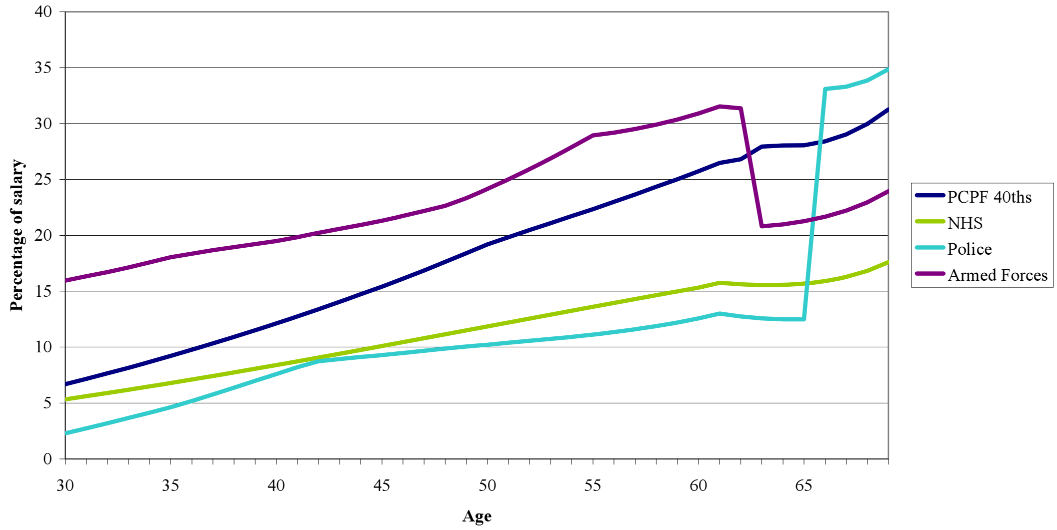


Table L1 below summarises the cost as a percentage of salary at various sample ages (including 54, the median PCPF active member's age):

Table L1

Age	PCPF 40th	Local government	NHS	Teachers	Police	Armed Forces	Civil service
30	7	3	5	5	2	16	9
35	9	5	7	6	5	18	11
45	15	8	10	10	9	21	15
54	**22**	**11**	**13**	**13**	**11**	**28**	**18**
55	22	11	14	13	11	29	18
65	28	16	16	17	13	21	21

A brief commentary on specific features of Charts L1 and L2 follows.

Armed Forces

Members of the pension arrangements provided to the Armed Forces are not required to pay contributions. However both actual salary and the salary on which pension benefits are based take into account the cost of Armed Forces pensions compared to those paid under the benefit arrangements of organisations considered comparable to the Armed Forces.

The cost of applying the Armed Forces benefit arrangements to MPs shows a sudden decrease at around age 61. This is due to the change in accrual rate from around 56^{th} to 90^{th} once members' service is equal to 16 years (the so-called "Immediate Pension Point"). Based upon the information provided to us members at around 61 years of age would already have that length of service and so the benefit they build up over the next year would be based on the lower accrual rate. It should be noted that this "step" in accrual rate is specific to the Armed Forces and reflects the characteristic manning requirements of the Armed Forces. As an aside deferred pension build up uniformly across a members' career based upon an accrual rate of around 70^{th}.

As explained in Technical Appendix K, new arrangements were put in place for members of the Armed Forces who joined on or after 6 April 2005.

The costs shown in Section 4 of our report do not allow for the cost of benefits provided on death attributable to service in the Armed Forces. These benefits are specific to the Armed Forces and so we do not consider they are appropriate for application to MPs.

Police

The observation that the benefits provided to police have the lowest cost of the public sector arrangements might be surprising based upon general impressions about that arrangement. This low cost is due to the specific structure of the police pension arrangement and how it interacts with the method that we have used to calculate cost.

For police, pension builds up at the rate of 60^{th} of pay for the first 20 years of service and then builds up at the rate of 30^{th} of pay for the next 10 years of service. Our method calculates the cost (net of member contributions) of putting in place assets to meet the benefits arising from the next year of service. Based upon the service profile summarised in Technical Appendix B this means that most MPs are not expected to benefit from the higher rate of accrual until around age 65, which explains the significant increase in the cost at that age in Chart L2. As for Armed Forces members, this stepped accrual rate reflects the retention requirements of police authorities.

The low cost for the police arrangements applied to MPs then reflects the fact that members would be contributing 11% to receive a benefit building up at the rate of 60th of pay (which is the same as, for example, civil servants for which civil servants pay 3.5% of pay).

It is perhaps also worth noting that we do not consider incapacity benefits in placing a cost on alternative benefit arrangements when applied to MPs. This was in anticipation of the rates of incapacity being low for MPs. This is an example of where specific features of individual workforces can influence cost, since traditionally the incapacity benefits provided to police have been portrayed in the media as being costly.

Civil service

We have based our cost of applying civil service benefit arrangements to MPs on the "Premium" pension arrangement. This essentially provides a pension from age 60 based upon an accrual rate of 60^{th}, for which members currently pay 3.5% of pay. This is the lowest rate of member contributions of the public sector organisations identified as comparators by PwC.

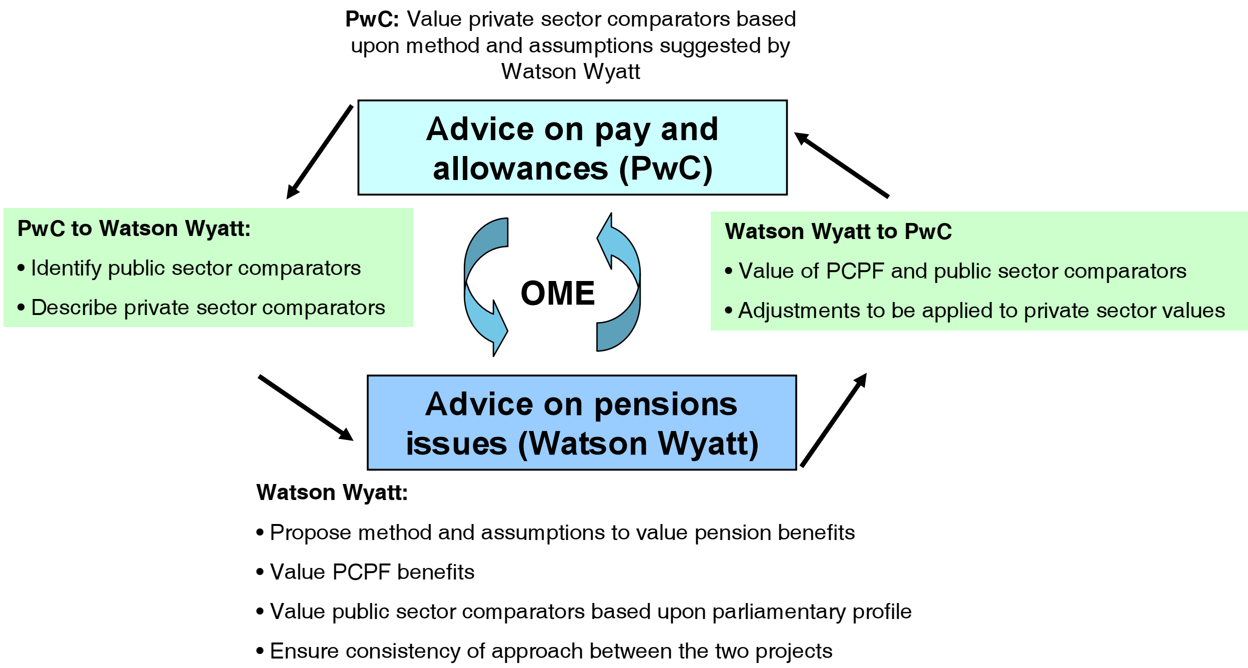
A defined contribution arrangement (the "Partnership" scheme) is also offered to civil servants. Of the public sector comparators identified this is the only defined contribution arrangement and in Section 4 of our report we quoted the cost of this arrangement in respect of an average MP would be 13% of pay. This reflects an employer contribution of 12.5% for an MP of median age 54 and assumes that members will pay 3% of pay for which the employer pays a matching 3% of pay. Consequently, for an average MP, the employer contribution is 15.5% of pay, which is then adjusted for annuity conversion terms (as explained in Technical Appendix E to be 13% of pay in order that it can be compared to defined benefit arrangements.

Other public sector arrangements

The cost of all of the other benefit arrangements of public sector employers identified as comparators has been based on the arrangements in place for long serving members. Typically this means that they receive a pension based upon an accrual rate of 80th and a separate lump sum at retirement equal to 3 times the annual pension paid. These benefits are paid without reduction from age 60 in the NHS and teacher arrangements but typically at a later age (but before age 65) for local government employees. As noted in Section 3 of our report and Technical Appendix K these arrangements are changing so that only a pension is provided (albeit members will have the option to give up some pension for a cash sum). We have done some simple calculations which suggest that the cost of these new arrangements when applied to MPs would be similar (albeit not identical) to those shown in Charts L1 and L2.

Private Sector arrangements

As described in the main report we have worked closely with the consultants providing advice to the SSRB in relation to pay and allowances. The purpose of this liaison was to allow the SSRB to take into account the cost of pensions when considering the total remuneration of MPs in relation to the roles PwC have identified as comparable to MPs in the private and public sector. The diagram below illustrates how this was done.



The arrows in the above diagram show the direction in which information was provided. The role of the OME in this regard was to facilitate liaison between us and PwC. As discussed in our main report, the role of PwC regarding the pension analysis was essentially to identify private and public sector comparator organisations. Using the method and assumptions described in these technical appendices, we calculated the cost of the pension arrangements of the public sector comparators based on the parliamentary profile. For private sector arrangements it was agreed that PwC would calculate the cost of pension arrangements of the private sector comparators based on the parliamentary profile. This approach was adopted to maintain the confidentiality of subscribers to PwC's database. To ensure the advice provided to the SSRB is consistent, we provided guidance to PwC so that they could calculate the cost of the pension arrangements of the private sector comparators in a manner consistent with that applied to the PCPF and the public sector arrangements.

From discussions with PwC we understand that their calculations allowed for the rate at which members in the private sector arrangements build up benefits and the contributions paid by those members. We also understand that the calculations assumed:

- All members would retire at age 60.
- All members would remain in service from the current time to retirement.
- The expected return on assets would be 4.5% per annum, which was the same level as the assumed rate of salary growth.
- Price inflation would be 2.5% per annum.
- Pension increases would be the same as price inflation.

The above approach to costing pension benefits, while not invalid, would have been inconsistent with the approach we adopted for public sector arrangements. Consequently we provided adjustment factors to PwC to ensure consistency with the method and assumptions explained in Technical Appendices E, G and H. In particular, we allowed for:

- Members to leave service and to die in line with the assumptions explained in Technical Appendix H.
- Financial assumptions to be in line with those in Technical Appendix G.

In addition the adjustment factors we provided to PwC allowed for:

- Members having the right to retire with an unreduced pension at an average age of 63 rather than age 60.
- For benefits to be paid on death in service. For this purpose we assumed that dependants were provided with a pension that included additional service (50% of potential service to age 63, subject to a maximum overall benefit of 1/3rd of pay) and a lump sum of 3 times pay.
- Pension increases in the private sector typically being subject to a maximum limit rather than being fully linked to price inflation as is generally the case for the public sector.

These private sector scheme features were based upon Watson Wyatt's pension plan design survey and our understanding of the types of private sector organisations in which roles were considered comparable with MPs.

The consequence of taking account of these differences in methodology and assumptions was to reduce the costs of the private sector arrangements that were calculated by PwC under their original methodology and assumptions. In particular, we provided PwC with an adjustment factor of 51.3% to apply to the cost they calculated, before deduction of member contributions, in respect of an MP of median age 54. To this adjusted amount was added 1% of pensionable pay to allow for a lump sum on death in service.

We have reviewed the figures calculated by PwC following application of the adjustment factors provided. For this purpose PwC indicated that the average accrual rate for the defined benefit comparator was around $1/50^{th}$ of pay and that member contributions were 6.3% of pay. On this understanding we believe that the costs they calculated in respect of defined benefit private sector arrangements applied to a median MP age 54 (shown in Section 4 of our report) are in a range we considered reasonable and consistent with those we calculated for the public sector arrangements.

Also, based upon our general understanding of the defined contribution arrangements offered to employees of such organisations, we also believe that the costs PwC calculated in respect of defined contribution private sectors arrangements applied to a MP age 54 also fall into a range we consider reasonable.

It should be noted, however, that we have not been provided with details of PwC's calculations or details of the pension arrangements considered in their calculations. Consequently, based on this limited information, we can only provide a broad indication of the reasonableness of the costs they calculated.

\\Wwp\data\Benefits Data Reigate CH\PENC\OME\SSRB Parlimentary Pension Scheme\SSRB Review of Parlimentary Pension Scheme 2007 - Appendices - amended.doc

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5652265 12/07

Printed on Paper containing 75% recycled fibre content minimum.

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

TSO Shops
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-172702-0

9 780101 727020