

# **Assurance Review: Subletting**

Analysis of expenditure and compliance





## **Independent Parliamentary Standards Authority**

### **Assurance Review: Subletting**

Analysis of expenditure and compliance

May 2019

## **Contents**

Introduction.....	4
Background.....	4
Current rules and processes.....	4
Findings.....	6
Recommendations.....	8
Conclusion.....	8
Appendix 1: Methodology.....	9
Appendix 2: Questionnaire.....	10

## Introduction

1. This report sets out the findings of IPSA's review into the arrangements that some MPs have in place to sublet their IPSA-funded offices to third parties.
2. IPSA's Scheme of MPs' Business Costs and Expenses states that, where an MP allows any other person to use their constituency office, they must charge a fee which reflects an appropriate proportion of the rent and other costs incurred, and that this fee must be paid to IPSA.
3. This review examined all subletting income received by current MPs (in office as at May 2018) between May 2015 and November 2017.
4. By 'subletting' we mean any arrangement by which an MP allows use of their office on a regular or fixed-term basis, for which the associated costs are paid to the MP or IPSA by the third party and not to the landlord. We do not consider subletting to be use of the office for party political work during an election or referendum, or use of the office by a third party on an occasional or one-off basis, although a proportionate sum must also be repaid to IPSA for the use of an MP's office in these circumstances.

## Background

5. During our review of 2017 General Election costs, we noted that one MP, on behalf of whom IPSA paid a large sum to end an office rental contact early, had been subletting to three other office holders. This meant that higher rental costs were incurred by the MP and paid for by IPSA than would have been expected if the MP's subletting arrangements had been taken into consideration.
6. More generally, we recognise that there is a risk that without proper checks in place, MPs may allow a third party to use their IPSA-funded office without making any repayments. IPSA relies on MPs to inform us about their arrangements and calculate the appropriate fee charged to the third party. It is the responsibility of the MP to ensure the repayment is fair and reflective of use.
7. IPSA therefore decided to conduct an assurance review into MPs' subletting arrangements more broadly in support of our aim to assure the public that MPs' use of taxpayers' money is well regulated.

## Current rules and processes

8. The Scheme of MPs' Business Costs and Expenses requires MPs to charge an appropriate fee for subletting and to repay that amount to IPSA. Apart from the wording of the Scheme, there is no formal written guidance available to MPs who wish to sublet their IPSA-funded office. MPs are expected to determine for themselves the appropriate proportion of rent and other costs to charge. No formal evaluation of the space is required.
9. There is therefore a risk that the MP's publicly funded office space may be sublet at a rate less than the market value. In cases where the MP is subletting to their local political party, this could result in IPSA indirectly funding party-political activity. This is against the rules for MPs who wish to rent office space from political party organisations. Paragraph 6.20 of the Scheme states:

*Where the constituency office is to be rented from a political party or constituency association:*

- a. the MP must provide a valuation of the market rate for the contract prepared by a valuer regulated by the Royal Institution of Chartered Surveyors;*
  - b. the valuation should be clear about the evidence upon which the market rate should be based; and*
  - c. the rent must not exceed the market rate.*
10. There is no formal process for an MP to register with IPSA that they are subletting their office, although where MPs have told us that they wish to sublet, this is sometimes recorded. As a result, there is currently little oversight of how many MPs are subletting their IPSA-funded office or whether these arrangements are in keeping with the requirements of the Scheme.
11. When MPs make a repayment to IPSA, they must complete a repayment form giving a reason for the repayment. When this has been received, IPSA puts the repayment amount against the correct budget, based on the MP's description of the purpose of the repayment. However, as this process depends on the information provided by the MP, it is possible for repayments to be wrongly classified if the information is unclear in any way.

## Findings

12. Between January 2012 and November 2017, IPSA received approximately £145,000 in repayments under the expense type "Constituency Office Rental Income." Approximately 55 percent of these were not subletting-related repayments, with most relating instead to repayments made for the use of IPSA-funded offices or equipment for campaigning purposes during a General Election. IPSA should address these inconsistencies in the way that repayments are recorded through clearer processes and guidance to MPs.
13. IPSA does not currently have a clear process to allow an MP to register the subletting of their IPSA-funded office. Although many MPs contact IPSA to ask for guidance on subletting repayments, the information available on these arrangements is inconsistent.
14. Out of the 33 MPs who were contacted, the review identified subletting arrangements for 25 MPs. Of these, 23 had arrangements directly with the local party or a party association. One was with an office holder of the same party, and another was with the staff member of an MP who owns a company that provides professional services to MPs. Of the arrangements identified, 21 were still in place at the time this report was written.
15. Responses received from seven further MPs clarified that no repayments made related to subletting. Their repayments, totalling £1,150, had therefore been misclassified by IPSA as these payments related to other costs. Another MP shares their office with the local party, who make additional payments for any use of the office over their agreed share. IPSA does not consider this a subletting arrangement because the payments are ad hoc, rather than an ongoing arrangement.
16. It was not possible to evaluate how many MPs include a proportion of utilities in the amount repaid for subletting. In several cases, MPs provided explicit information about the proportion of utilities included. In other cases, the MP does not provide adequate context regarding the proportion repaid. IPSA needs to address this in its guidance and checks following repayments. There is a risk that, without an independent calculation, an MP allowing party political use of their IPSA-funded office could indirectly subsidise the rental costs of their political party, contrary to the rules of the Scheme.
17. There is currently no process to ensure that MPs make subletting repayments in a timely manner. Some MPs make repayments for use of the office in advance of the use by the third party; others make these repayments in arrears.
18. One MP who was subletting to their local party sought advice from IPSA on how to make repayments. However, the MP never formally told IPSA that the subletting had started and did not make any repayments to IPSA for the first 14 months of the subletting arrangement.
19. As a result of this review, IPSA took action to clarify claims and recover sums to the taxpayer. Seven MPs were contacted regarding inconsistencies in their repayments, such as overall repayments that appeared too low or repayments of widely varying amounts. As a result:
  - Two MPs clarified that repayments previously thought to have been missed had in fact been sent to IPSA. IPSA had inadvertently misclassified these repayments as General Election repayments.
  - Five MPs confirmed that repayments had been missed in error and repaid £5,100 to IPSA.

20. In one instance, IPSA had provided advice to an MP that deviated from that usually given. As a result, the subtenant made a repayment to IPSA that took into account all office costs, rather than just rent and utilities, which is not strictly required by the Scheme.
21. In the instance where an MP was subletting their office to a full-time staff member, the staff member was also the major shareholder<sup>1</sup> in a business that many MPs engage to provide professional services. During the period of the sublet, the employee was also a local councillor. The review found that no repayments had been made for a period of time, and IPSA has since contacted the MP in order to recover the amount owed as discussed in paragraph 19.
22. One MP was subletting to a political party colleague, but then changed to sharing the office, with each party paying rent directly to the landlord. A review of utilities bills claimed by the MP suggested that the MP had claimed for a higher proportion of utility bills than was expected. This is being addressed with the MP.

---

<sup>1</sup> This information was gathered from [Companies House](#)

## Recommendations

23. Based on the findings in this document, we have made a number of recommendations.

Number	Recommendation
1	IPSA should consider amending the Scheme to require MPs who wish to sublet their office to have the repayment amount determined by a qualified third party.
2	IPSA should implement a formal process for registering and monitoring subletting arrangements. This should include collecting the following information: <ul style="list-style-type: none"> <li>• The subtenant and details of the organisation</li> <li>• The value of repayments including a breakdown of costs included. Justification should be provided for the suggested repayment,</li> <li>• The period covered by the agreement</li> <li>• The frequency of repayments and when IPSA can expect to receive these.</li> </ul>
3	IPSA should ensure that MPs provide a written agreement between both parties when a subletting arrangement is registered.
4	IPSA should introduce a process to identify and collect late or missing repayments.
5	IPSA should ensure that MPs make repayments within 30 days of receipt of subletting income.
6	IPSA should ensure guidance is consistent and that its staff receive adequate training to be able to advise MPs appropriately.
7	IPSA should consider carrying out an assurance review of the utilities bills claimed by MPs who share or sublet their office.
8	IPSA should ensure that subletting is fully defined in the Scheme.
9	IPSA should ensure that repayments are classified correctly.

## Conclusion

24. IPSA should improve its processes to request and record information about MPs' subletting arrangements and ensure that repayments are made in a timely manner. This review has found that, although the sums involved are relatively small, and there is little overall risk to the taxpayer, some repayments by MPs have not been challenged when the amounts repaid appear inappropriate, are missed or made long after the cost was incurred.
25. IPSA has misclassified a number of repayments under the incorrect expense type, so these were subsequently published incorrectly. All MPs receive their publication data in advance to ensure accuracy, but IPSA also has a responsibility to ensure the accuracy of their data.
26. IPSA has addressed the immediate issues identified in this report. Other recommendations will be considered and implemented so that improvements can be made and IPSA can provide assurance that taxpayers' money is well regulated.



## Appendix 1: Methodology

1. A report of all repayments made under the expense type "constituency office rental income" for the period between the 2015 General Election and November 2017 showed that approximately £70,000 had been repaid to IPSA by 42 MPs in subletting repayments. All repayments with a 'short description' or 'details' entry that implied the repayment related to an election or referendum were excluded from the review.
2. MPs who had repaid amounts totalling less than £100 were also excluded from further analysis, as the details provided for the repayments implied that they were not related to subletting. Additionally, MPs who were no longer in office as of December 2017 were also excluded from further analysis.
3. To ensure the arrangements in place were considered in full, repayments made by each MP were examined alongside information held internally. This information consisted of correspondence recorded on IPSA's CRM system, phone call recordings, information held on an internal database and information provided alongside repayment forms.
4. IPSA contacted 33 current MPs<sup>2</sup> regarding subletting repayments made to IPSA. In total, the MPs contacted during the review had submitted repayments to IPSA of approximately £52,000 that were categorised, and subsequently published, as income from a sublet under the expense type "constituency office rental income". We asked each of these 33 MPs to complete a short form (as shown in Appendix 2) which included questions on whether they were subletting their office and details of the arrangements in place.

---

<sup>2</sup> One MP contacted through the review has since stood down

## Appendix 2: Questionnaire

### Constituency Office Subletting Arrangement

MP Name:

1. Are you currently subletting your office?

.....

2. Who are you subletting your office to?

.....

3. When did you begin to sublet your office?

.....

4. How long have you agreed to sublet your office for?

.....

5. Please provide more details about the subletting arrangement including;
  - Details of the amount charged to the tenant and the frequency of the payments.
  - Details of what the rental amount includes. Does it include utilities?
  - Any other details you feel may be relevant.

Signed:

Date: