

Consultation report: mechanism for updating MPs' salaries

September 2021

IPSA

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Summary

1. In autumn 2020 we consulted, as we are legally required to do in the year after a general election, on the mechanism for making periodic changes to MPs' salaries. In doing so we reviewed and confirmed the principles that guide our decisions in relation to MPs' pay in order to ensure fairness to both MPs and taxpayers.¹ We decided that MPs' pay should remain unchanged in April 2021 given the extraordinary impact of the pandemic, but we did not decide to make any change to the mechanism we use for determining MPs' pay in future years. Since 2015 that mechanism has been based on a statistical series showing changes in public sector pay, called AWE KAC9. In our March 2021 report on the consultation, we set out some factors we would consider for the future and indicated that this could lead to a further consultation.
2. We launched this further, targeted consultation in July 2021.² The consultation was about the mechanism IPSA should use to periodically update MPs' pay at the appropriate time. We proposed that for the next three years we should have some bounded discretion to depart from the AWE KAC9 figure if that was the right thing to do and explained how we would make that judgement at the relevant time.³
3. An important reason for this proposal is that, as the Office for National Statistics and other commentators have pointed out, the effects of the pandemic have resulted in both structural changes in the economy and technical effects on the statistical series, from 'compositional' and 'base' effects. These changes mean that the average earnings statistics, which are primarily designed to measure the overall pay-bill in the economy, are a less reliable guide than in normal times to changes in individuals' salaries.
4. We are grateful to all those who responded to our consultation. Most agreed that a temporary change was appropriate. Having considered the responses, we have decided to go ahead with the proposed temporary, bounded discretion. We have accordingly amended our determination on MPs' pay and on additional pay for committee chairs, which formalise this mechanism.⁴

Background to the consultation

5. In 2020 we reviewed whether we needed to change the mechanism used since 2015 for making an annual update to MPs' salaries. Under that approach we use the October datapoint in a statistical measure of changes in public sector earnings called

¹ The principles we apply to decisions about MPs' pay are set out in **Annex 1**.

² [Consultation: mechanism for updating MPs' salaries](#).

³ We would refer to our pay principles, and economic data and commentary, of which an indicative list is provided in **Annex 2**.

⁴ See **Annex 3** and **Annex 4**.

AWE KAC9, which is published by the Office for National Statistics monthly, to determine the percentage change to MPs' pay with effect from the following April.

6. Before launching that consultation, we had considered whether it was still desirable to use an external benchmark and whether other preferable benchmarks were available. We were also conscious that all available benchmarks would be significantly affected by the pandemic, the full impact of which was becoming clear during our consultation. We were therefore hesitant about making significant changes to our approach or changing benchmarks at a time of significant economic uncertainty when the behaviour of alternative benchmarks would be hard to gauge.
7. In the light of the consultation, we concluded that since IPSA chose the link to earnings statistics as the benchmark for updating MPs' pay it has provided a transparent and objective basis for periodic adjustments. It has enabled us to avoid the situation which often arose before we were established where MPs' pay went unchanged for many years, meaning a larger adjustment was needed periodically to catch up with the wider economy. We considered it was right to remain cautious about moving away from this approach without having a robust alternative which will be fair and seen to be fair to MPs and taxpayers alike. However, in the particular circumstances we faced last year, we had to make the judgement that applying the standard approach was not the right thing to do. In making that judgement, economic data and forecasts were useful to us, as were the more granular data on wage settlements beyond the public sector. We indicated that we were open to further reflection on whether it would be necessary or appropriate to draw on these sources again and whether we could do so without losing the confidence of our stakeholders in the fairness of the result. We said that as the economy and the country emerged from lockdown and the pandemic, we would consider whether further consultation was needed before our next statutory review in the first year of the next parliament.
8. In July 2021 we launched a further consultation. The trigger for this was the continuing impact on the earnings statistics of 'compositional effects' and 'base effects' arising from the pandemic. 'Compositional effects' arise from changing patterns of work rather than changes in the salaries of individuals at work, while 'base effects' arise where the comparison between two periods is affected because one or other of the periods is a highly unusual time, which can give a distorted impression of the real significance of the change. We were concerned that if we followed our usual approach in these highly unusual economic conditions, we might rely on statistics that are a much less reliable guide to changes in earnings than they are in ordinary times.
9. We therefore proposed that for the next three years, although we would continue to use the KAC9 data as a starting point, we would have bounded discretion to depart from that figure where this was warranted having regard to relevant economic and pay data and commentary, and to our pay principles.

Responses to the consultation

10. We received around 240 responses to the consultation, of which seven from MPs or former MPs, one from a member of MPs staff, one from the Taxpayers Alliance, one from remuneration data specialists Incomes Data Research (IDR), and the remainder from members of the public.
11. The great majority of respondents supported the proposal for the temporary discretion, although among those who gave reasons for their view, a range of different rationales were cited. Some recognised that this was a “pragmatic” response to the unusual economic circumstances. Others saw this as an opportunity to re-think the weight attached to AWE data relative to other sources of information on pay trends which were more specifically designed for salary adjustments rather than measuring the economy. Some reiterated calls we considered in our last consultation for either a different benchmark, such as change in GDP, to be used for the periodic updating, or for the actual amount of MPs’ pay to be either cut or significantly increased. Among the few MPs and former MPs who responded there was a mix of views, with some supporting no change and others agreeing that the temporary change was needed.
12. One respondent suggested that if we continue to benchmark against the average earnings statistics, we should use one of the other AWE series, KAE2, as an alternative to KAC9. It is also a measure of public sector wages but excludes those banks that were nationalised after the global financial crisis. As we said last year, we are cautious about any switch of index at a time when structural changes to the economy make the consequences of doing so hard to predict. So we will defer consideration of whether there would be material benefit in switching from KAC9 to KAE2 to our next statutory review.
13. Many respondents argued that our discretion should be limited to reducing the award relative to KAC9. Although for some (both for and against this idea) this was a matter of principle, others considered the economic case. One respondent acknowledged that KAC9 had been negative in 2013 but thought it highly unlikely it would be so again in the period ahead. They pointed out that some policy responses could reduce the number of lower-paid staff classified as public-sector workers (not necessarily the number of jobs) which would have the effect of increasing KAC9.
14. In reaching our decision we considered, in addition to the consultation responses, the published commentary by the Office for National Statistics (ONS) and National Institute for Economic and Social Research (NIESR). This commentary confirms that the data continue to be skewed by both compositional effects and the ‘base effects’ that arise where the starting point for comparison is itself unusual. Both ONS and NIESR continue to publish estimates of the difference between the headline figures and underlying changes in wages and express caution about how to interpret the published data. Both also point out that significant uncertainty remains in relation to both the future path of the economy and the impact of structural changes as the economy emerges from the pandemic on the statistical data. While base effects are currently inflating the statistics, it is entirely possible that in a year’s time the data could appear to be low, or even negative, in comparison to an artificially inflated starting point this year. Although our consultation respondent described a very plausible policy response to the pandemic and the impact it would have on KAC9, other policy responses are possible which could have the opposite effect.

15. We therefore consider that it would not be appropriate to limit our discretion only to reducing the award relative to KAC9, even though we are much more likely to use the discretion in that way. Given the unpredictability of base effects and policy responses in the years ahead, such an approach would leave us unable to respond to any extreme changes in the data which could arise.

Conclusions

16. In the light of the consultation and commentary by the ONS and NIESR on the continuing impact of the pandemic on earnings statistics, we have amended our determination on adjustments to MPs' salaries such that for the years 2022, 2023 and 2024 we will have discretion to vary the amount from the KAC9 data where this is justified having regard to relevant economic data and commentary and our pay principles. We will take the same approach to the determination of additional payments for certain committee chairs.
17. We expect that after this temporary period we would revert to relying on AWE KAC9. However, there would be an opportunity to reflect on this in the statutory review following the next election.

Annex 1: Outcomes and guiding principles for our review of MPs' remuneration

1. During the review which concluded in 2015, we consulted on guiding principles for how we would make decisions about MPs' pay. We found these helpful in guiding our approach and explaining our thinking. For this review, we take a similar approach.
2. The outcomes we wish to achieve aim to capture the goals that underpin the Act of Parliament which created IPSA, and recognise explicitly that the office of MP is one which anyone not subject to a statutory disqualification is entitled to hold, if they are chosen by the electorate. Making this point explicit will help us to consider the equalities impact of our work and to reduce the possibility that there are any inadvertent barriers to diversity in the remuneration scheme we decide.
3. Taken together, these principles help us to ensure that our decisions are fair both to MPs, given the nature of the office they hold, and to the taxpayers who fund MPs' pay. We start with a strong presumption that this principle of fairness means all MPs should be paid the same, with additional payments made only to those who hold specified, additional parliamentary roles, such as chairs of select committees, which bring extra responsibilities.

Table 1: Outcomes and guiding principles for IPSA's review of MPs' pay

| Outcomes: what MPs' remuneration arrangements are designed to achieve | |
|---|---|
| R1 | The structure and level of MPs' overall reward: |
| R1A | <ul style="list-style-type: none"> • enables MPs to fully and effectively carry out Parliamentary duties |
| R1B | <ul style="list-style-type: none"> • is fair for all MPs given the diversity of MPs who may be elected by voters |
| R2 | The determination and its implementation provide appropriate assurance that good value is obtained from public funds |
| Guiding principles: criteria we apply to ensure the remuneration arrangements deliver the outcomes | |
| P1 | MPs should be fairly remunerated for the work they do and the total cost to the taxpayer should be affordable and fair |
| P2 | MPs' overall remuneration should be considered as a whole package |
| P3 | The package should have a clear rationale linked to the intended outcomes, and be cost-effective and efficient to administer |
| P4 | The package should be sustainable in the medium term without the need for frequent, major changes |
| P5 | As far as is practicable MPs' remuneration and reward should reflect the experience of other working citizens |

Annex 2: Indicative, non-exhaustive list of sources for pay determination

Economic forecasts

Office for Budget Responsibility, Economic and Fiscal Outlook

Bank of England/Monetary Policy Committee,

Monetary Policy Report

Agents' summary of business conditions

Other forecasts referenced in the above

Earnings data and labour market trends (in addition to the above)

Office for National Statistics

Labour Market Trends

Average Weekly Earnings

Real Time Information (experimental statistics)

Other commentary on labour market statistics published from time to time

National Institute for Economic and Social Research (NIESR) Wage Tracker

Employer surveys and pay trends

Adecco/Chartered Institute of Personnel and Development (CIPD) Labour Market Outlook

Incomes Data Research (IDR) Pay Climate

Labour Research Department median basic pay awards and Workplace Report

Recruitment and Employment Confederation (REC)/KPMG Report on Jobs produced by IHS Markit

Xpert HR, open access median basic pay awards, with potential purchase of other resources

Public sector pay awards and pay strategy

Senior Salaries Review Body: mandates received from and advice to government

Office for Manpower Economics: occasional research reports

Annex 3: Revised pay determination: MPs' salary

1. This determination was made by IPSA under Section 4 of the Parliamentary Standards Act 2009 on **2 September 2021**. It amends the determination made on 16 July 2015 **and amended on 16 December 2020** with immediate effect and supersedes the determination on the MP Salary which was made on 5 December 2013.
2. With effect from 8 May 2015, the salary for service as a member of the House of Commons will be £74,000 per annum (referred to as the "MP Salary").
3. With effect from 1 April each year, starting with 1 April 2016, the MP Salary will be adjusted by the rate of annual change in public sector average earnings.
4. Notwithstanding the previous paragraph, no adjustment will be made to the MP Salary on 1 April 2021.
5. For the purposes of this determination 'annual change in public sector average earnings' means the seasonally adjusted three-month average change in public sector average weekly earnings ending in the previous October, compared with the same period a year earlier. These data are published by the Office for National Statistics monthly as the AWE KAC9 series.
- 6. Notwithstanding paragraphs 3 and 5, the adjustments to the MP Salary on 1 April 2022, 1 April 2023 and 1 April 2024 may be adjusted by an amount other than the rate of annual change in public sector average earnings where IPSA judges this is necessary to arrive at an adjustment which is fair to both MPs and to taxpayers, having regard to the experience of constituents and MPs' overall remuneration. In deciding whether such variation to the adjustment is necessary, IPSA will consider information, data and commentary on wage settlements, earnings statistics and trends and the outlook for the UK economy and wider public sector pay policy.**
7. This determination will be reviewed in the first year of each Parliament, as required by Section 4 of the Parliamentary Standards Act 2009.

Annex 4: Revised pay determination: additional salary for specified committee chairs

*Changes are shown in **bold**.*

1. This determination was made by IPSA under Section 4 of the Parliamentary Standards Act 2009 on **2 September 2021**. It **amends the determination made on 25 May 2016 and amended on 16 December 2020 with immediate effect and** supersedes the determination on the Additional Salary for Specified Committee Chairs which was made by IPSA on 5 December 2013.
2. The holder of an office or position specified by the House of Commons in a resolution under Section 4A(2) of the Parliamentary Standards Act 2009 (collectively called “specified Committee Chairs”) shall be paid a salary per annum (referred to as an “Additional Salary”) by IPSA in accordance with this determination in addition to the MP Salary he or she shall be entitled to receive as a Member of Parliament.
3. For the avoidance of doubt, the term “specified Committee Chairs” covers Chairs of Select Committees and Members of the Panel of Chairs.
4. With effect from 1 June 2016, the Additional Salary per annum for specified Committee Chairs will be £15,025.
5. With effect from 1 April each year, starting with 1 April 2017, the Additional Salary per annum for specified Committee Chairs will be adjusted by the rate of annual change in public sector average earnings.
6. Notwithstanding the previous paragraph, no adjustment will be made to the Additional Salary per annum for specified Committee Chairs on 1 April 2021.
7. For the purposes of this determination ‘annual change in public sector average earnings’ means the seasonally-adjusted, three-month average change in public sector average weekly earnings ending in the previous October, compared with the same period a year earlier. These data are published by the Office for National Statistics monthly as the AWE KAC9 series.
8. **Notwithstanding paragraphs 5 and 7, the adjustments to the Additional Salary per annum for specified Committee Chairs on 1 April 2022, 1 April 2023 and 1 April 2024 may be adjusted by an amount other than the rate of annual change in public sector average earnings where IPSA judges this is necessary to arrive at an adjustment which is fair to both MPs and to taxpayers, having regard to the experience of constituents and MPs’ overall remuneration. In deciding whether such variation to the adjustment is necessary, IPSA will consider information, data and commentary on wage settlements, earnings statistics and trends and the outlook for the UK economy and wider public sector pay policy.**
9. This determination will be reviewed in the first year of each Parliament, as required by Section 4 of the Parliamentary Standards Act 2009.
10. No specified Committee Chair shall:
 - a. receive more than one Additional Salary under this determination, or

- b. receive an Additional Salary for any period, or part thereof, if the specified Committee Chair is also entitled to a further salary by virtue of any provision of the Ministerial and other Salaries Act 1975.

Select Committee Chairs

11. The Chair of a Select Committee specified by the House of Commons in a resolution under Section 4A(2) of the Parliamentary Standards Act 2009 shall be paid the Additional Salary in respect of a period that:
 - a. begins with the day on which the Member becomes Chair of such a Committee (or the day on which the Committee is constituted, if later); and
 - b. ends on the day on which the Member ceases to be Chair (or, if he or she is Chair of more than one such committee, he or she ceases to be Chair of the last of those committees).
12. If the name of a specified Select Committee is changed, this will be taken to be a reference to the Committee by its new name.
13. If the functions of a specified Select Committee become functions of a different Committee, this will be taken to be a reference to the Committee by whom the functions are for the time being exercisable.

Members of the Panel of Chairs

14. A Member of the Panel of Chairs shall be paid an Additional Salary in respect of any period served as a Member of the Panel of Chairs. The period shall begin on the day on which the Member is appointed to the Panel and end on the day on which the Member ceases to be a member of the Panel.