

Consultation report: periodic adjustments to MPs' salaries

March 2021

IPSA

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Background to the consultation

1. IPSA was established in 2010 as an independent authority with the statutory duty under section 4A of the Parliamentary Standards Act 2009 to set and review MPs' salaries in the first year of each parliament. We are required to consult before doing so, and to publish our decision at the end of the review and its reasons.
2. In October 2020 we published our consultation paper.¹ It set out the extensive work undertaken in previous reviews which had led to the current approach of using a statistical series published by the Office for National Statistics (ONS) called AWE KAC9, which shows changes in the average earnings of public sector employees. We set out our assessment that this approach had worked well in providing a transparent, external benchmark which had helped to provide an objective basis for periodic updating of MPs' pay. We therefore proposed that this approach should continue. While other statistical benchmarks were available, given the uncertainty caused by the pandemic we were very conscious of the difficulty of assessing the potential impact of changing to a different measure at a time when the economy was undergoing change and it might be hard to determine how the statistics would be impacted. We therefore proposed to continue using KAC9.

Responses to the consultation

3. Our consultation period closed in early November. By then, we had several hundred responses from members of the public, several hundred more from individuals using a template provided by a campaigning organisation, around 50 from MPs, and a similar number from MPs' staff as well as responses from the 1922 Committee, SNP Westminster Group and IDR, a pay data company.
4. However, we also received further responses through the rest of November; and in particular after the Chancellor's statement on 25 November on public sector pay for 2021, we received a number of additional responses from MPs, from the Plaid Cymru Westminster group and from the Chancellor of the Duchy of Lancaster on behalf of himself, the Chancellor of the Exchequer and the Prime Minister.
5. In total we received just under 4,000 responses, which is similar in scale to the response to our previous consultations between 2011 and 2015. We are grateful to all those who took time to respond.
6. Because our consultation was about the mechanism for updating MPs' pay rather than the level of pay or any pay rise, our consultation questions focused on the choice of earnings benchmark to be used. However, most members of the public who responded did not directly address our question about the benchmark and instead commented that given the pandemic MPs should not receive a pay rise this year. One respondent said:

¹ [Consultation: Periodic adjustments to MPs' salaries, October 2020](#).

“I believe the benchmark is the correct benchmark for use under normal circumstances, however it is inappropriate for 'leaders' to be taking any pay increases at this time. This should apply to MPs as much as it should to Chief Executives of private companies.”

7. However, a few members of the public pointed to the need to remunerate MPs well to ensure candidates of the right calibre are available given the responsibilities of the office, with suggestions including a doubling of salaries and benchmarking to FTSE 250 CEOs.
8. A significant number of comments suggested that respondents found it hard to see the connection between the amounts other public sector workers had got and were now getting in pay settlements and the amounts MPs had received or might receive this year if AWE-KAC9 were used. Specific comparisons were made with NHS staff (by those within and outside the sector), teachers and the military. Some argued that even the review body recommendations on increases gave a misleading impression of the actual increase staff in the relevant sectors received – as recommendations were not always acted on and headline settlements may not translate directly into increased salaries for all staff.
9. A few respondents said that rather than being linked to public sector pay, MPs’ salaries should be linked to changes in earnings across the whole economy, with one saying that linking to the public sector contradicted our guiding principle about reflecting constituents’ experiences. Two suggested that MPs’ pay should be a fixed multiple of the level of average weekly earnings.
10. One respondent suggested either using the whole economy statistical series AWE KAC3 in place of the public sector AWE KAC9 or an alternative approach to public sector pay benchmarking based on wage settlement data, which is more typically used by other employers.
11. Members of the public using a template provided by a campaigning organisation called for a GDP benchmark to be used instead as a form of ‘performance-related pay’ for MPs given the impact Parliament’s decisions have on the economy.
12. Some MPs and groups of MPs, responding before the Chancellor’s announcement about public sector pay in 2021, supported IPSA’s proposed approach, citing reasons including the benefits of an external benchmark in depoliticising decisions on MPs’ pay and the importance of attracting and retaining people in the role. Others suggested alternative approaches such as using a whole economy benchmark, and several underlined the importance of ensuring that their staff were fairly treated given intense workloads since the start of the pandemic.
13. As with members of the public, some MPs did not address the question of the mechanism for periodically updating pay, but rather focused on whether salaries should be adjusted this year in the light of the pandemic. One made the case that a pay adjustment as usual was appropriate given that MPs’ had continued working throughout the pandemic, while another called for MPs’ salaries to be reduced to the level of average earnings.

14. Most MPs who responded asked for pay to be frozen this year, whether or not they expressed a view on the benchmark used generally, in recognition of the extreme impact of the pandemic on their constituents and the country. Some responses from groups of MPs shared this view.
15. It is not unusual for us to receive a significant number of responses from MPs and others calling for MPs' pay to be frozen, and part of our remit is to balance the call on the public purse with the responsibility to pay MPs fairly for the work they do. We remain conscious that there is 'never a good time' to discuss MPs' pay, so we faced the question of whether this year really was different, and our decision on this point was informed by economic data and wage settlements which became available after we had launched our consultation.

Other information we considered

16. The data and forecasts increasingly showed that the impact of the pandemic had been significant: ONS labour market data showed that from Q2 to Q3 214,000 people became unemployed (according to the International Labour Organisation (ILO) definition, which is that people are inactive and seeking work. This was the largest net flow on record, even though the ILO definition was believed to understate spare capacity in the labour market because it was harder for people to actively look for work during the pandemic. July to September 2020 saw redundancies increase to a record high of 314,000, a record increase of 181,000 on the previous quarter and the largest annual increase since spring 2009.² The Institute for Fiscal Studies (IFS) indicated in October, after we had launched our consultation, that under its central scenario, GDP for Q4 2020 would be 6.2% lower than in Q4 2019, a larger fall than the 5.9% peak-to-trough fall during the financial crisis, and that even by the end of 2024, GDP would only be 1.9% above Q4 2019 levels.³ That forecast was made before the announcement of the second national lockdown. After various intermediate steps involving alternative schemes, the Chancellor extended the furlough scheme into 2021.

17. In its November 2020 [Monetary Policy Report](#), the Bank of England concluded that:

“Smoothing through this volatility, pay pressures are muted. Agency intelligence suggests that the pay of non-furloughed workers stayed broadly flat during the pandemic, and median pay settlements fell to zero in Q3. The weakness in underlying pay growth is likely to reflect slack in the labour market; it may also reflect some cash constraints within firms. With unemployment likely to rise further in the near term, underlying pay growth is expected to remain subdued.”

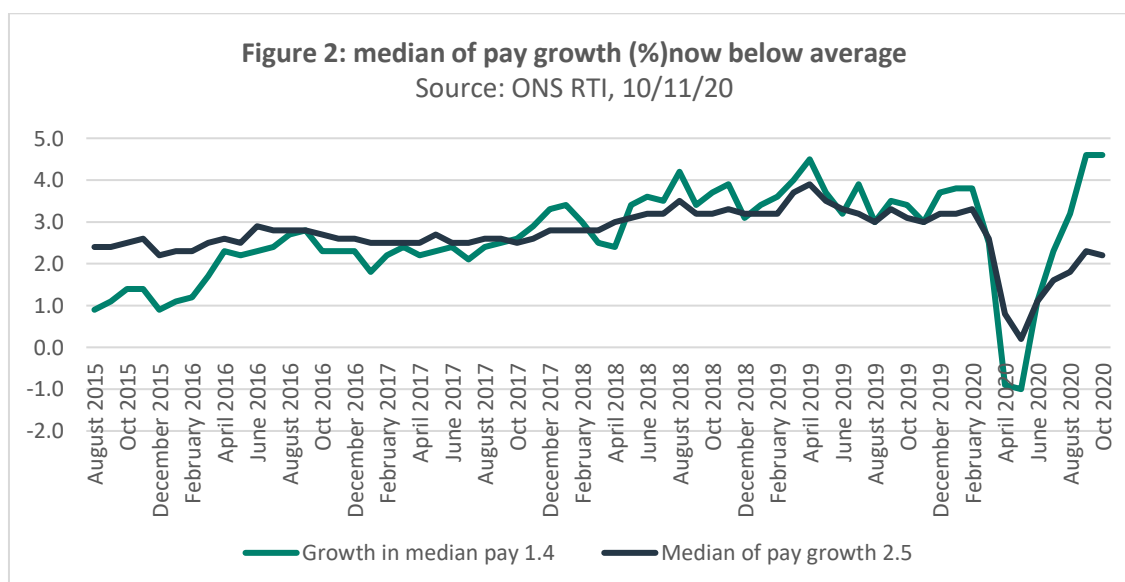
18. We also reflected on ONS commentary on the behaviour of statistical series on earnings during a period of significant change in employment. ONS cautioned⁴ against using average pay growth data as it would be used in normal times and said that when there are significant inflows or outflows, alternative measures may be needed. It pointed out that the figures were higher than they would otherwise be because few people were

²See ONS, [Labour Market Overview, UK: November 2020](#)

³IFS, [UK economic outlook: the long road to recovery](#), IFS

⁴ONS, [Earnings and employment from Pay As You Earn Real Time Information, UK: November 2020](#), Section 6: Average pay growth: alternative metrics

starting new jobs: typically, those who stay in jobs both earn more and see higher increases. ONS also showed that the actual increase received by those who have stayed in work over the last year ('median of pay growth') was significantly lower than that implied by the average wage growth ('growth in median pay') numbers. Taken together, this implied that the increase in average pay growth data was being driven more by people losing jobs or not being able to get a job or move jobs than by actual salary growth.



Notes:

1. The latest period is based on early data and so is more likely to be subject to slightly more significant revisions.
2. Percentage change has been calculated using unrounded figures.
3. The median of pay growth data in this graph have not been seasonally adjusted. The growth in median pay data have been seasonally adjusted.

19. Wage settlement data was not straightforward to interpret. Significant variations were observed between sectors impacted differently by the pandemic, and between different categories of staff with some employers differentiating between senior managers and other staff, or between head-office and 'frontline' staff. However, it became clear that many employers were deferring pay reviews or freezing pay in the light of the extreme uncertainty.

Our decision on updating MPs' pay

20. Our consideration of both the economic data and the consultation responses throughout the autumn convinced us that 2020 was no ordinary year. Given the scale of change prompted by the pandemic, the technicalities of how earnings statistics are put together mattered more than they had done in the past. Had we made a change to MPs' pay based on the usual benchmark it would, in these particular circumstances, have been challenging to retain public confidence that it was consistent with the experience of constituents, and fair to both taxpayers and MPs.

21. Although, understandably, many respondents focused on the particular circumstances last year, our consultation related not to any one pay decision, but to the approach to be taken to making those decisions in the years ahead. We said in our consultation that any change of approach needs to be carefully considered given that the implications are hard to predict in current times. For example, had we followed one suggested approach of linking pay to GDP, the outcome for 2020 would have been a freeze or cut in MPs' salaries, but the outcome for 2021 and 2022 on current forecasts⁵ would be a rise of 4.3% and then 5.8% when the same forecasts predict an increase in average earnings of 2.2% and 2.4%. It is not self-evident to us that this would be seen to represent a fair outcome.
22. We therefore concluded that the appropriate approach was to leave MPs' pay unchanged in April 2021, reflecting the extraordinary events of the last year, but to leave the change in average weekly earnings in place as the benchmark which will determine any changes in future years. We amended our determination on the approach to updating MPs' pay accordingly and the revised determination is set out in **Annex 1**. We have taken the same approach to the additional salary payable to certain committee chairs, and the revised determination in relation to that additional salary is set out in **Annex 2**.

Reflections for the future

23. 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 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. That judgement was informed by our assessment of the evolving economic data and forecasts as the scale and longevity of the pandemic's impact became clearer, and by more granular data on wage settlements beyond the public sector. We are open to further reflection on whether it is necessary or appropriate for us to draw on these sources again and whether there is a way for us to do so without losing the confidence of our stakeholders in the fairness of the result. As the economy and the country emerges from lockdown and the pandemic, we will consider whether further consultation is needed before our next statutory review in the first year of the next parliament.

⁵ See [HM Treasury Forecasts for the UK economy: comparison of independent forecasts](#), February 2021.

Annex 1: Determination on the MP Salary

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

1. This determination was made by IPSA under Section 4 of the Parliamentary Standards Act 2009 on **16 December 2020**. It **amends the determination made on 16 July 2015 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. This determination will be reviewed in the first year of each Parliament, as required by Section 4 of the Parliamentary Standards Act 2009.

Annex 2: Determination on the 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 **16 December 2020**. It **amends the determination made on 25 May 2016 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. This determination will be reviewed in the first year of each Parliament, as required by Section 4 of the Parliamentary Standards Act 2009.
9. 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
10. 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).

10. 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.

11. 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

12. 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.