

# MPs' Pay and Pensions A New Package July 2013

# **MPs' PAY AND PENSIONS**

## **A NEW PACKAGE**

July 2013

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# Foreword

How should we reward our MPs? That is the question we seek to answer. In doing so it is worth noting two points. First, that Parliament has decided, rightly, that answering it should no longer be left to MPs. Instead it should be answered independently. This is long overdue. Second, that the importance of the job of an MP should be recognised, something which is all too often overlooked.

These are the 650 people we have chosen to represent us. They sit at the pinnacle of our democracy. This is a fact that we ought to record and respect.

That said, we must also acknowledge that the history of MPs' remuneration is not a noble one. We have arrived where we are, in part, because of political bargaining and assorted fixes. It is painfully apparent that this approach is wrong and contributed to the recent expenses scandal. That point is readily understood, but sadly it does not mean there is an easy answer to a question which is thorny and controversial.

It is also a complex question. It is not about a single figure in a headline, but a package of remuneration and how each element relates to the next – salary, pensions, indexation, resettlement payments, business costs and expenses. Changing one element has an impact on the others.

We began our work by agreeing the fundamental principles on which the new remuneration package should be based.

It should be modern, transparent, fair, sustainable, and treat MPs as professionals.

Next we asked the public for views, looked at the evidence, weighed the arguments and, now, set out what we think is the best way forward. And once more – in contrast to the practices of the past – we are asking the public what they think.

We have been researching, analysing and consulting on this issue for 18 months. But, a week in politics is a long time, and only recently stories have emerged again about some

Parliamentarians' outside interests. Such stories inevitably damage public confidence in Parliament and make our work more challenging.

Equally we are acutely aware of the programme of austerity represented most recently in the latest Spending Round.


We are extremely alert to these developments and have given considerable thought to how we should react. Should we cease our work and say that the time is not right? Should we let the questionable practices of a few dictate our view? In the past, this is what would have happened. Then the risk of more under-the-counter fixes would have re-emerged. That cycle has to stop.

By continuing our work we are not ignoring the fragility of public confidence; we are seeking to address it. The issue of MPs' remuneration has to be addressed independently and objectively. Nor are we ignoring the present economic circumstances.

We have a duty to contribute to restoring confidence in our Parliament and parliamentarians. The package that we have developed seeks to do so: by investing in the future of our Parliament and our democracy; by bringing an end to the peculiarly generous perks of the past; and, crucially, by seeking to help MPs address an issue raised time and again, namely a large majority of the public simply do not know what their MP does.

What we recommend in this consultation document is not a quick fix. There is no quick fix.

This is a modern remuneration package, consulted on in the open. It is a package for the future wellbeing of our Parliament, designed to come into effect after the next election planned for 2015. We look forward to hearing your views on it.



**Sir Neil  
Butterfield**

**Sir Ian Kennedy**

**Liz Padmore**

**Anne  
Whitaker**

**Professor  
Tony Wright**

# Chapter One: How We Got Here

1. IPSA's powers to determine MPs' pay and pensions are set out in the Parliamentary Standards Act 2009 and the Constitutional Reform and Governance Act 2010. For MPs' pay, the powers were transferred from Parliament to IPSA in May 2011. The equivalent powers to determine MPs' pensions were transferred in October 2011.
2. This means that decisions on MPs' pay and pensions are now taken by IPSA, independently of government and Parliament. Likewise they will be implemented according to a timetable determined by IPSA alone.
3. The legislation requires IPSA to consult a number of parties when making a determination on MPs' pay or pensions. But we believe it is important that the public should also have a say, just as we consult widely when reviewing MPs' business costs and expenses.
4. Accordingly, after gathering a wide range of evidence, including the views of the public, through citizens' juries, focus groups and public polling conducted by ComRes,<sup>1</sup> and an on-line poll on IPSA's website, we launched our consultation, *Reviewing MPs' Pay and Pensions*, in October 2012.<sup>2</sup> This was an open, 'Green Paper' style consultation, in which we set out a wide range of evidence and asked for views on the principles for determining MPs' pay and pensions. We did not at that point seek to determine the exact level of pay, or of pension contributions and benefits.
5. The consultation ran from 15 October to 7 December 2012. Having analysed the findings of the consultation and a further range of evidence, we published a report, *Reviewing MPs' Pay and Pensions: A First Report*, in January 2013.<sup>3</sup> This provided an analysis of the consultation responses and proposed a framework for the further work needed to

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<sup>1</sup> MPs' Pay and Pensions: *A Public Verdict*, July 2012, available on our website [www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk)

<sup>2</sup> Available on our website. We also conducted a short consultation in February 2012 on an interim increase in MPs' pension contributions. The resulting increases were introduced in April 2012.

<sup>3</sup> Available on our website [www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk)

consult on proposals for a new remuneration settlement for MPs. This took the form of a number of key questions, as set out below.

### ***Pay for MPs***

- How and to what extent should we use comparisons with other occupations in setting MPs' pay?
- Should MPs' pay be linked to their status or standing in the community?
- Does pay have an impact on the diversity of the House of Commons?
- What is affordable and how far should pay be affected by public opinion and confidence in Parliament?

### ***MPs' Pensions***

- Should private sector developments (such as a move to a defined contribution style scheme) be ruled out?
- What are the right accrual and revaluation rates?
- What is the appropriate level of payments from the taxpayer?
- Are further protections for the taxpayer appropriate?
- Should there be transitional protection for MPs close to retirement age?
- How much flexibility should there be in the MPs' pension scheme?
- In the new total reward package, how will the pension element interact with pay?

6. This was not an exhaustive set of questions, but it covered a significant proportion of the issues which we have been considering since January this year. We have looked further, too, at the issue of resettlement payments for MPs leaving Parliament and the additional pay received by Committee Chairs and members of the Panel of Chairs.
7. We have also considered other factors which might play a part in the formulation of a new package of remuneration for MPs in the new Parliament (the General Election is expected in May 2015). We were mindful of the need to create a modern package of remuneration, which, as much as possible, mirrors the conditions faced by most other citizens, whether they are working in the public or private sector. So we revisited some

of the expenses claimed by MPs, to ask whether, if we are going to treat MPs as if they were members of a profession, these expenses were an appropriate part of a modern package of remuneration for a professional. We also asked ourselves how we, in co-operation with Parliament, might address the fact (which came out clearly from our public consultations) that many citizens do not have a good understanding of what their MPs do, particularly when they are in Westminster. Low levels of understanding will make it hard to improve confidence in Parliament and achieve public confidence in any future remuneration settlement for MPs.

8. Having completed our analysis of all the issues outlined above, we are now in a position to consult on recommendations for a package of measures which would form the basis of a new settlement for MPs, to come into effect after the next General Election. These recommendations form a coherent package which amounts to our preferred option at this point. Of course, we will consider changes to elements, but we think it is important to view the remuneration package as a whole.
9. We therefore welcome views on our recommendations, but also on alternatives. All of these will be considered carefully.
10. The consultation will close on 20 October 2013 and we will aim to set out our final decisions on the new remuneration settlement for MPs before the end of 2013.
11. In order to meet our Equality Act obligations we will also conduct an Equality Impact Assessment of the new package. We will publish the results of that assessment alongside our final decisions.
12. Chapter Two summarises our recommended package and the reasons for it. The subsequent chapters consider the issues in more detail, addressing the questions identified in the January 2013 report. An estimate of the costs and benefits can be found in Chapter Ten.

## Chapter Two: The New Package in Outline

13. In this consultation we put forward a wholly new package for the remuneration of MPs. It is a package based on the principle that MPs do a professional job and this should be matched by a proper professional salary. Unfortunately, principle has often been all but absent from the determination of MPs' pay in the past. Instead, recommendations from review bodies judged inconvenient at the time have been overlooked, short-term deals have been stitched together, and political expediency has won out. The result has been a failure to address the core issues, confusion between remuneration and business costs and expenses, and, ultimately, the disastrous expenses scandal of 2009.

### ***Our task***

14. What we are proposing here represents a fresh start. We began this work in 2010 with the new regime of business costs and expenses: a regime built on the principle that MPs should work within established and transparent budgets and provide appropriate evidence to substantiate claims for reimbursement by the taxpayer for expenditure necessary to do the job. It is a regime which is administered fairly and now widely accepted. But we were always conscious that the business costs and expenses regime was just the first task. Having disentangled expenses from remuneration – the support needed to do the job, in contrast to the reward for doing it – we turned our mind to the determination of the right level of pay and pensions. And we have gone about that task in the way we have tackled our brief from the outset: working in the open, consulting the public and listening to the arguments put to us. We have done so knowing that we have the responsibility not just of expressing a view on the right solution but of determining what that solution should be. For the first time, an independent body – not Parliament itself – will determine MPs' remuneration.
15. After public debate, a formal consultation, focus groups, citizens' juries, blogs and phone-ins, we have developed a package for public consultation. In making our judgement, we have carefully weighed the arguments put forward, and not simply listened to those who shout loudest or those who have a particular interest to promote.

## ***Background***

16. We are conscious that others have travelled this way before us. It would have been foolish to have neglected the notable contributions made by those who have wrestled with this question in earlier years. Before we set out our solution it is worth making some observations about the independent reviews undertaken in recent years:<sup>4</sup>
- first, they have all recommended pay increases for MPs;
  - second, their recommendations have not been fully implemented; and
  - third, had they been fully implemented MPs would be earning more today than they currently do.

## ***Our proposition***

17. We now turn to our own approach. It begins with one simple but fundamental proposition. The role of the MP is at the heart of our representative democracy. It is in all our interests that it is performed effectively. In recent years great damage has been done to the public's trust in MPs and to the perception of MPs' contribution to our society. Much of this damage has been caused by MPs themselves and, in particular, by those who brought about the scandal of 2009. This has caused some to turn their back on politics and to despair of our parliamentary system. This, we argue, is an understandable but misguided response. The events of recent years make it more important, not less, that we value the role of an MP and that, as a society, we make it explicit that we value the role, just as we demand the highest standards of those whom we elect.

## ***Three initial observations***

18. Before we set out our argument for, and our calculation of, the new remuneration package for MPs, we make three further observations about our task and the way we have interpreted it.

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<sup>4</sup> Here we refer particularly to the *Review of Parliamentary Pay, Pensions and Allowances 2007*, Senior Salaries Review Body (SSRB), January 2008; and Baker, Sir John, *Review of Parliamentary Pay and Pensions*, June 2008.

19. First, it is damaging to our democracy if MPs' pay is continually an issue of contention. So we have set ourselves the objective of settling the question for the long-term, subject only to formal reviews at the start of each Parliament. If we have done our job well, these reviews should not be elaborate or extensive exercises.
20. Second, the package that we are bringing forward has to be understood as an integrated whole, comprising pay, pension and other aspects of MPs' financial reward. We have retained the distinction between business costs and expenses on the one hand and remuneration on the other. Indeed, we are proud to have established, or, more accurately, re-established that distinction. Our package does include some changes to the business costs and expenses regime but these merely reinforce the boundary between such business costs and expenses on one hand and remuneration on the other.
21. Third, we recognise that we must answer the question: why do this now? Why do this at a time of austerity, when the British economy is struggling and when household budgets are under such pressure? Our answer is simple, but not glib: the lesson of the last 30 years is that there is never a good time to tackle this question. Wait for the moment when it is politically expedient to address it – when all the stars are aligned – and one would wait a long time, risking a repetition of the sad story of those last 30 years. That said, we are acutely sensitive to the economic context in which we operate and our recommendation reflects that. We have judged it inappropriate, for example, to make any immediate changes to MPs' pay beyond the 1% increase already planned for April 2014. Those elected in 2010 put themselves forward for election knowing the level of pay that was on offer and it seems to us wrong to make any change mid-Parliament. The package we set out here will, other things being equal, come into effect after the next general election scheduled for May 2015. We are of course required by statute to conduct a review in the first year of every Parliament and we will do so in 2015, immediately after the election. But in the light of the current exercise, we envisage that this review will not be lengthy or extensive.

### ***The package***

22. We now turn directly to the new package and the way in which we have calculated the new level of reward for MPs. In headline terms, its component parts are simply stated:
- the scaling down of the generous resettlement payments;
  - a pension on a par with those which will be payable in other parts of the public service;
  - reinforcing the boundary between business costs and expenses on the one hand and pay on the other;
  - annual reporting by MPs on their activities and spending; and finally
  - a salary of £74,000 in 2015, indexed to annual growth in average earnings in the whole economy thereafter.
23. This needs to be understood as a package, but we will first consider each part of it in turn.

### ***Salary***

24. We begin with salary. Many of the tools used in other walks of life to determine pay are not available to us when considering MPs' remuneration, such as data on recruitment and retention. MPs have no job description. They do not have to undergo training or gain qualifications. They have no annual appraisals nor performance reviews completed by their line managers. Indeed, they have no line managers. The argument is made, and it is a fair one, that the role is unique. That has tempted some to resort to determining MPs' pay by proxy: if we cannot judge the appropriate level of remuneration for MPs, they maintain, we should instead decide that their role is like that of some particular employee in the public or private sector and we should apply their remuneration package to MPs. Thus, it is argued, an MP should be treated like a GP or a local authority chief executive or a chief constable. We are not persuaded by such simplistic comparisons with jobs that require extensive qualification and long training and have responsibility for performance. Moreover, there is much that is self-serving in recourse to comparators. This or that job is favoured because the salary is roughly what is thought right: the judgement comes first, the most convenient comparator afterwards.

25. Nor have we been persuaded by the claim – and it is no more than the claim - that the quality of those offering themselves as prospective candidates has been adversely affected by the level of pay available. We have found no evidence to support this claim and, indeed, there is plenty of reason to suspect that the selection policies and procedures of the political parties are far more important determinants of the quality and character of prospective candidates. Moreover, many informed observers seem to judge the 2010 cohort of MPs to be of a particularly high calibre. And, of course, they put themselves forward for election with a salary of £65,738 in view.<sup>5</sup>
26. How best, then, to approach the determination of MPs' salary? We have been particularly guided by four reference points.
27. The first is the evidence that MPs' pay has fallen behind since the last review of their remuneration in 2007. There is a pay gap, a problem to be fixed. In its report *Parliamentary Pay* in 2007, the Senior Salaries Review Body (SSRB) found that the cash element of the MPs' reward package was worth 85% of the average cash reward available to a selected group of other public sector professions. We have updated the SSRB work and have found that, using 2012 figures, MPs' cash reward has slipped to 80% of the cash reward available to those other public sector jobs used by the SSRB.<sup>6</sup>
28. Second, the SSRB recommended and Parliament accepted that the salary be increased to £61,820 from 1 April 2007. If this salary had kept pace with national average earnings, it would now be £68,954. Based on projections of earnings growth from the Office for Budget Responsibility, the salary in 2015 would be £73,365.
29. The third is the relationship between MPs' pay and average national earnings. This has changed over time. If we look at the period from 1911 – when MPs were first paid a salary – to 1980, the start of the decade in which the expenses/remuneration confusion began, we find that MPs' pay was 3.16 times average national earnings. Over the years

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<sup>5</sup> It has since been increased by 1%, in line with the wider public sector pay policy, to £66,396.

<sup>6</sup> Source: advice from DLA Piper on current remuneration available to the SSRB roles. See Annex A, Table 1.

since 1980, the ratio has fallen to 2.7. Restore the ratio to its level before the muddling of expenses and remuneration and MPs' pay in 2015 would be £83,430.<sup>7</sup>

30. The fourth reference point is the 2008 report of Sir John Baker, previously the Chair of the SSRB. He argued that changes in MPs' pay (which he judged to be 10% too low) should be determined by reference to annual movements in average public sector earnings. He drew especially on the 2007 PricewaterhouseCoopers (PwC) study of the weightings of comparable roles and methods of indexation. Updated to reflect movements in public sector average earnings since 2008, Baker's formula would yield a salary today of £74,365. Project that figure forward to May 2015 – the expected start date of the new Parliament - and the prospective salary rises to £79,122.<sup>8</sup>
31. These four reference points, each judgement drawing on discrete reasoning, persuade us that MPs' pay should rise in 2015 and that its level should be in the range £73,365 - £83,430. In recognition of the current difficult economic circumstances and the potential pension liabilities for the taxpayer,<sup>9</sup> we recommend that the salary be set at the lower end of this range: £74,000, indexed to national average earnings thereafter. This equates to an additional £6,269, an increase of 9.26%.<sup>10</sup>
32. Before we leave the question of salary, we should address the question of 'outside earnings' or 'second jobs', as it is often termed. Some people feel that being an MP should be a 'full-time job'; others believe that Parliament benefits from the experience that some MPs bring from having other employment. We looked at this issue in our earlier consultation and concluded that IPSA had no remit to determine what MPs

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<sup>7</sup> Average earnings are based on data compiled by the Measuring Worth website [www.measuringworth.com](http://www.measuringworth.com). This website has compiled economic data going back as far as the 13<sup>th</sup> century. Since 2000, the indicator used for average earnings is Average Weekly Earnings, not seasonally adjusted (KA46), published by the Office for National Statistics. In 2012 the annualised figure was £24,440. This has then been uprated using Office for Budget Responsibility forecasts for average earnings growth (1.4%, 2.7%, 3.6% respectively for 2013-15) to give a 2015 figure of £26,368. This average earnings figure is then multiplied by 3.16 (the 1911-80 average multiple) to give an MP salary of £83,430 in 2015. The figures in this explanation are rounded: hence the slight discrepancy in the calculation.

<sup>8</sup> The 2013 figure is based on Sir John Baker's methodology, updated using the Office for National Statistics Average Weekly Earnings KAC9 series. The 2013 figure has been indexed to 2015 using Office for Budget Responsibility projections for average earnings growth as in the above footnote.

<sup>9</sup> See paragraphs 120-125 for more on this.

<sup>10</sup> Compared to the salary in 2015 if IPSA applied the public sector pay policy of a 1% increase in 2015.

should do or earn outside their parliamentary activities and that, in any event, the proportion of MPs with significant outside earnings is small.<sup>11</sup>

### ***Resettlement Payments***

33. We turn next to the consideration of resettlement payments: these have historically been paid when MPs leave Parliament. Their title alone should alert us that there is something odd here. It is as though MPs have to be resettled within the community after their time in Parliament. Moreover, the financial cushion awarded to them on their return is generous: at the end of the last Parliament, some MPs were entitled to a full year's salary. This is no longer justifiable, if it ever was. Before IPSA was established, resettlement was paid to *all* MPs on leaving Parliament at an election whether or not they fought for their seat. As an interim measure, for this Parliament alone, we have allowed the payments to continue, but payable only to an MP who fights and loses the seat for which he or she was elected, and limited to a maximum of six months' salary. We intend that they will cease to be paid altogether after the 2015 general election. Instead, we will introduce payments akin to redundancy payments for those who fight and lose their seats at a general election. While there is technically no redundancy, as the post still exists, the MP's experience is similar to that of a redundant worker. These new payments will be set at a level which those made redundant in other walks of life might expect: twice the statutory minimum level, which might lead to a typical payment in the region of £14,850, or about 17% of the annual salary,<sup>12</sup> in comparison to the maximum £33,530 available at the 2015 election, or the 100% of salary available in 2010. MPs leaving Parliament voluntarily will not receive a payment. We might expect this reform to realise savings to the taxpayer in 2020 of some £1.07 million, compared with the system which will operate at the 2015 election.<sup>13</sup> The system operating for the 2015 election will already be significantly cheaper than the system which operated at

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<sup>11</sup> See paragraphs 97-98 of the October 2012 consultation and paragraphs 17-22 and 83-84 of the January 2013 report.

<sup>12</sup> This assumes that current limits on redundancy apply and that the MP leaves Parliament after 11 years service. Longer or shorter service would affect the level of the payment.

<sup>13</sup> Around 70 MPs are defeated at each election. This forms the basis of the assumptions for both the 2015 and 2020 calculations.

the 2010 election, saving perhaps £11.2 million in 2015.<sup>14</sup> The changes we have introduced are expected to save the taxpayer about £12.5 million by 2020.

### ***Business Costs and Expenses***

34. We next consider the business costs and expenses regime. This might seem surprising because we have emphasised that remuneration should be considered as a discrete topic, separate from the scheme of business costs and expenses. Indeed, in the course of this review we have explicitly rejected the argument, put to us by some, that we should abandon receipted expenses and that we should roll up 'allowances' into salaries. That would be a retrograde step, abandoning transparency and accountability and returning us to the confusion and attendant risk which were the parents of the 2009 crisis. Why, then, make any changes now to the business costs and expenses regime? Because we want to *reinforce* its separation from remuneration, not to merge the two. The new salary for MPs provides the income of a professional. Once that is in place, it is appropriate for us to ask whether there are any elements of the business costs and expenses scheme which provide funding for items which other professionals might reasonably expect - and be expected to - meet out of their salary. Having asked ourselves this question we have concluded that the taxpayer should no longer fund certain items for which MPs may currently claim. Therefore, after the next election, we will no longer meet the cost of evening meals taken when the House of Commons sits after 7:30pm, home contents insurance, installation of televisions in residential accommodation or their associated licences, and hospitality (which frequently covers the costs of tea and biscuits in the office).<sup>15</sup> We will also examine whether there are other types of expense which should be removed. These changes will bring MPs into line with other professionals and will realise a saving to the taxpayer of around £178,000 in 2015.<sup>16</sup>

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<sup>14</sup> While no figures have been released by the House of Commons, the high level of payments and the wide eligibility mean that the cost may have been as much as £14.5 million.

<sup>15</sup> The complete list of removed expense types is: home contents insurance, domestic television installation and licence, hospitality, and some travel and subsistence where the House is sitting late - for example, an evening meal after 7.30pm, a hotel (if before 1am) or a taxi home (if before 11pm). We are reflecting the provisions of the First Edition of the Scheme on late working, which are themselves reflected in HMRC legislation.

<sup>16</sup> This is based on expenditure in 2011-12 uprated by projections of CPI to 2015.

## ***Pension***

35. Finally, we turn to MPs' final salary pension scheme. Its terms are generous and its cost to the taxpayer is high, although the contributions from MPs are also high, relative to those made by members of some other public service pension schemes. It is clearly unsustainable at a time when the other public service pension schemes are subject to fundamental reform to make them affordable for the long-term. The new scheme will be based on accruals at 1/51<sup>sts</sup>, revalued by CPI (the Consumer Prices Index) each year; it will deliver defined benefits based on career average salaries, not on final salaries; it will provide less generous ancillary benefits than the current arrangements; and it will guarantee protection for the taxpayer from future significant increases in costs. In short, it will reform MPs' pensions along the lines recommended by Lord Hutton, bringing them into line with the pensions available to other public sector workers. This should realise an initial annual saving to the taxpayer of around £2.4 million in 2015, rising to an annual saving of £2.8 million by the end of the Parliament.<sup>17</sup>

## ***An integrated package***

36. This, as we have said, is a package – and it needs to be understood as one integrated whole. We now turn to what it all adds up to. Taken together, the net additional cost to the taxpayer in 2015 will be around £2.77 million. When we factor in savings achieved from the ending of the 2010 resettlement grant system, this falls to around £500,000. The pay component will rise by £6,269 in 2015, a 9.26% increase above the pay they would receive if we simply followed the public sector pay policy of annual 1% increases. As we have explained, there are good reasons for this rise, but we have not reached this conclusion without the most careful consideration of the evidence and of the arguments put to us. Crucially, by its being our decision, taken independently of Parliament and government, the politics are taken out of MPs' pay. We will reinforce that fundamental principle by also introducing an automatic annual adjustment of pay in accordance with movements in national average earnings.<sup>18</sup> This seems to us to be the right approach: it

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<sup>17</sup> Based on all MPs being contributing members of the scheme.

<sup>18</sup> We propose to link MPs' pay to annual percentage changes in the Average Weekly Earnings index (using the Office for National Statistics series KAC3, which is a seasonally adjusted measurement of the whole

links the pay of MPs to the fortunes of their constituents. In the first year of every Parliament we will look – as we are obliged to do by law – at how the indexation is operating. We will also take stock of the package as a whole. But we do not envisage that these will be lengthy or complex exercises.

37. If that is what the new deal is, we should be clear about two things which it is not.
38. First, it is not a series of trade-offs between the component parts of the package. Other public sector workers have not received salary compensation for the reform of their pensions. Nor should MPs. The resettlement payment is past its sell-by date and it should go. There is no offsetting increase in pay. And the reinforcement of the boundary between pay and the business costs and expenses regime brings it into line with changing standards in other walks of life, reflecting what we expect professionals to fund from their own pockets. Again, it is not a reason for a salary increase. Rather, the salary component is justified on its own terms.
39. Second, the salary increase is not, in any sense, a response to what has happened over the last 30 years when remuneration and expenses were confused. It is not deferred compensation for the tighter business costs and expenses regime we introduced in 2010. The salary represents our view of what it will be appropriate to pay MPs in 2015.
40. We have reached a judgement here. Although there is much useful context and evidence on which we have been able to draw, none of this provides a definitive answer to the question of what MPs should be paid. It informs our judgement, but is not a substitute for it. In taking our view, we wanted to affirm the value of representative democracy and those who engage in it. We wanted to choose a salary figure that was neither an incentive nor a disincentive for as wide a range of people as possible to enter Parliament. We thought this required a professional salary, but one which also recognised the vocational element in public life. Some will think that our proposed salary level is too high, others that it is too low. But that is in the nature of any judgement.

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economy in Great Britain, including bonuses and excluding arrears. To smooth anomalies, we propose to use the three month average for January each year).

### ***Annual accounts, annual reports***

41. One final, but important point. Since 2010, we have brought unparalleled levels of transparency to the funding of MPs. With this new package, we want to take that approach one step further. Each year we will publish a statement of the total funding received by each MP. We already publish the salary and total business costs and expenses paid to each MP. We will now expand that account to include the total package of remuneration. If we are doing that, it seems only right to ask MPs to give an account to the public of what they have been doing. Many already do something along those lines. But it seems right that all are encouraged to do so, to sit alongside our annual statement of the funding they have received. We cannot require this of MPs: we do not have the powers to do so, nor would we wish to. Moreover we do not for a moment wish to engage in what might be seen as ‘mission creep’ whereby IPSA appears to be telling MPs what to do. IPSA is a regulatory body, not a performance manager. But, with that clearly understood, we now invite Members of Parliament to define the format and content of their annual reports. We will, of course, play any part that would be useful in supporting this work and we hope we can come to an agreement on its operation in the next few months. Such an agreement is an integral part of the overall package. We very much hope that MPs will see the advantage in producing a report, not least because of the accountability it represents and the electorate’s engagement with politics it may induce. This is a fair settlement; one that is fair to the taxpayer and fair to MPs. It is also a sustainable settlement, taking the politics out of MPs’ pay for the long-term. Not least it represents an investment in the future of our parliamentary democracy.

# Chapter Three: MPs' Pay

## **Background**

42. The basic salary of a backbench MP is currently £66,396 per year. It was increased by 1% from £65,738 in April 2013, and is scheduled to increase by a further 1% in April 2014, in line with public sector pay policy. This will take it to £67,060. If we followed the public sector pay policy and applied another 1% increase in 2015, the salary would be £67,731.
43. A number of MPs do, of course, receive additional salary: 68 MPs are Committee Chairs or members of the Panel of Chairs and 97 MPs have other paid positions such as Government ministers or whips.<sup>19</sup> In total, around a quarter of the House of Commons receives more than the basic pay for their additional roles.
44. We should briefly turn to the matter of outside earnings. We should do so not least because it attracted much comment in our initial consultation document. It would be tempting to deal with it briskly by saying that it is, rightly, a matter for Parliament: we have no powers over MPs' outside earnings. But it might help if we made a couple of further observations. Firstly – the scale of the question. From an analysis of the House of Commons *Register of Members' Financial Interests*, *The Times* reported that fewer than 10% of MPs earn more than £10,000 a year<sup>20</sup> over and above their Parliamentary and ministerial salaries. *The Guardian* later reported that during 2012-13, 17 MPs earned more than £100,000 from other activities.<sup>21</sup> The second concerns the nature of the issue. At its core it does not seem to be a financial question. After all, nobody seems much concerned by MPs' income from investments or inheritances. The focus is on additional *earned* income. The suspicion is that if MPs are spending *time* doing other jobs, they are not working for their constituents, or fulfilling their duties at Westminster. We are not aware that anybody has sought to prove this proposition. Moreover, it is open to MPs, as it is to anyone else, to use their free time for whatever purpose they

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<sup>19</sup> Numbers as at 1 July 2013.

<sup>20</sup> *The Times*, 22 August 2012.

<sup>21</sup> *The Guardian*, 27 May 2013.

choose. This is primarily an issue about how MPs use their time. As such, as we noted at paragraph 32, it is a matter for Parliament rather than for IPSA.

45. We noted at paragraph 27 above, that there is evidence that a gap has opened up between the pay of MPs and the comparators used by the SSRB and others in the past. Certainly the pattern of MPs' growth in pay has tended to be stop-start, with significant increases followed by years of stagnation.
46. One way of approaching the issue is in terms of MPs' pay in comparison with overall pay elsewhere in the economy. Over the past hundred years, MPs' pay has been, on average, just over three times that of national average earnings. It is currently at a multiple of 2.7 and therefore below the long term average. The multiple for the period between 1911 – when MPs first received a salary – and 1980 was 3.16. It is after this period that some commentators believe that pay and expenses began to blur, as basic salaries were held down and the value of allowances was increased.

**Chart 1: relationship between MPs' pay and UK average earnings 1911-2011.**<sup>22</sup>



<sup>22</sup> See the October 2012 consultation paper for further charts and explanation of the data sources, and footnote 7 for an explanation of the calculations.

47. Another way of looking at the relative position of MPs' pay is to look at comparator roles as used by others who have studied MPs' remuneration. These might be other elected representatives, in the UK and abroad, or comparable professions – if any are truly comparable. We return to this subject in paragraph 52 below, but in our October 2012 consultation paper we showed that if there was an average comparable salary by either of these measures, it might be in the £75,000-85,000 range.<sup>23</sup>
48. We have also carried out some counterfactual 'what-if' analysis, looking at what might have happened if the recommendations of earlier reviews had been followed, if MPs' salaries had tracked average earnings, or if MPs' salaries were restored to their pre-1980 average as a multiple of average earnings. The table below summarises the hypothetical outcomes – the scenarios – for 2013 and 2015, using projections for earnings growth in 2013, 2014 and 2015 from the Office for Budget Responsibility (OBR).<sup>24</sup>

**Table 1: MPs' salary scenarios for 2013 and 2015**

<b>Scenario</b>	<b>2007 (£)</b>	<b>2013 (£)</b>	<b>2015 (£)</b>
<b>Public Sector Pay Policy: a 1% increase in 2013, 2014 and 2015.</b>	61,820	66,396	67,731
<b>2007 salary increased by average earnings growth.</b>	61,820	68,954	73,365
<b>Sir John Baker recommendations in full.</b>	61,820	74,295	79,047
<b>Link MPs' pay to the average multiple of the national average wage over the period 1911-1980.</b>	70,205	78,413	83,430

49. Paragraph 27 presents this in another way for the basket of professional comparators selected by the SSRB in 2007. In that year, they suggested that the cash element of the MPs' reward package was worth 85% of that available to the comparator group. We estimate that by 2012 this figure had fallen to 80%. The detailed figures can be seen in Table 1 in Annex A.

<sup>23</sup> See Chapter 5 of the October consultation document.

<sup>24</sup> Available in the OBR's Economic and Fiscal Outlook, March 2013:

<http://cdn.budgetresponsibility.independent.gov.uk/March-2013-EFO-44734674673453.pdf>

50. All of the figures here would suggest that the growth in MPs' pay has lagged behind the chosen comparators in recent years; but of course this very much depends on the chosen reference points. When, for example, ComRes asked members of the public about comparable professions, some of their initial choices would pitch MPs' salaries at a lower level than they are now.<sup>25</sup>

### ***Arguments***

51. In this section we use the questions outlined in the framework suggested in our January 2013 report.

### ***How and to what extent should we use comparisons with other occupations in setting MPs' pay?***

52. Previous studies of MPs' pay, including those by the SSRB in 2004 and 2007 and Sir John Baker in 2008, considered the use of comparators to determine MPs' pay.<sup>26</sup> They recognised the fact that MPs' jobs were in many respects unique and performed in different ways by different MPs. Sir John Baker concluded that increases in MPs' pay should not be linked to movements in the pay of other occupations, but instead should be linked in the future to the public sector average earnings index. The House of Commons decided, however, to link changes in MPs' pay to a basket of 15 public sector occupations. This link did not last long and by the time that the responsibility for MPs' pay passed to IPSA, the House of Commons had passed a motion asking IPSA to freeze MPs pay, in line with public sector pay policy.
53. The question of indexing MPs' pay to selected indices is considered in paragraphs 81-87 below, but here we first ask the question whether comparators can help to determine the level of MPs' pay. We have updated some of the comparisons made in the past, and the results are shown in Table 1 in Annex A. What conclusions can we draw from these? We regard it as important to concentrate on the key issue of "responsibility" – what responsibility MPs bear – rather than such crude criteria as hours worked. MPs have significant formal responsibility: for the laws that are passed and scrutiny of what

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<sup>25</sup> See Chapter 3 of the October 2012 consultation.

<sup>26</sup> See Chapter 5 of the October 2012 consultation.

governments do, but it is clearly a different kind of responsibility from that exercised by a head teacher, doctor, colonel or police officer, as are the qualifications and training required to perform the roles.

54. So, while we reject the principle of determining MPs' pay by reference to 'comparator' professions directly, it is a matter of concern if MPs' pay appears to have fallen behind in relative terms. This pay gap is one of the factors we have taken into account in putting together a new remuneration package.

***Should MPs' pay be linked to their status or standing in the community?***

55. It has been put to us by some MPs that they are frequently dealing with important figures in their communities, the people who make decisions affecting the livelihoods of their constituents. As Charles Walker MP described in his response to our first consultation:

*Whilst it is impossible to provide a uniform job description for Members, there are certainly areas of commonality. For example, all colleagues would deal directly with Chief Executives of Councils, Chief Executives of NHS Trusts, University Vice-Chancellors, school Head Teachers and Chief Constables. Members also have a keen interest in securing both private and public sector investment into their communities and defending this investment when it is under threat. This can take the form of supporting small companies in their dealings with banks, right through to making representations and leading campaigns in regards to major redundancies, international takeovers or multi-million pound infrastructure projects.*

56. MPs can often have a decisive influence on the way in which we live, through their position as the democratically elected representatives of the constituency. Yet, it is said, they are likely to be amongst the lowest-paid of those leaders of the community. Does this affect their status and influence? We doubt that it does. The status, legitimacy and standing of MPs flow from their position as the elected representatives of their constituents, not the size of their pay packets.

***Does pay have an impact on the diversity of the House of Commons?***

57. An argument put forward by some MPs, and occasionally by others, is that if MPs' pay does not keep up with that of certain professions, or senior roles in the public sector, we risk Parliament's returning to the Victorian era, when the majority of MPs were independently wealthy. It is argued that while Parliament will remain open to those on low incomes and those with wealth and independent means, we will lose the 'professional middle' including business men and women, who may have to give up a successful career to enter Parliament.
58. Equally, it is said by some that women (and men) with caring responsibilities may be deterred from standing for Parliament because the combination of working conditions which are inimical to family life, and a salary which is not sufficient to pay for good child care will lead them to conclude that the sacrifices are not worth making.
59. These are inevitably matters of judgement for the individuals concerned. We have asked the political parties if they have any evidence that MPs' pay affects the nature of the potential candidates coming forward. We have yet to receive any such evidence. We will continue to explore this point through the consultation period.
60. The House of Commons Library provides information on the social background of MPs after each General Election. In its latest analysis,<sup>27</sup> it shows that since 1979 there has been a marked increase in the proportion of women in Parliament, rising from 3% in 1979, to 22% in 2010. Women are still under-represented, despite the changes to selection policies in the political parties to increase the number of women candidates. There has been little change in the average age of MPs (roughly 50). There are now 27 non-white MPs, up from 4 in 1987. This is still a lower proportion (4.2%) than in the general population (8%). There are fewer barristers and schoolteachers, and considerably fewer manual workers, but there are more people who have become MPs after working in politics in one way or another, as special advisers or in think tanks.

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<sup>27</sup> See House of Commons Standard Note SN/SG/1528, published on 14 December 2010.

61. Is the current level of pay a deterrent for potential candidates? There is no compelling evidence that it is. If pay was a factor in candidacy, one might expect the job of an MP to be attractive to relatively low-paid workers. The fall in the number of former-manual workers in the House of Commons suggests that there are other factors at work here, such as the decline of the manufacturing industries and the trade unions linked to them, as well as the nature of the selection process.
62. If there is no hard evidence about the effect of MPs' pay on recruitment, what about any effect on retention? We have heard MPs say that some of their colleagues are less likely to stand again for Parliament for a number of reasons, including pay. The Hansard Society conducted a survey of new MPs in 2010, which suggested that a good number were finding parliamentary life more challenging than expected.<sup>28</sup> Obviously pay could be one of those challenges and an increase in pay might serve as some compensation for the challenges, but the relationship between pay and dissatisfaction has not been demonstrated. If there is dissatisfaction with some aspects of the job, this is more likely to be for other reasons. Moreover, many MPs enter Parliament because they have a strong public service ethos and see public life as a vocation; pay is unlikely to be a major factor for those people.
63. Nor is turnover at elections likely to tell us much about the effect of pay on retention. There was an unusually high turnover of MPs at the 2010 election. This was largely the effect of a change in party allegiances by voters, but also a higher than usual number of retirements (149 compared with 86 at the 2005 election). This might have been partly the result of the expenses scandal. But we are unaware of any systematic surveys of voluntarily departing MPs to ascertain their reasons and we have no real evidence that pay has had an impact on the diversity of the House of Commons.
64. It is sometimes argued that a relatively low level of MPs' pay, compared with some professions, will lower the quality of incoming MPs and therefore reduce the pool of MPs suitable for ministerial posts in future. As governments are formed from the relatively small pool of people who comprise the majority party or parties in Parliament,

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<sup>28</sup> Hansard Society, *A Year in the Life: from Member of the Public to Member of Parliament, 2011*. Available at [www.hansardsociety.org.uk](http://www.hansardsociety.org.uk)

the calibre of those entering the House of Commons clearly matters greatly for the quality of government. But many commentators say that the 2010 intake of new MPs was one of the highest in quality for some time and they entered Parliament knowing what the salary was. Such claims and counterclaims tend, of course, to be used to support prior positions. The problem is that they are not supported by evidence. They merely provide further context for the judgements we must make.

65. There is an important further point to add here. When we say that we want to pay MPs a professional salary for doing a professional job, we mean professionalism in the sense of a commitment to high standards of performance, ethics, service and accountability. We emphatically do not mean that we want to nurture a professional political class of people whose only experience is of politics. Indeed our salary proposal is designed to enable people from the widest range of backgrounds, including those with careers and experience elsewhere, to feel that they can enter (and leave) parliamentary politics in the course of their professional life.

***What is affordable and how far should pay be affected by public opinion and confidence in Parliament?***

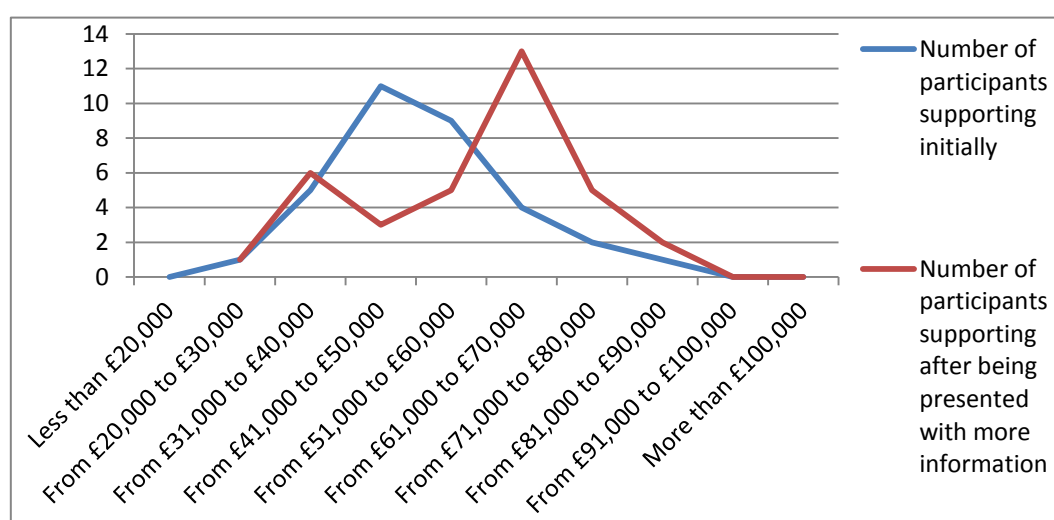
66. Our recommended increase in pay will have a knock-on effect on future pension costs. The Constitutional Reform and Governance Act 2010 expressly requires IPSA to ensure that any future level of pay applies to all pension benefits accrued before any new pension scheme comes into effect.<sup>29</sup> So, for example, if an MP has been in Parliament for 10 years before 2015, the pension benefits accrued in those 10 years will be calculated in relation to the MPs' salary when he or she leaves Parliament, and not the salary in 2015 before the changes to the pay and pensions package. This is the same for members of other public service schemes as well. This means that any pay increase also creates a future pension liability for the taxpayer, as the benefits accrued before the pay rise are now more expensive. By way of illustration, were MPs' salaries to increase to £74,000 per year in 2015, the one-off extra liability created for the MPs' pension scheme would be of the order of £10 million, which might be spread over 15 years.

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<sup>29</sup> See Schedule 6, Paragraph 19 of the Constitutional Reform and Governance Act 2010.

67. We clearly need to be mindful of these costs when considering whether MPs should receive an increase in their pay, and in the context of austerity in the public sector.
68. At the same time, past increases in MPs' pay, judged to be justified and appropriate by review bodies, have been set aside or diluted because of concerns about the political consequences of their implementation. Quite simply, there is never a good time to determine MPs' pay. There will always be reasons to put off a decision.
69. Our work with ComRes in 2012 showed that most members of the public, when initially considering MPs' pay, did not think it should be increased. In fact, when asked how much MPs should be paid, a plurality pitched it in the £30,000-50,000 range, with the average figure being £49,710. In a citizens' jury exercise, the participants discuss the issues for several hours and receive more supporting information than in a focus group. This allowed us to see whether attitudes changed with greater understanding of the subject. What we found is that some people did become more inclined towards somewhat higher pay for MPs. The decisive information was seeing what others, whose roles carried significant responsibilities, received.

**Chart 2: The views of participants in citizens' juries on the appropriate pay for MPs before and after being presented with information about MPs' work.<sup>30</sup>**



<sup>30</sup> ComRes Citizens' Juries, *MPs' Pay and Pensions: A Public Verdict*, July 2012. This chart combines the findings of two citizens' juries in Reading and Huddersfield. Available on our website [www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk)

70. This additional information served to persuade participants in their view that the current pay levels were about right; only a minority believed that MPs should be paid significantly more.
71. We also surveyed MPs, anonymously through the polling organisation YouGov.<sup>31</sup> This survey asked 100 MPs (weighted to be representative on party, gender, electoral cohort, and geography) several questions about MPs' pay. 69% of respondents felt that MPs were currently underpaid. When asked what they believed MPs should be paid annually, the responses ranged from below £40,000 to over £100,000. The average figure was £86,251.
72. We are, therefore, aware that any increase in MPs' pay that goes beyond the current public sector norm does not, if seen in isolation, currently reflect the views of the majority of the public (although it might be welcomed by MPs). Noting this point, it is particularly important to look at our package of reforms as one, integrated whole.

***Should MPs be able to choose from more than one pay level?***

73. This question arose initially in the context of MPs who have significant outside earnings. But it also has relevance to the pensions issue. We look at the latter point at paragraphs 120-125 below.
74. There is a superficial attraction to allowing MPs to opt for different levels of pay. However, we think that there is a real danger that it would force MPs and candidates into a 'race to the bottom' particularly during election periods. This would not be fair to MPs and would be counter to our aim to take the politics out of MPs' pay as much as possible. Therefore we are not minded to pursue this issue.

***Conclusion***

75. As can be seen from the evidence and analysis above, there is no simple or definitive way of determining MPs' pay. There are many factors to be taken into account, but

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<sup>31</sup> The full results can be found attached to *Reviewing MPs' Pay & Pensions: A First Report* on our website [www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk)

ultimately it is a matter of judgement. IPSA, as a body which is independent of Government and Parliament, has been charged with making that judgement.

76. We have argued that comparators cannot be used mechanistically to determine MPs' pay. They provide a context, and one to which many members of the public can relate. We also have the evidence of what would have happened to MPs' pay if previous recommendations had been adopted. This suggests that the failure to implement those recommendations fully has created a pay gap.
77. The data points identified in paragraphs 27 to 31 suggest that the appropriate level lies somewhere in the range between the figures produced by:
- indexing the last independently recommended salary to national average earnings (£73,365);
  - implementing Sir John Baker's 2008 recommendations in full (£79,122); and
  - restoring the historical norm as a multiple of national average earnings (£83,430).<sup>32</sup>
78. The midpoint of this range would take MPs' annual pay to £78,300. However, in the current economic climate, and bearing in mind the impact on the pension liability, we think that a payment of this level is too high.
79. We judge that a figure of £74,000 per year, payable after the 2015 general election, is appropriate. This equates to an increase of £6,269, or 9.26% higher than it would be in 2015 if we simply followed the public sector pay policy with a 1% increase.
80. This figure addresses the pay gap by catching up with the increases in earnings in the wider economy, but does not place an undue burden on the taxpayer.

**QUESTION 1: Do you agree that MPs' annual pay should be increased to £74,000 in the new Parliament as part of the new remuneration package? What are your reasons? If you do not agree, what do you propose and what are your reasons?**

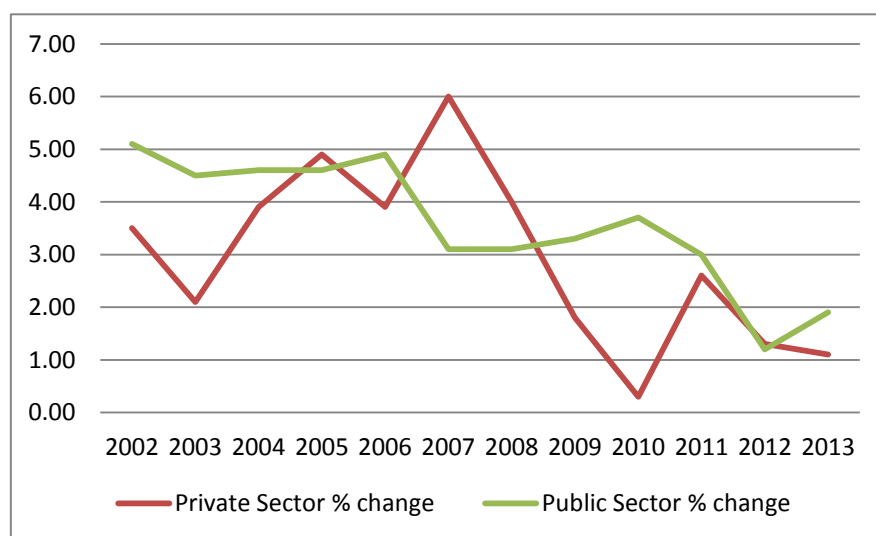
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<sup>32</sup> See discussion at paragraph 29.

## ***Indexation***

81. Under our governing legislation, IPSA must review MPs' pay in the first year of every Parliament. Having confirmed a decision for 2015 later this year, we will review that decision as required and, in particular, we will do so, should the prevailing economic circumstances demand it.
82. There is then a decision as to what to do for the remainder of each Parliament. There would be little sense in returning to the subject each year, with the political controversy that MPs' pay inevitably engenders. Therefore we are attracted to a form of indexation of MPs' pay, whereby the salary tracks an economic indicator. This would become the norm, so that pay would increase – or decrease – in line with an objective economic measure. The politics would therefore be taken out of MPs' pay.
83. Sir John Baker, in 2008, recommended that MPs' pay should be indexed to the growth in average public sector earnings. We can see the arguments for taking a public sector index, given that most of the roles he compared with MPs – to the extent that there are any – are in the public sector. Nonetheless, we are attracted to the use of an average earnings indicator for the whole economy. The principal reason for this is that it ties MPs' pay to the fortune of all citizens, regardless of whether they are in the public or private sector. This seems right, given that MPs represent all their constituents, not just those from a particular sector.
84. Another, though less important, reason for linking MPs' pay to earnings for the whole economy is that it removes any sense that their pay is still determined by government, since it is government that determines the level of most public sector pay.
85. The relationship between earnings growth in the public and private sectors varies over time, but over the majority of the past decade, public sector earnings have grown faster than those in the private sector, as Chart 3 below shows. Were this relationship to continue, then MPs' pay will increase more slowly than if it were simply tied to the public sector.

**Chart 3: Movements in Average Weekly Earnings in the public and private sector over the last decade.<sup>33</sup>**



86. If MPs' annual pay was set at £74,000 at the start of the next Parliament this would represent 2.8 times national average earnings.<sup>34</sup> We could choose to link the salary to this multiple for rest of the Parliament adjusting the salary as the national average earnings increases or decreases (barring any reasons for ending the indexation). The multiple would be reviewed in the first year of the following Parliament.
87. Alternatively, we could choose to link the pay to the increase or decrease in an index produced by the Office for National Statistics. We propose to use the AWE-KAC3 series, which measures the annual percentage changes in total weekly pay (including bonuses) for the whole economy in Great Britain and is seasonally adjusted. To help smooth anomalies, we propose to use the three-monthly average figure for January each year as this is the month that has historically had the lowest variance between years. We would welcome views on whether this is the right index.

**QUESTION 2: Do you agree that we should index MPs' pay to an economic indicator? Do you agree with the choice of indicator? If not, what are your reasons?**

<sup>33</sup> Based on Office for National Statistics EARN01 data available at [www.ons.gov.uk](http://www.ons.gov.uk). Private Sector Change refers to the change in the three month Average Weekly Earnings for January each year (KAC3). Public Sector Change refers to KAC9.

<sup>34</sup> This has been calculated taking national average earnings as £24,440 in 2012 and inflating them by the Office for Budget Responsibility forecasts for average earnings in its March 2013 *Economic and Fiscal Outlook*. See footnote 7 for a further explanation of the calculations and sources.

# Chapter Four: MPs' Pensions

## *Background*

88. Like most public service pensions, the current MPs' scheme provides a pension based on final salary. However, unlike the majority of those schemes, it is a funded scheme, which means that the pensions are paid from a fund containing the invested contributions of the taxpayer and of MPs. The scheme provides a defined pension for life, once an MP reaches the age of 65, or older if they have not yet left the House of Commons.
89. The scheme provides relatively generous benefits, which require relatively high contributions from both the taxpayer and MPs. MPs can accrue benefits equivalent to either  $1/60^{\text{th}}$ ,  $1/50^{\text{th}}$  or  $1/40^{\text{th}}$  of their final salary for each year of their membership of the pension scheme. Similar arrangements exist for Committee Chairs, although their pension operates on a slightly different basis.<sup>35</sup>
90. To qualify for accruals at  $1/40^{\text{th}}$ , MPs must currently contribute 13.75% of their gross salary. The vast majority of MPs contribute and accrue benefits at this rate.<sup>36</sup>
91. The MPs' pension scheme has become ever more expensive to the taxpayer (and MPs themselves) as life expectancy increases, and with returns from investments not as high as in the past as a result of market conditions. As we showed in the October 2012 consultation paper, the cost of accruing benefits in the scheme has risen from 21.6% of payroll in 1999-2002 to 32.4% in 2012. MPs, on average, contribute 12% of payroll and the taxpayer 20.4%.<sup>37</sup>
92. The overall cost of 32.4% of payroll compares with an average of 21.6% for the other main public service schemes. Furthermore, the Treasury contributes a further 9.5% of payroll to cover the current deficit in the fund.

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<sup>35</sup> As set out on Page 69 of the October 2012 consultation paper.

<sup>36</sup> They can also accrue at  $1/50^{\text{th}}$  (contribution 9.75%) or  $1/60^{\text{th}}$  (7.75%).

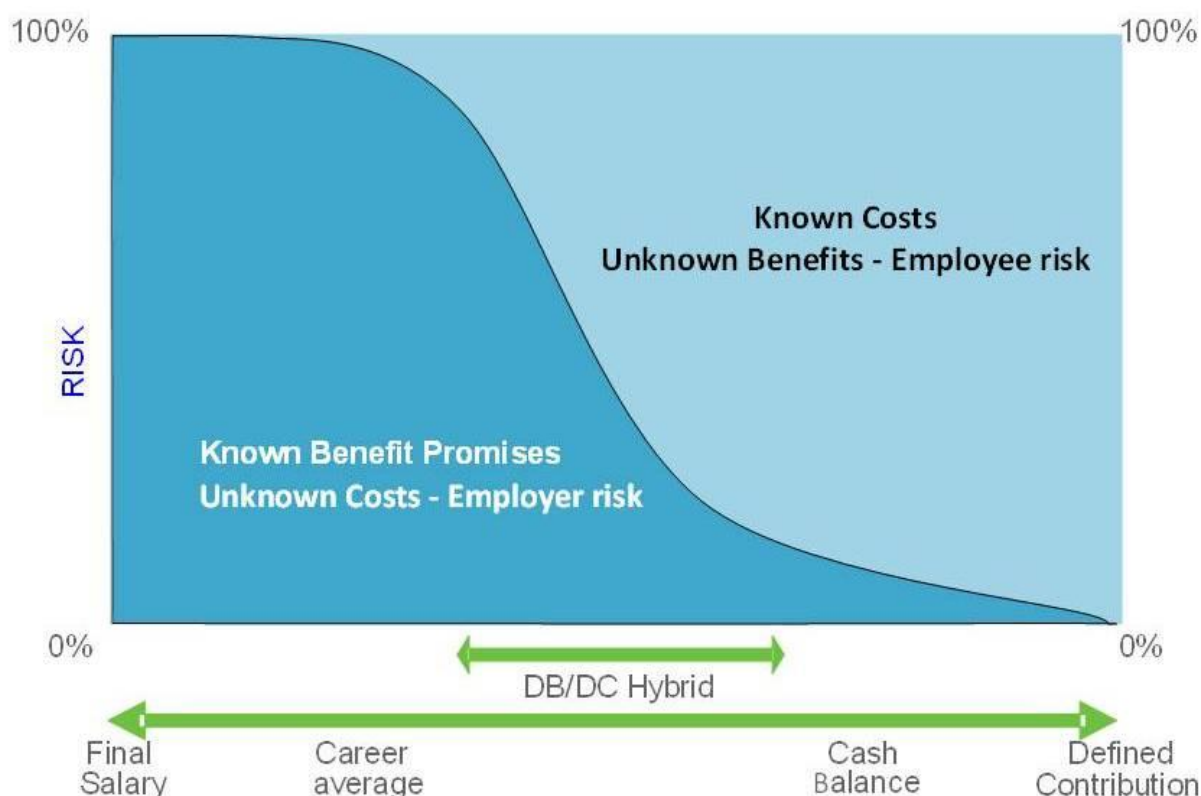
<sup>37</sup> See table 10 of the October 2012 consultation paper.

93. In our October 2012 consultation paper we set out a number of possible arrangements for the MPs' pension scheme in the future. We assumed that the annual cost of the future scheme would be 24.5% of payroll, in line with the reference scheme set out by the Treasury, against which the reforms to the public service pension schemes were developed. The reference scheme remains a defined benefit scheme, but is based on career average revalued earnings (CARE) rather than final salary. The accrual rate is 1/60<sup>th</sup> of annual salary, and retirement age is equal to the State Pension Age. Benefits are uprated by the increase in earnings every year. This uprating is known as the revaluation rate.
94. In our October consultation paper we modelled a range of outcomes for MPs under different schemes, including a defined contribution scheme and some hybrid schemes, such as the cash balance scheme.<sup>38</sup>
95. The difference between the two broad types of pension scheme – defined benefits and defined contribution – relates to where the risks of higher costs and lower returns on investment lie. In defined benefit schemes, still prevalent in the public sector, the employee knows what benefit he or she will receive on retirement. Contribution rates may rise in the meantime, but the benefits are guaranteed by the employer. The risks from greater longevity or lower investment returns are borne by the employer. Under defined contribution schemes, these risks are borne by the employee. If investment returns are lower than planned, they will have less money to invest in an annuity to pay their pension when they retire. If longevity continues to rise, the cost of those annuities will rise.

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<sup>38</sup> See paragraphs 193-200, of the October 2012 consultation paper.

**Chart 4. The spectrum of risk for different pensions**



96. The majority of private sector schemes are now on a defined contribution basis. This is in contrast with the public sector, where a defined benefit basis is still common.

### **Arguments**

97. We address here the questions set out in the framework provided in our January 2013 consultation report.

### ***Should private sector developments (such as a move to a defined contribution style scheme) be ruled out?***

98. As we discussed in our October consultation and our January report, we believe that MPs should continue to benefit from a defined benefit pension scheme. Our consultation made clear that, for the same level of contributions, this was likely to be the most efficient method of providing pension benefits for MPs.<sup>39</sup> But, in common with other public service schemes, we think it should, from May 2015, be based on a CARE

<sup>39</sup> See in particular Table 13 and Graph 4 of the October consultation.

model. While the distinction between CARE and final salary will not immediately make that much difference to MPs, who all earn the same basic pay, and cannot achieve pay progression through promotion, it will gain greater relevance as pay increases annually through indexation.<sup>40</sup>

99. In our consultation, we found that the vast majority of respondents favoured a move to a CARE-based pension scheme for MPs, in line with the majority of other public service workers.<sup>41</sup> Given the cost savings we expect (see Chapter 10), we believe that reforming the MPs' pension scheme in this way is both fair to MPs (who are likely to make lower contributions) and to the taxpayer.
100. We do not want to rule out further discussion of the merits of defined contribution schemes. Some people have argued that MPs should be leading the public sector rather than following it, thus bringing the public sector more in line with schemes operating in the private sector. In public sector schemes, most of the risk – from increased longevity for example – lies with the taxpayer (although employees also face having to work for longer as the State Pension Age rises). Public service employees do not have to worry about the investment returns earned by their pension contributions. Nor do MPs, even though their scheme is a funded scheme, as their pension benefits are guaranteed, whatever the returns on the investments.
101. It could be argued that if we are linking MPs' pay to conditions across the whole economy, we should be doing so for their pensions as well. This might argue for a hybrid arrangement, for example a cash balance scheme, where the employer guarantees the pension pot at the time of retirement, thus taking on the investment risk, but the employee has to invest that in a private annuity, thus taking on the longevity risk.
102. A defined contribution scheme might be in the interests of some MPs. In our October 2012 consultation paper, we showed that young MPs, staying in Parliament for a short time, might benefit more from a defined contribution scheme, because of the longer

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<sup>40</sup> If MPs become ministers, the ministerial part of their salary is subject to different pension arrangements. Supplements from being committee chairs do contribute to the MPs' pension scheme.

<sup>41</sup> See the January 2013 report, paragraphs 50-52 and the on-line survey in Section 6 of the data annex, question 8. Page 112.

time during which the contributions would benefit from investment growth after they have left Parliament.<sup>42</sup>

***What are the right accrual and revaluation rates?***

103. The Government's reference scheme for future public service pension schemes assumed an accrual rate of 1/60<sup>ths</sup> and a revaluation rate equivalent to the growth in earnings. The combination of accrual and revaluation rates across the reformed public service schemes has varied. In general, a higher accruals rate benefits shorter-serving (and older) staff, while a higher revaluation rate benefits younger and longer-serving staff. The Government's key requirement has been that the cost stays within the ceilings calculated by the application of the reference scheme to the membership of each scheme.
104. We are not required to apply the same cost ceiling restrictions to the MPs' Pension Scheme, but have followed the same methodology in determining the total cost. Applying the reference scheme benefits to the current membership of the MPs' Pension Scheme produces a cost of 24.5% of payroll. However, as discussed at paragraph 111 below, we believe that this total cost is too high and have reduced it by bringing the ancillary benefits down to a level comparable with those available in the Ministers' scheme. Reducing these benefits produces a total cost of 22.9% of payroll.
105. It should be noted that this is the Government Actuary's Department (GAD) **current** assessment of the costs of the scheme. The actual costs (for the taxpayer and MPs) when the scheme comes to be implemented may be higher or lower, depending on the assumptions used and the membership of the scheme at that point.
106. MPs do not, of course have a union with whom we might discuss reform of the pension scheme. Indeed IPSA is not their employer. But we have, as it is appropriate to do, discussed the accrual and revaluation rate with the Trustees of the Parliamentary Contributory Pension Fund (PCPF). The Trustees have asked that we consider a higher accrual rate of 1/50<sup>ths</sup> with a significantly lower revaluation rate of CPI growth. GAD has

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<sup>42</sup> See page 80 of the October 2012 consultation document.

calculated that using a total cost of 22.9% of payroll, a 1/50<sup>th</sup> accrual rate would need a revaluation rate of slightly less than CPI, meaning that the pension benefits would not keep pace with prices. A revaluation rate of CPI could be achieved with a slightly lower accrual rate of 1/51<sup>st</sup> of annual salary, compared with the reference scheme. This higher accrual rate will benefit the majority of MPs, who tend to be older, with less time to retirement. It will not increase the overall cost of the Scheme, nor the cost to the taxpayer, as the revaluation rate has been reduced. On this basis, and mirroring the approach taken in other public service schemes, we recommend that the new scheme should adopt these accrual and revaluation rates. Therefore, part of our preferred option for consultation, is a combination of accrual based on 1/51<sup>st</sup> and a revaluation rate of CPI.

***What is the appropriate level of payments from the taxpayer?***

107. At present MPs contribute 37% of the costs of accrual to the pension scheme. This is not far from the typical contribution in future public service schemes, which is 40% from the employee and 60% from the employer. We think it is reasonable to follow the precedent set by other schemes and therefore propose that the 40/60 split should also apply to the MPs' pension scheme. At a cost of 22.9% of payroll, this would mean that MPs contribute 9.16% of their salaries towards the pension scheme. The taxpayer would contribute 13.74%, compared with 20.4% under the current scheme. This constitutes a saving in 2015 to the taxpayer of 6.7% of payroll, or approximately £2.4 million per year.<sup>43</sup>
108. As noted in paragraph 105 above, these costs are indicative, based on the current membership of the scheme. They may be higher or lower when the scheme is implemented and should not be taken as final.

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<sup>43</sup> Based on all 650 MPs participating in the scheme.

***Is further protection for the taxpayer appropriate?***

109. The question here is whether there should be a mechanism, in line with other public service pension schemes, to protect the taxpayers' interest if the costs of the scheme increase significantly. These arrangements (typically called a ceiling and floor) limit the effect of any changes in the cost of the scheme, keeping member contribution levels stable and the cost to the taxpayer within agreed limits. In those schemes, the taxpayer will fund the cost (or take the benefit) of minor variations in cost (less than 2%), but more significant variations will require a reassessment of the scheme's structure. We are minded to introduce a ceiling and floor arrangement, along the same lines as other public service schemes. This will ensure that the scheme is sustainable in the long term and should eliminate the need for major structural changes for some time. The details of the operation of the ceiling and floor arrangements will be based on those pertaining to the other public service schemes, but will be tailored to the specific needs of the MPs' pension scheme, including the invested assets and the position of the Ministers' scheme.<sup>44</sup> We will discuss this in more detail with the Trustees of the PCPF and HM Government over the coming months.

***Should ancillary benefits be brought into line with the Ministers' schemes?***

110. Ancillary benefits – principally the death in service benefit and pensions for survivors – are comparatively generous in the current MPs' scheme, as Table 2 shows.

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<sup>44</sup> The Ministers' Pension Scheme also forms part of the Parliamentary Contributory Pension Fund. The terms of the Ministers' scheme are set by the Minister for the Civil Service, not IPSA.

**Table 2: Ancillary benefits in other public service schemes**

Scheme	Death in Service Benefit	Survivor's pension
NHS	2x annual pensionable pay	$3/8^{\text{ths}}$ of annual pension
Civil Service	2x annual pensionable pay	$3/8^{\text{ths}}$ of annual pension
Teachers	3x annual pensionable pay	$1/160^{\text{th}}$ of final pensionable pay for each year member was active
Local Government	3x annual pensionable pay	$1/160^{\text{th}}$ of final pensionable pay for each year member was active
Ministers (new Scheme)	2x annual pensionable pay	$3/8^{\text{ths}}$ of annual pension
MPs	4x annual pensionable pay plus three months.	$5/8^{\text{ths}}$ of annual pension

111. GAD has estimated that the additional cost of these benefits, compared with those in the Ministers' Pension Scheme, equates to 1.6% of payroll, or £690,500 in the current year. These very generous provisions are valued highly by MPs, but we can see no argument why the taxpayer should continue to fund them, especially when they push the total cost of the scheme higher than that of the schemes for public servants. Members of those schemes do not receive such benefits and must make private arrangements (e.g. life assurance). We have therefore calculated the total cost of the scheme on the basis that the benefits will be brought down to the same level as in the Ministers' Scheme. This reduces the total cost of the scheme (on current assumptions) from 24.5% to 22.9% of payroll. In our judgement, that is the appropriate maximum cost of the scheme to which the taxpayer should contribute.
112. We note the value placed on these benefits by MPs, and we could retain them in the new scheme, if the cost was borne entirely by MPs. On current assumptions, this would increase MPs' contributions from 9.16% to 10.76%. This would not be an optional extra for individual MP, but would be for all the members of the scheme. We do not recommend this arrangement, but welcome views on whether it would be appropriate.

***Should there be transitional protection for MPs relatively close to retirement age?***

113. In the reformed public service pension schemes, members who were within 10 years of normal pension age on 1 April 2012 will stay in the existing scheme until they retire. They will also retain their current normal pension age, although they will also pay the increased contributions for their salary level. Members between 10 and 13.5 years of retirement are able to choose to stay within the existing scheme for a period. Younger members will move to the new scheme as soon as it is introduced. This protection strives to be fair to members who are close to their expected retirement age and are less able to change their plans than younger members.
114. We think it is right that MPs close to retirement should be able to benefit from this protection in the same way as public service workers. We propose to adopt the same model of transitional protection as the civil service. However, the operative date will be 1 April 2013. So any MP who was 55 years of age or older on that date will benefit from full protection. MPs aged between 51.5 and 55 years will be able to choose to benefit from protection for a short period. We have asked GAD to model the potential cost of this protection if MPs' salaries were to increase to £74,000 per year from 2015. The cost, which would not become due immediately, but would be spread over the period that the relevant MPs will benefit from the protection (which may be up to 18 years) is £1.5 million, or £83,000 a year if amortised equally over the 18 year period.

***Should there be flexibility in the pension scheme offered to MPs?***

115. The current scheme for MPs allows a choice of three different accrual rates, with different pension contributions. A large majority of MPs have chosen the accrual rate – at  $1/40^{\text{th}}$  of annual salary – that provides the maximum benefit, with the highest contribution attached.
116. This degree of choice is not typical of other public service pension schemes, although the new Local Government Pension Scheme will offer limited flexibility to members who wish to pay lower contributions. They will be able to pay 50% contributions for 50% of the pension benefits. This flexibility is designed primarily to cater for lower-paid local government staff who are not able, for a period, to pay the full contributions.

117. MPs' circumstances vary and there is no standard career path. Some may stay in Parliament for 20-30 years. Others may only be elected for one term. The average length of service is currently 12 years. Some enter Parliament at a relatively young age; others do so later in their careers. So there is clearly an argument in favour of having flexible arrangements.
118. However, the MPs' pension scheme is a small fund, with limited administrative resources. Having an individually-tailored scheme would be beyond its scope, were it to go beyond the current flexibility in contribution rates.
119. Given the changes that constitute our recommended option, we are inclined to offer just one scheme, which will be simple to understand and administer, thus reducing administrative costs, which have to be borne by the fund. However, MPs will have the flexibility to buy a higher level of pension if they wish. This is currently done through 'added years', a mechanism which has been phased out of most of the other public service schemes, due to the risk of increased cost to the taxpayer. The new scheme will offer 'added pension' where MPs can buy a set level of additional yearly pension at an actuarially determined price. The taxpayer will make no contribution to the additional pension. However, given our willingness to invite views on defined contribution schemes as well as our recommended option, we are willing to consider ideas about how further flexibility might be built into the MPs' pension scheme without damaging its viability or increasing its cost.

***How would pensions interact with changes in pay?***

120. We referred to this issue earlier when discussing an increase in MPs' pay (see paragraph 78).
121. Calculations by GAD as to the taxpayer contribution to the pension scheme have assumed that MPs' pay will increase at the same rate as average earnings. Any pay increase above the increases in average earnings will increase the liabilities for the pension scheme because the current scheme bases the pension benefit on the salary at the point the MP leaves Parliament. This means that the final salary will apply to all the years of benefit accrued before 2015. This is a direct result of the legislation on the

pension scheme in the Constitutional Reform and Governance Act 2010, which protects these 'accrued rights'.<sup>45</sup>

122. We have looked at whether it would be possible to treat the salary immediately before the new scheme is introduced as the 'final salary' for past accruals, as is the norm in the private sector when a final salary scheme closes to new accrual. If this were possible then only MPs with transitional protection would benefit from having their final salary before retirement applied to all their years of accrual. However, our legal advice is that this is not possible without each affected MP's consent.
123. We also considered whether we should introduce a scheme whereby MPs can choose to accept a higher salary on the basis that the increment was non-pensionable in the old scheme, or remain at the lower salary, all of which would remain pensionable. We concluded that to do so would be administratively complex and would risk MPs feeling forced to choose the lowest value option for political reasons. This 'race to the bottom', which we described in paragraph 74, should be avoided.
124. Therefore, our conclusion is that the increase in pension liability from any pay increase will have to be absorbed by the taxpayer, as is the case in the other public service pension schemes. The Government Actuary will recommend over which period this cost should be paid, but has suggested that payment over 15 years would be appropriate. This mitigates its impact, but nonetheless it is a factor which has led us to moderate the pay increase which we think appropriate for MPs in 2015. It would of course, be open to Parliament to amend this legislation if it wished.
125. GAD estimates that the cost of the increased past service liabilities caused by increasing the level of pay to £74,000 to be around £10m, or £667,000 per year, spread over 15 years.<sup>46</sup>

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<sup>45</sup> Constitutional Reform and Governance Act 2010, Schedule 6, Paragraph 19.

<sup>46</sup> This figure is highly sensitive to the number, age and length of service of MPs who are returned and so may end up being lower or higher than £10m.

## **Conclusion**

126. As detailed above, our recommended option for MPs' pensions is to move to a CARE scheme, along the lines of the reformed public service schemes. The main features of the new scheme are set out below.

- Defined benefit scheme, based on career average revalued earnings (CARE).
- Based on a total cost of 22.9% of payroll (in comparison to 32.4% now).
- Retirement age to be the same as State Pension Age or 65, whichever is the higher.
- Accrual rate of 1/51<sup>st</sup> of pensionable salary each year.
- Revaluation rate equal to the increase in the Consumer Prices Index.
- MPs pay 40% of the cost of the scheme; the taxpayer 60%, with a ceiling and floor arrangement to ensure stability in contribution rates and to protect the taxpayer from significant increases in cost.
- Death in service and survivor pension benefits reduced to the same level as the Ministers' scheme.
- Transitional protection for MPs within 10 years of retirement age on 1 April 2013. Some protection available to MPs between 10 and 13.5 years from retirement.

127. While we do not recommend them, we are prepared to consider defined contribution or hybrid schemes, and invite comments on the merits, or otherwise, of these.

**QUESTION 3: Do you agree with the proposed pension arrangements for MPs in our preferred option? If so, please give your reasons. If not, what do you think they should be; and why?**

**QUESTION 4: Do you think there are merits in considering the introduction of a defined contribution scheme for MPs? If so, what are your reasons?**

**QUESTION 5: Should MPs be able to maintain the current level of ancillary benefits by making higher pension contributions, even if it requires all of them to do so?**

## Chapter Five: Payments on Leaving Office

128. Resettlement payments were introduced for MPs in 1971. They were designed to help MPs adjust to life outside Parliament and to re-enter the workforce, should they choose to do so. Initially resettlement payments were only available to MPs who were defeated at an election. Over the years, the eligibility and the amount of the payments were extended, so that, by the time of the 2010 General Election, they were available to any MP who left the House of Commons for any reason. The sum payable could be as much as a full year's salary, the exact amount depending on the individual's age and time served as an MP.
129. We considered the issue of resettlement payments in some detail in our October 2012 consultation paper.<sup>47</sup> We had already introduced interim rules for the 2015 General Election; under which only MPs who lost their seat at a General Election would be eligible for a resettlement payment, with the maximum amount being six months of salary. Data from the House of Commons show that the cost of resettlement was £3.2 million in 2001 and £5.3 million in 2005. No aggregate figures have been published for 2010, but given the large turnover of MPs at that election (225) and the relative length of service of the MPs who left, the figure may have been as high as £13.3 million.<sup>48</sup> At the 2001 and 2005 elections, MPs received, on average, 60-64% of their final salary.<sup>49</sup> Typically, around 70 MPs lose their seats after standing at a General Election. Were this to happen in 2015, and MPs received £33,530 on average,<sup>50</sup> the cost to the taxpayer would be £2.1 million, under the interim rules.
130. We are concerned that costs of this scale are difficult to justify over the long term. We do not intend to change the transitional arrangements for 2015, but believe that a

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<sup>47</sup> In particular see Chapter 11 and the Data Annex, section 4 of our October 2012 consultation document.

<sup>48</sup> This assumes that all MPs who claimed the resettlement payment had 17 years service (the average) and were aged 56 (the average age of the House of Commons at the 2005 election, plus 5 years) and were therefore entitled to one year's salary. We have discounted this maximum by 10% to take account of the lower payments that would have been made to those with shorter service.

<sup>49</sup> Discussed further in our October consultation document.

<sup>50</sup> The maximum they could receive under the interim arrangements.

system more in line with the practice in other occupations will be more appropriate for future elections.

131. We understand the arguments made by some MPs in favour of maintaining resettlement payments for all MPs leaving Parliament. They include:
- the challenge of making the transition back into a more conventional working life;
  - the fact that MPs cannot always retire when they reach retirement age without triggering a by-election;
  - the need to ensure that some MPs do not feel the need to stay on for longer than they would prefer, because of the sharp drop in income after retirement; and
  - the suggestion that the resettlement payment is a potential compensation for the risk that MPs take in the event they lose their seat, or decide that they are not suited to parliamentary life.
132. While we have some sympathy with these arguments, they are difficult to sustain when we look at what is available to most other people. We addressed this in our October 2012 consultation paper, looking at statutory redundancy arrangements and some of the public sector schemes, which are relatively more generous than those available in the private sector, particularly for voluntary redundancy.<sup>51</sup>
133. What both sectors do have in common is that people receive compensation for being made redundant, but generally do not receive payments if they decide to leave their job.
134. Statutory redundancy payments are available for employees with two full years of service, while the amount payable will depend on the age of the employee and length of service. The maximum payment under the basic statutory scheme is £12,900. Public sector schemes often provide for more generous payments and staff employed by MPs are entitled to double the statutory minimum.
135. As we noted above, MPs who lose their seats are not made redundant – the position still exists and will be filled by another. But we believe that it is fair to provide them with some level of payment, since the situation is somewhat analogous. We do not however,

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<sup>51</sup> See paragraphs 218-224 of the October 2012 consultation paper.

think it is possible to justify providing all MPs with a resettlement payment, irrespective of their reasons for leaving Parliament.

### ***Conclusion***

136. For the purposes of the new package we are recommending a payment which lies somewhere between statutory redundancy and some of the more generous public sector schemes. This would be equivalent to double the statutory redundancy package. This is also the redundancy package currently available to MPs' staff, if they are on IPSA-approved contracts.
137. Again, the amount that would be available to any MP will depend on his or her age and length of service. Based on double the statutory scheme and 10 years service, a defeated MP would (if the current statutory limits continued to apply) be entitled to a payment of £14,850. This would save the taxpayer just over £1.3 million in 2020 compared with the system operating in 2015.<sup>52</sup>

**QUESTION 6: Do you agree with our proposal to end the current arrangements for resettlement payments after the 2015 general election, replacing them with a payment of twice the statutory minimum for redundancy, to be paid only to MPs who lose their seats?**

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<sup>52</sup> Based on 70 eligible MPs, each with 11 years' service (the average number of defeated MPs and their average lengths of service), discounted by 10% to take account of those with shorter service.

# Chapter Six: Pay for Specified Committee Chairs

## ***Background***

138. IPSA has responsibility for determining the additional salary paid to specified Select Committee Chairs and to Members of the Panel of Chairs (previously known as Standing Committee Chairmen), on top of their basic MP salary. IPSA does not determine the posts that attract these additional payments (they are specified by a resolution of the House of Commons). IPSA's powers are limited to the level of payment they should receive.
139. The additional payments were introduced in the last decade to recognise the work and time commitments made by these MPs and to provide an alternative career structure to ministerial office or other frontbench roles. The salary level for Select Committee chairs was originally set by the SSRB based on comparisons with a Parliamentary Under-Secretary (a junior government minister) pro-rated for the lower time commitment required of Chairs.
140. Currently there are 33 Select Committee Chairs specified by the House of Commons, who receive an additional salary of £14,728 per year as a flat rate. MPs who serve on the Panel of Chairs (there are currently 35) receive an additional salary between £2,940 and £14,728 per year, in four tiers based on length of service on the Panel. The value of the additional pay received by members of the Panel of Chairs was set so that the maximum amount paid was the same as for Select Committee Chairs. If an MP is currently serving on both the Panel and as a Select Committee chair, he/she receives only one additional salary. In the past the additional payments received by Chairs have usually been automatically increased each year in line with changes in MPs' basic salaries. In January 2013, IPSA issued a determination providing for both MPs' basic salary and additional payments to Specified Committee Chairs to rise by 1% in April 2013 and 1% in April 2014.

**Table 4: Current pay structure for Specified Select Committee Chairs and Members of the Panel of Chairs**

	April 2013 (£)	April 2014 (£)
<b>Chair of a Specified Select Committee</b>	14,728	14,876
<b>Member of the Panel of Chairs (Less than one year)</b>	2,940	2,970
<b>Member of the Panel of Chairs (1-3 years)</b>	8,248	8,331
<b>Member of the Panel of Chairs (3-5 years)</b>	11,193	11,305
<b>Member of the Panel of Chairs (5 years or more)</b>	14,728	14,876

141. As part of our consultation, we heard some suggestions about payments being based on time commitments or responsibility, rather than length of service as currently. We also received suggestions that there could be adjustments to the tiered pay structure for the Panel of Chairs.

#### ***Select Committee Chairs***

142. At this stage we see no strong or compelling evidence that changes are necessary to the current flat-rate system of additional pay for Select Committee Chairs. It appears that the level of pay continues to be a reasonable reward for the responsibilities placed upon them.

#### ***Members of the Panel of Chairs***

143. We have considered an alternative salary structure for the Panel of Chairs. This is based on the consultation response we received from the Chairman of Ways and Means, Rt Hon Lindsay Hoyle MP, who is responsible for the Panel. He explained that the current four-tiered approach based on length of service reflected the premise that as Panel members gain experience, their duties and responsibilities increase. In practice, however, once Panel members have a certain amount of experience, they may all receive equally time-consuming and challenging duties. The amount and complexity of the work, and the availability of Panel members, makes allocating tasks strictly in accordance with four tiers of experience impractical.
144. The unusually high turnover of MPs, and Panel members, at the 2010 General Election has exacerbated this situation. A large number of Panel members were appointed after

the 2010 General Election to replace leaving members, creating a group with roughly equal experience, but short service.

145. The Chairman of Ways and Means therefore suggests that Panel members should serve a probationary period on a lower salary, after which they should all be put onto the top tier.
146. On this alternative approach, based on current salary levels, members of the Panel of Chairs would receive an additional salary of £2,940 for one year, and then this would increase to £14,728. Based on the current membership (as at June 2013), moving all members with more than a year's experience to the top tier in April 2014 would cost an additional £77,368 per year. This figure is highly sensitive to the lengths of service.

***Up-rating pay for Committee Chairs and members of the Panel of Chairs in 2015***

147. As noted in paragraph 140 above, the supplementary pay for Committee Chairs and members of the Panel of Chairs has, in the past, been uprated in line with any increases in MPs' basic salaries. While we recommend an increase in MPs' basic pay in 2015, we are not yet persuaded that the supplement for being a Committee Chair or member of the Panel of Chairs should automatically follow this increase. To do so would increase the cost of our reforms by £88,000. This would constitute a significant increase and we need to be sure that it is merited by the responsibilities held by Committee Chairs.
148. We therefore propose to carry out a full review of pay arrangements for Select Committee Chairs and Members of the Panel of Chairs as part of our next statutory review of MPs' pay and pensions in the first year of the next Parliament. In the meantime we propose to increase the additional pay of Committee Chairs by a further 1% from 1 April 2015.
149. Some technical changes to the rules relating to payments to Committee Chairs and members of the Panel of Chairs are covered in Chapter Nine.

**QUESTION 7: Do you agree that the additional salary for Committee Chairs and members of the Panel of Chairs should be uprated by 1% in 2015, pending a full review of these pay arrangements in the first year of the next Parliament?**

**QUESTION 8: Do you agree with the proposal that members of the Panel of Chairs should receive the full rate of pay after a probationary period of one year? Or do you think the current four-tiered arrangements should continue until after the review in 2015?**

# Chapter Seven: Completing the Modernisation of Expenses

## ***Background***

150. Since May 2010, when the MPs' Scheme of Business Costs and Expenses was introduced, we have always made a clear distinction between MPs' remuneration and the costs incurred in undertaking their parliamentary functions. However, there are some business costs and expenses that we currently reimburse, which those in other professional jobs would expect to pay for themselves. For instance, public sector professionals whose regular working hours included work in the evening would not normally expect their employer to pay for their evening meal. Unlike the other business costs and expenses we reimburse, there is an element of personal benefit here.
151. Some have argued that the value of these types of expenses should be added to salary as an allowance. We do not think that is the right approach. We believe that the taxpayer should not pay for these costs and that the salary should be based on the appropriate rate for the job, rather than being confused with expenses. MPs' business costs and expenses will remain separate from their remuneration.

## ***Arguments***

152. We have identified a number of expenses which arguably should be paid for by MPs themselves. These include:
- the food subsidy that can be claimed if Parliament sits after 7.30pm;
  - hospitality (which includes payments for tea and biscuits in the office);
  - hotels taken before 1 am (but not for those MPs who use hotel accommodation only when in London);
  - taxis home if they are taken before 11pm;
  - home contents insurance (for personal possessions); and
  - installation of a television and the licence for it in a residential property.

153. There may be other costs which could be included, such as internet service at a residential property, on which we invite comment.
154. Expenditure on the items listed in paragraph 152 above, amounted to £161,175 in the financial year 2011-12. This is equivalent to an average of £250 per MP. Of course, this expenditure is not evenly spread: some MPs may claim a good deal more than that, while others claim little or none at all.

### ***Conclusion***

155. We believe that it is right to look critically again at some aspects of MPs' business costs and expenses when we are considering the modernisation of their remuneration package. This is to reinforce the boundary between the two.
156. The sums involved in the costs and expenses listed in paragraph 152 are relatively small, but all could be said to have a degree of personal benefit which is best funded from an MP's own income, as they would be in other walks of life.

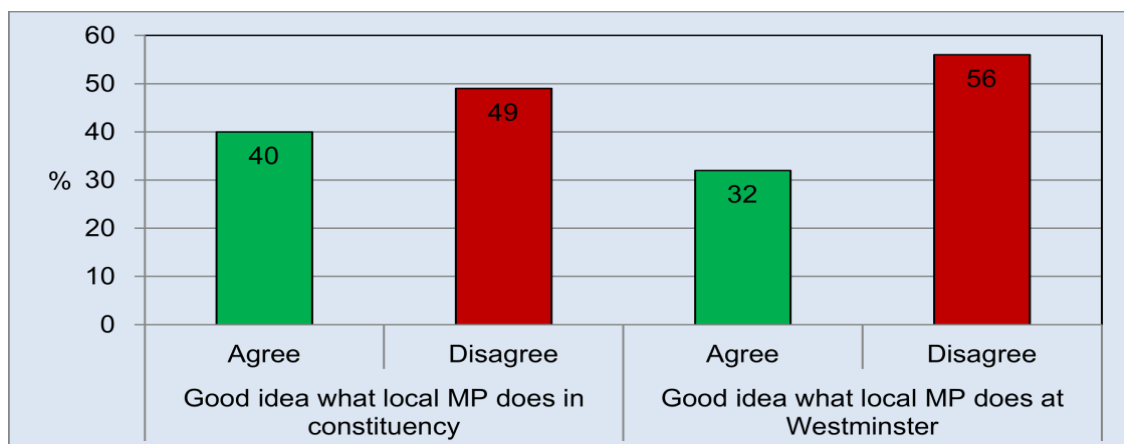
**QUESTION 9: Do you agree that some elements of the current business costs and expenses regime should not be reimbursed after May 2015, on the grounds that other professionals would expect to fund them themselves?**

# Chapter Eight: Informing the Public

## Background

157. Since 2010, IPSA has brought new levels of transparency to the funding and expenditure of MPs. Every two months we publish details of over 30,000 claims, to a value of some £3-4 million. Each September, we now publish MPs' annual expenditure in all the major budget categories. We have also published details of MPs' salaries and pension arrangements.
158. Parliament itself also makes efforts to improve people's understanding of what MPs do. A visit to the Parliament website<sup>53</sup> is excellent proof of that. The media also reports on Westminster, although not as extensively as it once did; and there are websites such as [www.theyworkforyou.com](http://www.theyworkforyou.com) which provide information on MPs and their activities.
159. Nonetheless, a majority of the public, when asked, say they do not have a good idea of what their MP does.<sup>54</sup> This is particularly so in relation to what MPs do at Westminster. The study we commissioned from ComRes demonstrated this clearly.

**Chart 5. People's understanding of MPs' work<sup>55</sup>**



<sup>53</sup> [www.parliament.uk](http://www.parliament.uk)

<sup>54</sup> MPs' Pay and Pensions: A Public Verdict, July 2012. Page 17.

<sup>55</sup> Source: ComRes survey: MPs' Pay and Pensions: A Public Verdict, July 2012. Page 22.

160. The more people know about what MPs do the more inclined they are to think that MPs do a good job. Com Res found that 57% of those who had a good idea of MPs' work at Westminster and in their constituencies thought that they did a good job.<sup>56</sup> Conversely, only 17% of those who did not have a good idea of what MPs did thought they were doing a good job.
161. Likewise, the more people know about what MPs do, the more they think they should earn, as the diagram at paragraph 69 shows.
162. It is clear, therefore, that decisions about the remuneration of MPs need to take account of, and be informed by, a more general awareness and understanding of what MPs do.

### ***Arguments***

163. A major difficulty in setting an appropriate level of pay for Members of Parliament is that there is no agreed measure of what amounts to doing the job. Unlike almost all other jobs, there is not even a formal job description. Although there have been attempts to describe the functions of Members of Parliament collectively, it is clear that individual MPs approach the job in very different ways. This extends to the amount of time they devote to it; and the extent to which they combine it with other activities. As long-serving MP Paul Flynn puts it (in his book *How to be an MP*): 'The pay is the same if you choose to smother yourself in overwork or choose absence and idleness'.<sup>57</sup>
164. While we have neither the power nor the desire to be prescriptive about a role that is inevitably variable, or to propose ways of working that may produce perverse consequences for behaviour, we nevertheless do not believe that the present position in relation to information about MPs' activities is satisfactory. People have a right to know as much as possible about what MPs actually do and how well they do it. When everybody else is routinely having to account for what they do, there is no reason why MPs should be exempt from a similar accountability. Hand-in-hand with a professional salary goes the requirement for professional accountability. The time may have passed when it sufficed to assert that the fact of election is the only accountability that matters.

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<sup>56</sup> MPs' Pay and Pensions: A Public Verdict, July 2012. Page 37.

<sup>57</sup> Flynn, Paul, *How to be an MP*, Biteback Publishing, 2012.

165. This development should be welcomed by MPs themselves, as it will enable a better public understanding of their role. This was recognised by the Speaker's Conference on Representation in 2010 when it identified the 'misunderstandings' that resulted from the lack of a clear description of what the job of an MP was and recommended that work should be done to rectify this.<sup>58</sup> Our own work exploring public opinion found widespread uncertainty about what MPs do, leading to the perception (as one respondent put it) that it was 'not a real job' and therefore not deserving proper remuneration. One remedy is to provide much better information about the work of MPs, not just in a general sense but in terms of the activities of individual MPs.
166. Members of Parliament have significant responsibilities. As citizens we expect them to assure the quality of legislation; and to scrutinise those who govern us. We expect them to provide diligent service to their constituents and constituencies. We expect them to apply good judgement in the public interest to issues of the day; and to do so with a sense of public service and on the basis of high ethical standards. It is a natural next step in a modern world to encourage MPs to enable the public to assess whether these expectations have been realised in practice.
167. We believe that this could be achieved through MPs publishing reports on their activities. Some MPs already do publish such reports. We hope that MPs would seize the opportunity to develop a report that is informative and easy to understand. IPSA would, of course, be pleased to play whatever role would be helpful.
168. We cannot emphasise too strongly that, in making this proposal and extending the invitation to MPs to develop this idea, we do not intend to set ourselves up as some form of performance manager. Nothing could be further from our mind. Rather, we suggest that in this modern world, moving towards producing an annual report is a natural development.

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<sup>58</sup> The report is available at <http://www.publications.parliament.uk/pa/spconf/239/23902.htm>.

### ***Conclusion***

169. It is our view that greater transparency and better information about MPs' activities are crucial requirements for building confidence in Parliament and gaining public support for the modern remuneration package which we are envisaging.
170. This is what we are inviting each MP to do in the form of an Annual Report. This will record the contribution made to the work of the House, for example through service on legislative and select committees, and the service offered to constituents. There would be other information about matters which reflect the core responsibilities of MPs, as determined by them. Some of the information is already available and would only need collating; other information might need to be collected. We leave it to the House of Commons to come forward with the exact form and content of such information. We are keen to make progress. What is important is that it is produced in uniform style for all Members.

**QUESTION 10: Do you agree that MPs should produce an annual report on their activities?**

**Are there particular practical issues which would need to be addressed in the development of these reports?**

# Chapter Nine: Other Consultation Issues

## *Rules relating to additional payments for Select Committee Chairs and Members of the Panel of Chairs*

171. On 19 March 2013, the House of Commons approved a motion specifying those offices entitled to receive a higher salary in accordance with section 4A of the Parliamentary Standards Act 2009.<sup>59</sup> This includes certain Select Committee Chairs and members of the Panel of Chairs. This motion was put for technical purposes so as to enable the higher salaries to be paid from 1 April 2013, in accordance with our determination on MPs' pay of 8 January 2013. IPSA still has the prerogative to make an independent determination of pay: the motion merely meets the statutory requirement for the House of Commons to define the office holders eligible to receive an additional salary. The level of salary remains a matter for IPSA. The motion specifically addressed some minor extant rules following our determination in January 2013, to have effect from 1 April 2013. The exact wording is set out in Annex B.
172. The rules governing the payment of these salaries will, in future, form part of IPSA's determination of MPs' pay. The full list of draft rules relating to the payment of Chairs that would sit with IPSA is set out in Annex B of this consultation. These rules essentially cover the following:
- a. if a person is holds more than one specified post, they only receive one additional salary;
  - b. if a Chair becomes a Minister then they cease to be paid as a Chair;
  - c. definition of the period during which they may be paid an additional salary; and
  - d. definition of the tiered structure for payments to members of the Panel of Chairs based on length of service.

### **QUESTION 11: Do you have any comments on the draft rules relating to payments for Specified Committee Chairs, as set out in Annex B?**

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<sup>59</sup> House of Commons Debate, 19 March 2013, <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130319/debtext/130319-0004.htm>.

### ***Pensions for the Great Officers of State***

173. The current MPs' Pension Scheme does not permit the Prime Minister, the Speaker of the House of Commons or the Lord Chancellor to participate. This reflects the position in the Constitutional Reform and Governance Act 2010 (CRA) when it was passed, which retained separate provision for pensions for the Great Officers.<sup>60</sup>
174. Earlier this year, the Public Service Pensions Act 2012 removed this special pension provision for the Great Officers of State and amended CRA to allow the Officers to participate fully in the normal pension schemes for MPs and Ministers. We intend to reflect this legislation through a short amendment scheme, which we will lay before Parliament later this year.
175. If we do not amend the MPs' Pension Scheme to reflect the legislation, future Great Officers will be without pension provision, as they will not be entitled to receive a Great Officer's pension and will be unable to take part in the MPs' Pension Scheme.

**QUESTION 12: Do you agree that the Great Officers of State should be able to participate in the MPs' Pension Scheme in the same way as other MPs?**

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<sup>60</sup> The Prime Minister and Speaker of the House of Commons could choose to participate in the scheme if they did not take their Great Officer's pension.

# Chapter Ten: Estimate of the Costs and Benefits of the Package

## *The Control Package*

176. In order to make clear the financial implications of our propositions, we have developed an alternative package of remuneration, based on a steady state, which we have called the “control package”. This makes the following assumptions:
- that pay will increase in 2015 in line with the public sector pay policy (i.e. by 1%) and thereafter in line with increases in national average earnings;<sup>61</sup>
  - that the current final salary MPs’ pension scheme will continue unchanged after 2015; and
  - that the current business costs and expenses system will remain unchanged.
177. We set out below the costs and benefits which will flow from our recommendations as compared with the control package.

## *Costs*

178. The main additional cost arises from the increase in pay. Under the control package, MPs’ basic pay in 2015 would be £67,731, or £48.65 million for all MPs (including Employer’s National Insurance Contributions). Under the new package it would be £74,000, or £53.29 million for all MPs (again including NICS). This represents an additional cost of £4.64 million or 9.53%.
179. There is also an additional cost for the pay and NICS for Committee Chairs. Both packages envisage an increase of 1% in their pay in 2015, making a total cost (including NICS) of £1.16 million.<sup>62</sup>
180. There are also extra costs flowing from the changes to the MPs’ Pension Scheme. As we set out in paragraphs 113-114, we recommend providing transitional protection to MPs

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<sup>61</sup> As forecast by the Office for Budget Responsibility, which assumed earnings growth of 4% per year.

<sup>62</sup> For the purposes of this calculation we have assumed that all Members of the Panel of Chairs will have progressed through the tiers to reach the highest tier (with the highest pay) by 2015 and that no new members have been added to the panel.

close to retirement age. The Government Actuary has calculated that this might cost around £1.5 million, spread over about 18 years or £83,000 annually (if amortised equally over the full period). Similarly, the cost of the past service uplift has been calculated by GAD to be around £10 million, which might be paid over 15 years (£667,000 if amortised equally).

## ***Benefits***

181. The benefits and savings of the package come in two main areas:
- a reduced taxpayer contribution to MPs' pensions; and
  - savings from modernising the expenses regime.
182. In the current, final salary scheme, the taxpayer contributes 20.4% of the cost of payroll. As noted in Paragraph 104, the current projected cost of the new career average MPs' Pension Scheme is 22.9% of payroll and we plan for the taxpayer to pay 60% of this cost equivalent to 13.74% of payroll.<sup>63</sup>
183. The payroll cost for MPs' base pay in 2015 in the new package (using a salary of £74,000) is £48.1 million. Under the control package, the basic payroll cost is £44.02 million. The additional cost for Committee Chairs' pay in 2015 is £1.02 million in both packages.
184. Therefore, the taxpayer contribution under the control package is 20.4% of £44.02 million (£8.98 million) plus 20.4% of £1.02 million (£208,000) = £9.19 million. Under the new package it is 13.74% of £48.1 million (£6,609,000) plus 13.74% of £1.2 million (£140,000) = £6.75 million. This equates to a saving of £2.44 million in 2015.
185. As we noted in Chapter Seven, there are savings to be gained from professionalising the expenses regime. Expenditure in 2011/12 on the expense categories identified at paragraph 152 was £161,000. Using actual CPI figures for the last two years and OBR projections for 2014 and 2015, this equates to a saving of £178,000 in 2015.
186. The savings from the changes to resettlement system come in two tranches – those arising in 2015 from ending the old, extremely generous system operated by the House of Commons and those accruing in 2020 from the move to the new redundancy payment system set out in this document.

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<sup>63</sup> At the moment not all MPs take part in the pension scheme, but for these cost illustrations we have assumed full participation.

187. First, the 2015 savings. As we noted in paragraph 129, there are no figures available for expenditure on resettlement at the 2010 election, but if we assume that all departing MPs (225) were entitled to the full amount,<sup>64</sup> the expenditure could have been as much as £13.3 million.
188. Both the control and the new package assume that the interim system will be applied at the 2015 election. This allows MPs who are defeated at the general election to claim one month's salary for each year served in Parliament, up to a maximum of 6 months. Over the last four elections, on average 70 MPs are defeated (as opposed to standing down voluntarily). If 70 MPs were defeated in 2015, with on average 11 years' service (again the average length of service of MPs' leaving Parliament at the last four elections), this might produce a cost of £2.12 million. The maximum saving would therefore be £11.2 million.
189. Second, the 2020 savings. These are more difficult to calculate, as they rely on projections of salaries in 2019/20. If we assume that the current limits on statutory redundancy continue to apply and the salary at the time of the 2020 election is £86,000 (which is the 2015 figure of £74,000 uprated by projections of average earnings), then MPs with 11 years' service might be entitled to a statutory redundancy payment of £7,425. If this was doubled, as recommended here, to £14,850, and applied to 70 defeated MPs, the total cost would be £1.04 million, representing a saving of £1.07 million against the 2015 figure.<sup>65</sup>

### ***Summary***

190. Table 5 on the next page, summarises the costs and savings in 2015 against the control package.

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<sup>64</sup> An MP with 15 years' service and in the 55-64 age range would have been entitled to the full amount. With 11 years' service it would have been 68% or £44,702 per MP.

<sup>65</sup> The benefits of the resettlement changes are not represented in the comparison table on the next page, as both the control package and the recommended package assumes that these savings will be made.

**Table 5: Summary of Costs and Benefits of the Recommended Package in 2015**

	<b>Control Package (£)</b>	<b>Recommended Package (£)</b>	<b>Cost (Saving) (£)</b>
<b>Basic Pay &amp; Employer's NICS</b>	48,651,000	53,288,000	4,637,000
<b>Basic Taxpayer's Pension contribution</b>	8,981,000	6,609,000	(2,372,000)
<b>Committee Chairs' Pay &amp; Employer's NICS</b>	1,163,000	1,163,000	0
<b>Committee Chairs' Taxpayer Pension Contribution</b>	208,000	140,000	(68,000)
<b>Pension: Past Service Uplift</b>	0	667,000	667,000
<b>Pension: Transitional Protection</b>	0	83,000	83,000
<b>Modernisation of Expenses</b>	178,000	0	(178,000)
<b>Total Cost</b>	<b>59,604,000</b>	<b>62,373,000</b>	<b>2,769,000</b>

191. The summary of the costs and savings set out in this chapter and presented in the table above, show the changes from pay, pensions, business costs and expenses add an additional cost of £2.77m. However, in addition to these costs, there will also be savings from IPSA's decision to introduce an interim change to resettlement payments for the 2015 election. We anticipate these changes will see a saving in 2015 of £11.2m. If we take account of that on an annual basis, this amounts to a saving of £2.2m a year.
192. Taking these together, the systemic changes we are proposing to introduce to MPs' remuneration results in an indicative net cost of £0.5m per year from 2015. We will also realise savings in the 2020 Parliament from the changes to the resettlement system we propose in this package. This will save a further £215,000 per year from 2020.
193. This figure does not take account of the savings already realised and continuing to be realised from the new MPs' Scheme of Business Costs and Expenses. These far exceed the indicative net cost.

# Chapter Eleven: Summary of Consultation Questions

**Question 1:** Do you agree that MPs' annual pay should be increased to £74,000 in the new Parliament as part of the new remuneration package? What are your reasons? If you do not agree, what do you propose and what are your reasons?

**Question 2:** Do you agree that we should index MPs' pay to an economic indicator? Do you agree with the choice of indicator? If not, what are your reasons?

**Question 3:** Do you agree with the proposed pension arrangements for MPs in our preferred option? If so, please give your reasons. If not, what do you think they should be; and why?

**Question 4:** Do you think there are merits in considering the introduction of a defined contribution scheme for MPs. If so, what are your reasons?

**Question 5:** Should MPs be able to maintain the current level of ancillary benefits by making higher pension contributions, even if it requires all of them to do so?

**Question 6:** Do you agree with our proposal to end the current arrangements for resettlement payments after the 2015 general election, replacing them with a payment of twice the statutory minimum for redundancy, to be paid only to MPs who lose their seats?

**Question 7:** Do you agree that the additional salary for Committee Chairs and members of the Panel of Chairs should be uprated by 1% in 2015, pending a full review of these pay arrangements in the first year of the next Parliament?

**Question 8:** Do you agree with the proposal that members of the Panel of Chairs should receive the full rate of pay after a probationary period of one year? Or do you think the current four-tiered arrangements should continue until after the review in 2015?

**Question 9:** Do you agree that some elements of the current business costs and expenses regime should not be reimbursed after May 2015, on the grounds that other professionals would expect to fund them themselves?

**Question 10:** Do you agree that MPs should produce an annual report on their activities? Are there particular practical issues which would need to be addressed in the development of these reports?

**Question 11:** Do you have any comments on the draft rules relating to payments for Specified Committee Chairs, as set out in Annex B?

**Question 12:** Do you agree that the Great Officers of State should be able to participate in the MPs' Pension Scheme in the same way as other MPs?

# Chapter Twelve: How to Respond to this Consultation

194. In this consultation, we have set out the new remuneration package for MPs, to apply after the General Election expected in 2015. We now invite your views on the questions listed in Chapter 11. We will analyse the responses to this consultation, alongside other evidence we receive, and will announce our final decisions by the end of 2013. You may respond via email, letter, or using the online survey on our website [www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk).
195. The consultation runs from 11 July to 20 October 2013. Please ensure that you send your response before the closing date as responses received after 20 October 2013 may not be considered.
196. Responses should be sent to [mppayandpension@parliamentarystandards.org.uk](mailto:mppayandpension@parliamentarystandards.org.uk). Please include in the subject line "Consultation Response". Responses should be in plain or rich text format, with as little use of colour or logos as possible. If you do not have access to email, you may send your response to:
- MPs' Pay & Pensions Consultation Responses,  
Independent Parliamentary Standards Authority,  
7<sup>th</sup> Floor, Portland House,  
Bressenden Place,  
London SW1E 5BH*
197. **You may wish to note that responses will be published in full, including your name, unless you indicate otherwise when submitting the response. If you do not wish your response to be published, either in full or anonymously, please state this clearly.**
198. If you require a hard copy of the consultation document please email [mppayandpension@parliamentarystandards.org.uk](mailto:mppayandpension@parliamentarystandards.org.uk) or write to IPSA at the address above.

## Annex A: Further Information

**Table 1: Current salaries for other occupations identified by PwC in 2007<sup>66</sup>**

	Basic Salary (£)	MP as % of Market	Total Cash (£)	MP as % of Market	Total Reward (£)	MP as % of Market
<b>MP (2013 salary)</b>	<b>66,396</b>	<b>100%</b>	<b>66,396</b>	<b>100%</b>	<b>79,941</b>	<b>100%</b>
<b>Public Sector comparators identified in PwC report 2007, updated for 2012 salaries</b>						
<b>Headteacher - L31 - National</b>	78,298	85%	78,298	85%	87,772	91%
<b>Police - Chief Superintendent - pay point 3</b>	78,636	84%	78,636	84%	89,881	89%
<b>SCS Grade 1</b>	88,000 <sup>67</sup>	75%	91,520	73%	102,872	78%
<b>County Council, 2nd Tier - England</b>	79,100	84%	82,500	80%	89,383	89%
<b>Armed Forces - Colonel - pay point 1</b>	82,321	84%	82,321	84%	108,170	74%
<b>Health - HR Directors</b>	83,800	79%	84,400	79%	93,940	85%
<b><u>Average</u></b>	<b>81,693</b>	<b>81%</b>	<b>82,946</b>	<b>80%</b>	<b>95,336</b>	<b>84%</b>
<b>Private Sector<sup>68</sup></b>						
<b>Lower Quartile</b>	75,290	88%	79,105	84%	94,246	85%
<b><u>Median</u></b>	<b>87,547</b>	<b>76%</b>	93,005	71%	109,031	73%
<b>Upper Quartile</b>	112,711	59%	120,961	55%	143,500	56%

### Definitions

**Basic Salary:** Annual salary.

**Total Cash:** Basic Salary plus cash incentives/bonus.

**Total Reward:** Total Cash plus pension, medical benefits, company car benefits (including the value of cash alternatives).

<sup>66</sup> Comparators identified by PricewaterhouseCoopers (PwC) (commissioned by SSRB) in its 2007 exercise to benchmark MPs' salary: *Report to the Review Body on Senior Salaries: Review of Parliamentary Pay and Allowances 2007*, PricewaterhouseCoopers. 31 March 2007. Update work commissioned from DLA Piper by IPSA in 2012 and amended to include MPs' 2013 salary.

<sup>67</sup> Mid-point of range.

<sup>68</sup> Based on sample of 223 directors of companies with annual turnover £50 million to £150 million.

**Table 2: Salaries for other occupations as suggested by the public and MPs**

**Note:** During our engagement with the public and MPs to date, we have heard a wide range of suggestions on other occupations they may consider ‘comparable’ with the role of MPs, in addition to those in Table 1 of this Annex. The table below provides a quick snapshot of salaries for some of those other occupations suggested to us and should not be taken as an indication of IPSA’s position. This list is based on the one we published in our October 2012 consultation document, updated where possible. Please refer to footnotes for explanation of how ‘annual salary’ was determined (e.g. whether it is an average, median, or midpoint).

	Salary range (£)	Annual salary (£)
<b>Council Leader</b> <sup>69</sup>		17,753
<b>Army Private</b> <sup>70</sup>	17,767 - 29,357	23,562
<b>Senior Social Worker</b> <sup>71</sup>		34,592
<b>Architect</b> <sup>72</sup>	35,000 - 39,000	37,000
<b>Chartered Surveyor</b> <sup>73</sup>		50,250
<b>Lawyer (experienced, regional)</b> <sup>74</sup>	50,000 - 60,000	55,000
<b>Probation Officer (Chief Officer)</b> <sup>75</sup>	42,435 - 86,914	64,675
<b>Financial Controller</b> <sup>76</sup>	54,000 - 80,500	67,250
<b>Managing director, small company</b> <sup>77</sup>		70,000

<sup>69</sup> There is great variation in this role and it can be part time and in addition to other responsibilities. “Average leaders’ allowance” taken from most recent national figures, *Members’ allowances survey 2008: Summary findings*, National Foundation for Educational Research, [http://www.local.gov.uk/c/document\\_library/get\\_file?uuid=778f3d14-f82f-439e-9def-44f3694abc4d&groupId=10171](http://www.local.gov.uk/c/document_library/get_file?uuid=778f3d14-f82f-439e-9def-44f3694abc4d&groupId=10171).

<sup>70</sup> Midpoint of levels 1-9, both lower and higher bands, for Range 1 (OR-2 – OR-3), “Recommended annual scales for Other Ranks”, as at 01/04/2013, Armed Forces’ Pay Review Body 42nd Report 2013, [http://www.ome.uk.com/AFPRB\\_Reports.aspx](http://www.ome.uk.com/AFPRB_Reports.aspx).

<sup>71</sup> Median of those employed under National Joint Council for Local Govt Services (excludes NHS staff), 2009, [http://www.unison.org.uk/acrobat/NJCPayClaim\\_2012\\_13.pdf](http://www.unison.org.uk/acrobat/NJCPayClaim_2012_13.pdf), but there may be variation in pay levels.

<sup>72</sup> Midpoint of approximate average salary range for an architect in a large/commercial firm in the London Area with at least 3 or 4 years post-registration experience. Royal Institute of British Architects (RIBA), *Salary Guide*, <http://www.ribaappointments.com/Salary-Guide.aspx>.

<sup>73</sup> Average salary for a Royal Institution of Chartered Surveyors (RICS) member (commercial/residential surveyor), from [http://www.prospects.ac.uk/commercial\\_residential\\_surveyor\\_salary.htm](http://www.prospects.ac.uk/commercial_residential_surveyor_salary.htm).

<sup>74</sup> Midpoint of salary for lawyer with 5 years’ post-qualification experience in large firm in the Midlands. From salary survey by Taylor Root: Global Legal Recruitment, [http://www.taylorroot.com/uk/salary\\_surveys/private\\_practice\\_south\\_midlands/](http://www.taylorroot.com/uk/salary_surveys/private_practice_south_midlands/).

<sup>75</sup> Midpoint of range from Band A SC7 Min - Band D SC79 Max, as at 01/04/2012, Standing Committee for Chief Officer Grades, <http://probationassociation.co.uk/employee-relations/standing-committee-for-chief-officer-grades.aspx>.

<sup>76</sup> Based on midpoint of the 2013 UK average salary range for a Financial Controller for a large business. 2013 *Salary Guide*, Robert Half, [http://www.cimaglobal.com/Documents/Thought\\_leadership\\_docs/finance-transformation/RobertHalf\\_20UK20\\_Salary\\_Guide\\_2013.pdf](http://www.cimaglobal.com/Documents/Thought_leadership_docs/finance-transformation/RobertHalf_20UK20_Salary_Guide_2013.pdf).

<b>General Practitioner (GP)</b> <sup>78</sup>		97,300
<b>Managing director, medium-sized company</b> <sup>79</sup>		100,000
<b>Lawyer (experienced, top firm, London)</b> <sup>80</sup>	95,000 - 125,000	110,000
<b>Chief Executive of local authority</b> <sup>81</sup>		143,995
<b>CEO of NHS Hospital Trust</b> <sup>82</sup>		157,500

**Table 3: Comparison of legislators' salaries in the devolved legislatures and European Parliament**

<b>Annual Salary 2013 (£)</b>	
<b>Member of the Northern Ireland Assembly (MLA)</b>	48,000
<b>Member of the National Assembly for Wales (AM)</b>	53,852
<b>Member of the Scottish Parliament (MSP)</b> <sup>83</sup>	58,097
<b>Member of the European Parliament (MEP)</b> <sup>84</sup>	81,852

<sup>77</sup> Average of Managing Directors of firm defined as turnover up to £5m a year, from IoD Directors' Rewards Survey 2010 cited in [http://www.director.co.uk/MAGAZINE/2010/10\\_November/director-rewards-survey\\_64\\_03.html](http://www.director.co.uk/MAGAZINE/2010/10_November/director-rewards-survey_64_03.html).

<sup>78</sup> Average base salary excluding benefits for 'GPMS combined GPs' (both Partner and salaried practitioners working in GMS and PMS) in England identified by, the Health and Social Care Information Centre, 26 September 2012, taken from IPSA-commissioned research work by DLA Piper, 28 March 2013.

<sup>79</sup> Average of Managing Directors of medium firm (annual turnover up to £50m), from IoD Directors' Rewards Survey 2010 cited in [http://www.director.co.uk/MAGAZINE/2010/10\\_November/director-rewards-survey\\_64\\_03.html](http://www.director.co.uk/MAGAZINE/2010/10_November/director-rewards-survey_64_03.html).

<sup>80</sup> Midpoint of salary for lawyer with 6 years' post-qualification experience in top tier/magic circle firm in London. From salary survey by Taylor Root: Global Legal Recruitment, <http://www.thesrgroup.com/SiteImages/Assets/7/9/TR-UK-PPTop50-SalarySurvey-2012-13.pdf>.

<sup>81</sup> Average basic salary for chief executives of UK local authorities excluding bonuses, report by Incomes Data Services, 12 March 2012, <http://www.incomesdata.co.uk/news/press-releases/local-government-2012.pdf>.

<sup>82</sup> Median total pay for chief executives across all English NHS trusts in the previous year, "NHS Boardroom Pay" report, 19 April 2013, <http://www.incomesdata.co.uk/news/press-releases/IDS%20NHS%20Pay%20April%202013.pdf>.

<sup>83</sup> Salaries for MSPs are currently indexed at 87.5% of the salary payable to Westminster MPs.

<sup>84</sup> MEPs are all paid €7,956.87/month which equates to an annual salary of €95,482 or £81,852 (converted to GBP using standard exchange rate from [www.xe.com](http://www.xe.com), as at 28 June 2013). The basic salary is set at 38.5% of the basic salary of a judge at the European Court of Justice.

**Table 4: Comparison of legislators' salaries in other legislatures**

**Note:** All data taken from official government websites using most recent figures as at 2 July 2013. Comparisons based on gross basic annual salary before tax deductions and pension contributions and excluding expenses or allowances, for a member of the national parliament (nearest equivalent position to a UK House of Commons MP without additional responsibilities such as chairing a Committee).

	Annual basic salary (national currency)	Standard exchange rate (units of currency per £) <sup>85</sup>	Equivalent in £
<b>Spain<sup>86</sup></b>	€33,766	1.17	<b>28,969</b>
<b>France<sup>87</sup></b>	€66,176	1.17	<b>56,815</b>
<b>UK</b>	<b>£66,396</b>	<b>1</b>	<b>66,396</b>
<b>Sweden<sup>88</sup></b>	SEK 699,600	10.14	<b>69,017</b>
<b>New Zealand<sup>89</sup></b>	\$ NZD 144,600	1.95	<b>74,154</b>
<b>Germany<sup>90</sup></b>	€92,016	1.17	<b>78,979</b>
<b>Ireland<sup>91</sup></b>	€92,672	1.17	<b>79,566</b>
<b>Norway<sup>92</sup></b>	NOK 811 505	9.23	<b>87,964</b>
<b>Canada<sup>93</sup></b>	\$ CAD 160,200	1.60	<b>100,166</b>
<b>United States<sup>94</sup></b>	\$ USD 174,000	1.52	<b>114,660</b>
<b>Australia<sup>95</sup></b>	\$ AUD 195,130	1.66	<b>117,805</b>
<b>Italy<sup>96</sup></b>	€140,444	1.17	<b>120,546</b>

<sup>85</sup> All currencies converted to GBP using standard exchange rate from [www.xe.com](http://www.xe.com) (as at 2 July 2013).

<sup>86</sup> Official Congreso website, Congreso de los Diputados, "Régimen Económico Y Ayudas De Los Señores Diputados", 27 December 2011, [http://www.congreso.es/portal/page/portal/Congreso/Congreso/Diputados/RegEcoyProtSoc/regimen\\_economico\\_diputados.pdf](http://www.congreso.es/portal/page/portal/Congreso/Congreso/Diputados/RegEcoyProtSoc/regimen_economico_diputados.pdf).

<sup>87</sup> Official Assemblée Nationale website, <http://www.elections-legislatives.fr/en/mps.asp>, as at July 2010.

<sup>88</sup> Official Sveriges Riksdag website, <http://www.riksdagen.se/en/How-the-Riksdag-works/Members-and-parties/Pay-and-economic-benefits/Members-pay/>, updated 2 November 2012.

<sup>89</sup> Official NZ Legislation website, "Parliamentary Salaries and Allowances Determination 2012", as at 30 June 2013, <http://www.legislation.govt.nz/regulation/public/2012/0422/latest/whole.html#DLM4940522>.

<sup>90</sup> Official Deutscher Bundestag website, "Amount of Members' remuneration", most recent figures 1 January 2009, [http://www.bundestag.de/htdocs\\_e/bundestag/members17/remuneration/memre.html](http://www.bundestag.de/htdocs_e/bundestag/members17/remuneration/memre.html).

<sup>91</sup> Official Houses of the Oireachtas website, basic annual salary for TDs, <http://www.oireachtas.ie/parliament/tdssenators/salariesallowances/>.

<sup>92</sup> Official Stortinget website, "Financial Support for MPs", <http://www.stortinget.no/en/In-English/Members-of-the-Storting/Financial-support/>, as of 1 May 2012.

<sup>93</sup> Official Parliament of Canada website, "Indemnities, Salaries and Allowances: Members of the House of Commons", <http://www.parl.gc.ca/ParlInfo/lists/Salaries.aspx?Menu=HOC-Politic&Section=03d93c58-f843-49b3-9653-84275c23f3fb>, as at 1 April 2013.

<sup>94</sup> Official Congressional Research Services paper, "Congressional Salaries and Allowances", 15 January 2013, most recent figures were from January 2009, [http://www.senate.gov/CRSReports/crs-publish.cfm?pid='0E%2C\\*PL%5B%3D%23P%20%20%0A](http://www.senate.gov/CRSReports/crs-publish.cfm?pid='0E%2C*PL%5B%3D%23P%20%20%0A).

<sup>95</sup> Remuneration Tribunal report "Determination 2013/13: Members of Parliament – Base Salary, Additional Salary for Parliamentary Office Holders, and Related Matters", 18 June 2013, [http://www.remtribunal.gov.au/\\_data/assets/pdf\\_file/0003/17985/2013-13-Determination.pdf](http://www.remtribunal.gov.au/_data/assets/pdf_file/0003/17985/2013-13-Determination.pdf).

<sup>96</sup> Official Chamber of Deputies website, "Remuneration", gross basic allowance *before* deductions, <http://english.camera.it/deputatism/4385/documentotesto.asp>.

# Annex B: Rules Concerning the Additional Salary for Specified Committee Chairs

**Note:** As set out in Chapter Nine of this consultation, on 19 March 2013, the House of Commons passed a motion specifying the Committee Chairs eligible for an additional payment and setting out some rules governing the additional payments they receive.<sup>97</sup>

The exact wording was as follows.

***That—***

*(1) Subject to paragraphs (2) and (3), the following offices or positions are specified for the purposes of section 4A(2) of the Parliamentary Standards Act 2009, with effect from 1 April 2013—*

*(a) the Chair of a select committee appointed under Standing Order No. 152 (Select Committees related to government departments), the Administration Committee, the Backbench Business Committee, the Environmental Audit Committee, the European Scrutiny Committee, the Finance and Services Committee, the Liaison Committee, the Political and Constitutional Reform Committee, the Select Committee on Procedure, the Committee of Public Accounts, the Select Committee on Public Administration, the Regulatory Reform Committee, the Committee of Selection, the Committee on Standards, the Joint Committee on Human Rights or the Joint Committee on Statutory Instruments; and*

*(b) a member of the Panel of Chairs appointed under Standing Order No. 4 (Panel of Chairs), other than a member who is the Chair of a committee specified in subparagraph (a) or a member who is entitled to an additional salary by virtue of any provision of the Ministerial and other Salaries Act 1975.*

*(2) If a Member already holds an office or position referred to in paragraph (1)(a), then any other office or position referred to in paragraph (1)(a) is not specified for the*

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<sup>97</sup> House of Commons Debate, 19 March 2013,  
<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130319/debtext/130319-0004.htm>.

*purposes of section 4A(2) of the Parliamentary Standards Act 2009 in respect of any period for which that other post or position is held by that Member.*

*(3) Any office or position referred to in paragraph (1)(a) for the purposes of section 4A(2) of the Parliamentary Standards Act 2009 is not specified for the purposes of that section in respect of any period in which it is held by a Member who is also entitled to an additional salary by virtue of any provision of the Ministerial and other Salaries Act 1975.*

*(4) Any reference to any committee in paragraph (1)(a) shall, if the name of the committee is changed, be taken to be a reference to the committee by its new name.*

The rules for payment of the additional salary paid to Committee Chairs and members of the Panel of Chairs will form part of the determination on MPs' pay at the end of this year.

Under the Parliamentary Standards Act, the House of Commons is responsible for specifying which positions are eligible to receive an additional salary, while IPSA is responsible for determining the level of payments. The draft rules below reflect the extant rules operated by the House of Commons, which we broadly intend to replicate, pending the outcome of this consultation.

## **Draft rules for consultation**

### ***Additional Salary for all Specified Committee Chairs***

1. These rules form part of determination of MPs' pay, under Section 4(4) of the Parliamentary Standards Act 2009.
2. The holder of a post specified by the House of Commons in a motion under Section 4A(2) of the Parliamentary Standards Act 2009 (collectively called "specified Committee Chairs") shall be paid a salary by IPSA in addition to the basic salary he or she shall be entitled to receive as a Member of Parliament, subject to these rules.
3. The amounts of additional yearly salary from 1 April 2014 and 1 April 2015 are shown in Table 1 below.
4. No specified Committee Chair shall:
  - a. receive more than one additional salary under these rules, or

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

### ***Select Committee Chairs***

- 5. The Chair of a Select Committee specified by the House of Commons in a motion 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).
- 6. 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.
- 7. 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***

- 8. 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.
- 9. The level of salary shall be based on the length of time served as a Member of the Panel of Chairs.
- 10. Length of service shall include membership of the Panel before 8 January 2013 (being the date of IPSA's first determination) and shall be calculated irrespective of breaks in service.
- 11. For the purposes of determining which level of additional salary a Member is entitled to, the following salary tiers based on length of service shall apply:
  - a. less than one year;
  - b. for at least one year but less than three years;

- c. for at least three years and less than five years; and
- d. for at least five years.

**Table 1: Additional pay for Specified Committee Chairs**

	<b>April 2014 (£)</b>	<b>April 2015 (£)</b>
<b>Chair of a Specified Select Committee</b>	14,876	15,025
<b>Member of the Panel of Chairs (Less than one year)</b>	2,970	3,000
<b>Member of the Panel of Chairs (1-3 years)</b>	8,331	8,415
<b>Member of the Panel of Chairs (3-5 years)</b>	11,305	11,419
<b>Member of the Panel of Chairs (5 years or more)</b>	14,876	15,025