



# **MPs' PAY IN THE 2015 PARLIAMENT**

## **A CONSULTATION**

**JUNE 2015**

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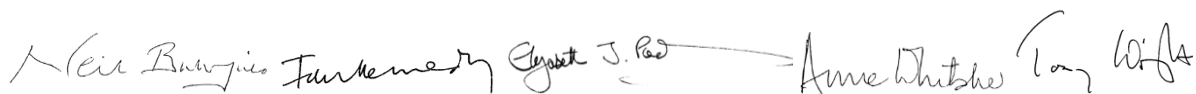
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## Foreword by the Board of IPSA

When Parliament created IPSA in 2009, in the aftermath of what has come to be known as the ‘expenses scandal’, one of the duties placed on us was to set MPs’ pay. This constituted a total break with the past: for the first time an independent body would determine what MPs should be paid. MPs no longer wished to be responsible for setting their own pay.

IPSA carried out extensive research on the issue in 2012 and 2013 and consulted widely. We then determined what an appropriate level of pay for MPs should be and conducted a further public consultation in 2013. The new level of pay is due to come into effect from the start of the new Parliament in May 2015. Before implementing it, however, IPSA is conducting a final public consultation. The issue for consultation is whether there is any new and compelling evidence which might cause us to change our minds.

We will consider the responses that we receive. Then, as an independent body, we will make our final determination.



**Sir Neil  
Butterfield**

**Sir Ian  
Kennedy  
(Chair)**

**Elizabeth  
Padmore**

**Anne  
Whitaker**

**Professor  
Tony  
Wright**

## **Part 1: IPSA's action to date on MPs' remuneration - pay, pensions and benefits**

1. For centuries, MPs controlled their own pay. While there have been many reviews of MPs' pay by independent bodies such as the Senior Salaries Review Body (SSRB) and others, these bodies could only make recommendations. Too often these reviews were set aside when those recommendations proved politically uncomfortable.
2. While MPs held down their pay for political reasons, at the same time they allowed their 'allowances' and expenses (that were less visible to the public) to increase. This culminated in the expenses scandal of 2009 which did so much damage to Parliament and to confidence in MPs.
3. The creation of IPSA in 2010 changed things. IPSA was given the power by Parliament not just to make recommendations, but to set MPs' pay, pensions and expenses independently and transparently.
4. IPSA has always been clear that the determination of MPs' pay must be carried out transparently. This is a significant break from the past, when MPs' pay was decided without consulting the public. At IPSA we believe it is important to involve taxpayers and others in how public money is spent on MPs. We take our engagement with the public seriously. We first consulted in 2012 on the principles to be applied to determining MPs' remuneration. We then consulted on the final package of remuneration between July and October 2013. During this time we conducted two public polls, held four focus groups and two citizens' juries and took part in radio phone-ins across the country. All the relevant documents are available on our website:  
[www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk).
5. Our 2013 consultation proposed a comprehensive package of remuneration for MPs, recognising the importance of their role while safeguarding the interests of the taxpayer. There were six main elements to our proposal:
  - to make a one-off adjustment to MPs' pay from £67,060 to £74,000 a year, to reflect that it had fallen behind;

- thereafter, to link changes in MPs' pay to their constituents' pay across the country;
  - to reduce MPs' generous pension benefits;
  - to scrap resettlement payments for MPs which had been worth up to a year's salary;
  - to tighten MPs' expenses further; and
  - to call on MPs to produce an annual account to help constituents to understand their work.
6. As a whole, this package of reform would not cost the taxpayer a penny more. It would bring MPs' pensions into line with others in the public sector, it would get rid of generous and out-of-date benefits and, after a one-off pay adjustment, it would permanently link MPs' pay to the pay of the people they represent.
7. In December 2013, following extensive consultation, IPSA determined that it should implement this package of reforms. We have already taken action on MPs' pensions, resettlement payments and expenses.
- In the last Parliament, MPs' pensions were on a generous final-salary basis, with the bulk of the cost falling to the taxpayer. We have replaced this with a modern, career-average pension, as is available to other public sector workers. The cost to the taxpayer of the new scheme is 13.01 per cent of MPs' payroll costs, down from 20.4 per cent.
  - At the 2010 election, an MP who left Parliament for any reason was entitled to a payment of up to a year's salary (depending on their age and length of service). For an MP who served two five-year terms (the average) and left Parliament at age 55, this was £39,442. We ended this outdated practice of 'resettlement grants', replacing them with payments akin to redundancy. MPs who choose to stand down now receive nothing. MPs who are defeated at an election will receive double the statutory redundancy payment. For an MP who serves two five-year terms, this will be £14,250.
  - We have removed MPs' ability to claim for some expenses that may appear to have an element of personal benefit. So MPs can no longer claim for hospitality, evening

meals, taxis home from Westminster when working late (unless the House sits after 11.00pm), home contents insurance, and a variety of other expenses.

8. All of these savings to the taxpayer are already in place and came into effect on 8 May 2015.
9. We are also implementing our proposal that MPs should more actively inform their constituents of how they are spending taxpayers' money on parliamentary and constituency work. Our research had found that, as public understanding of the role of an MP increases, the more likely the public is to believe that MPs deserve a professional level of salary. We therefore invited MPs to produce an annual written account of their activity to sit alongside IPSA's routine publication of MPs' claims for business costs and expenses. A trial of this proposal will be carried out with MPs this autumn and implemented in full in 2016-17.
10. These changes to MPs' remuneration are in addition to the entirely new *MPs' Scheme of Business Costs and Expenses* that IPSA put into place in 2010. This rigorous, independent and audited Scheme ensures that MPs only use public funds for activity that is parliamentary in nature. IPSA's Scheme has become an international standard for how politicians can be supported fairly, transparently and independently from the public purse.

## **Part 2: This consultation on MPs' pay**

11. We have not yet implemented the proposed change to MPs' pay.
12. In December 2013 we made a formal determination to increase MPs' pay by 10.3 per cent to £74,000, and thereafter link it to increases or decreases in national average earnings in the whole economy. This follows a freeze in MPs' pay for two years, followed by a 1 per cent increase in 2013-14 and a 1 per cent increase in 2014-15, representing a real terms pay cut of 0.9 per cent during this Parliament. Our determination will come into effect in September 2015, with the one-off adjustment in pay backdated to the start of the new Parliament on 8 May 2015.

13. We said that we would review this determination after the May 2015 General Election and before it is implemented. We are required to do this by the Parliamentary Standards Act which states that we must review MPs' pay in the first year of every Parliament.
14. This document therefore sets out the basis of our December 2013 determination on MPs' pay, summarising the main points made to during the consultation, and also provides data on economic and other changes since December 2013. The paper asks the question: Is there new and compelling evidence that might lead us to amend our determination?

### **Part 3: Proposed changes to MPs' pay**

15. In our July 2013 consultation document we noted that there is always opposition to an increase in MPs' pay.

*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 a reason to put off a decision.<sup>1</sup>*

16. In spite of the difficulties and the pressures we face, we remain of the view that the current state of affairs should not continue. Parliament established IPSA to take this decision on the basis of evidence, independently of MPs and the public, while consulting both these groups and others. In 2013, therefore, we used four measures to illustrate how MPs' pay has fallen behind its historic rate.

- From 1911, when MPs were first paid a salary, to 1980, when the distinction between pay and 'allowances' first became blurred, an MP's salary was worth on average 3.16 times the national average wage. It is now 2.68 times the average

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<sup>1</sup> MPs' Pay and Pensions: A New Package (July 2013), para 68, available on [www.parliamentarystandards.org.uk](http://www.parliamentarystandards.org.uk)

wage. If the historical ratio were restored, MPs' pay would have to increase to £79,193.

- In 2005, the Senior Salaries Review Body recommended that MPs should be paid £61,820 from 1 April 2007. Parliament did not implement that recommendation. Uprated by growth in national average earnings, £61,820 in 2007 would be £73,024 today.
- In 2008, Parliament asked Sir John Baker to make a recommendation on MPs' pay. He proposed a pay increase, that again was not implemented, which would be worth £75,484 today.
- We have not used the yardstick of other professional salaries to compare MPs' pay. But in 2007, the Senior Salaries Review Body reported that MPs' pay stood at just 85 per cent of the cash remuneration of equivalent public sector professionals. In 2015, MPs' pay has slipped further to 78 per cent of their equivalents in the public sector.<sup>2</sup>

17. We have also considered what impact, if any, the level of pay may have on diversity amongst MPs.

*We found no evidence that the level of pay had a direct impact on candidates putting themselves forward for election to Parliament, or on MPs continuing to serve. Nonetheless we must not set a level of pay that is either so high that it encourages people to stand for Parliament for the money, or so low that people from many professions are unduly deterred from standing.*

18. Having considered all this evidence, we came to the judgement that a salary of £74,000 a year was appropriate for MPs.

19. We proposed that this should be a one-off adjustment, designed to restore MPs' pay to an appropriate and professional level. Thereafter, we suggested that MPs' pay should keep pace with national average earnings. We would use, as the guide, the change in average earnings across the public and private sectors published by the Office for

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<sup>2</sup> Please refer to the Data Annex for more information.



National Statistics each October. That would be the basis of the increase or decrease in MPs' pay the following April.

20. As we said at the time:

*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.*

21. Taking this approach means that there would be no need for us regularly to revisit the rate of MPs' pay during the life of a Parliament. There would only be the statutory review required at the start of each Parliament.

## **Responses to the Consultation**

22. We consulted on these proposals in 2013 and received hundreds of responses. Some respondents agreed with us that MPs' pay should indeed be increased, as part of a cost-neutral package of remuneration with cuts to pensions, expenses and resettlement payments. This was supported by our public polling, which showed that when the increase was put in the context that it would not cost the taxpayer any more, about the same proportion of the public supported it, as opposed it.

23. Others asserted that MPs should not receive an increase in salary, with some citing continued distrust toward Parliament following the expenses scandal or their personal circumstances. Others argued that the economic circumstances warranted delaying the pay rise further.

24. We carefully considered every response we received, whether in the form of an email, letter, website post, or tweet. The current review does not invite further views on the *level* of MPs' pay. That question was the subject of two earlier consultations and the responses from all members of the public informed the determination that we published in December 2013.

25. This review instead asks whether economic or other circumstances have changed since December 2013 such that there is new and compelling evidence that might lead us to amend our determination.

## Part 4: Circumstances since December 2013

26. In December 2013, we said that, after the May 2015 General Election, we would take into account all relevant circumstances as part of our review of our determination of MPs' pay.
27. When we made our determination in December 2013, the UK economy had been in a period of stagnation and recession. Early signs of recovery were visible but far from established.
28. We took this economic context into account when we made our determination. Hence our proposed £74,000 salary for MPs was towards the lower end of the range suggested by the evidence and criteria that we considered.
29. Since December 2013, there have been changes to a series of economic indicators.
- In the first quarter of 2014, GDP had grown at 2.7 per cent over the previous 12 months. Since then, the UK economy has continued to grow, albeit at a slightly slower rate. In the first quarter of 2015, GDP growth stood at 2.4 per cent.
  - Inflation, as measured by the Consumer Prices Index, in December 2013 was at 2 per cent. Since then, inflation has declined and in April 2015 was at a historic low of -0.1 per cent.
  - In December 2013, there were 30.3 million British people in work, and the percentage of those of working age claiming Jobseekers' Allowance stood at 7.2 per cent. By February 2015, the number of people in work had risen to 31 million, and the unemployment rate had fallen to 5.5 per cent.
  - In December 2013, average wages had increased over the previous 12 months by 1.7 per cent, 0.6 per cent below inflation at the time. In contrast, in March 2015, average wages had increased by 3.3 per cent in the previous year, a rate 3.4 per cent above inflation.
30. While we do not take into account future predictions in the review of our determination, we note that the International Monetary Fund and the Office for Budget Responsibility both predict that the UK will continue to be economically healthy over the coming years.

31. Taking all these data together, we can see no clear reason why the economic circumstances today should lead us to depart from the determination of £74,000 that we reached in December 2013.
32. More data on these economic measures are in the annex to this document.

## **Part 5: New and compelling evidence**

33. IPSA has now comprehensively reviewed MPs' pay twice, in 2012 and 2013, consulting publicly and extensively both times. We have now also considered political and economic changes since December 2013. We have not, so far, seen any new circumstances that materially alter the determination that we reached then.
34. That said, we invite submissions as to any new and compelling evidence that might cause us to reconsider. New evidence would be facts that we were not able to take into account in December 2013 due to circumstances that have arisen or changed since then. Compelling evidence would be facts that are significant, substantial and objectively verifiable. Thus, facts about the 2008-09 recession and the economic climate over the following years would not be new evidence, as this had been taken into account prior to December 2013.
35. We remain of the view that it is right to increase MPs' pay to £74,000 for all the reasons we set out in December 2013 and which we summarise above. Subject to any new and compelling evidence arising from this review, we therefore intend to implement the determination as currently drafted, with a one-off adjustment in MPs' pay to £74,000 and subsequently linking it to changes in average UK earnings for the remainder of this Parliament. The increase would be backdated to 8 May 2015.

**Consultation Question: Is there new and compelling evidence that might lead us to amend our determination?**

## Part 6: Transparency

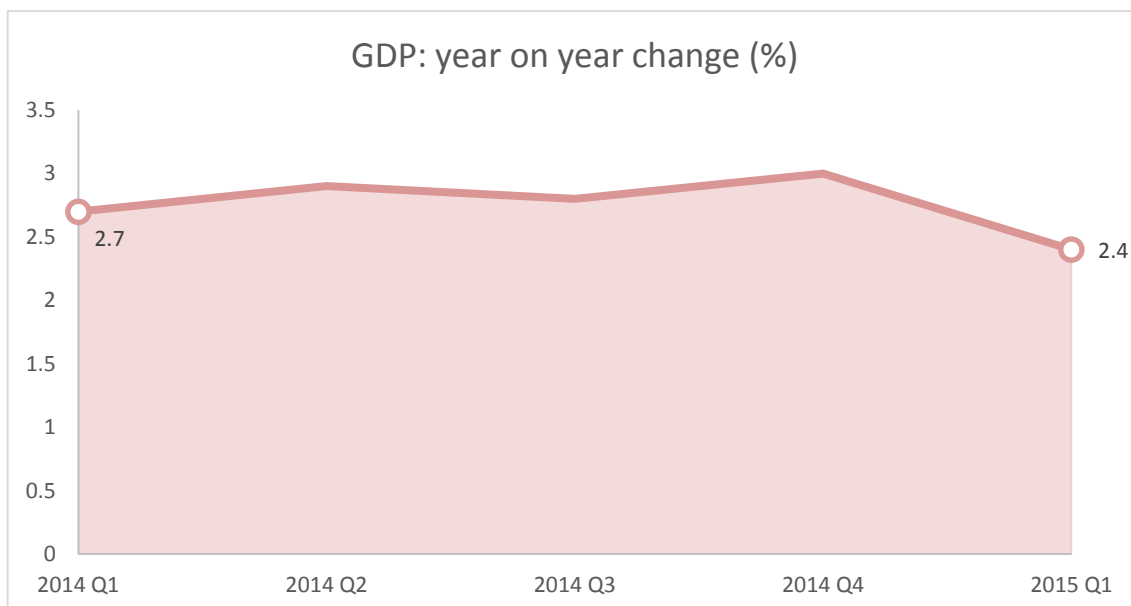
36. IPSA is committed to transparency in the way in which we work. For example, we publish every penny of MPs' expenditure every two months.
37. This review of the determination on MPs' pay reached in December 2013 is conducted wholly in that spirit of openness. We seek views from all interested parties in the question outlined here. We will analyse and review all the evidence that we receive during the consultation and ensure that it is taken into account when we make our final decision.

### How to respond to this consultation

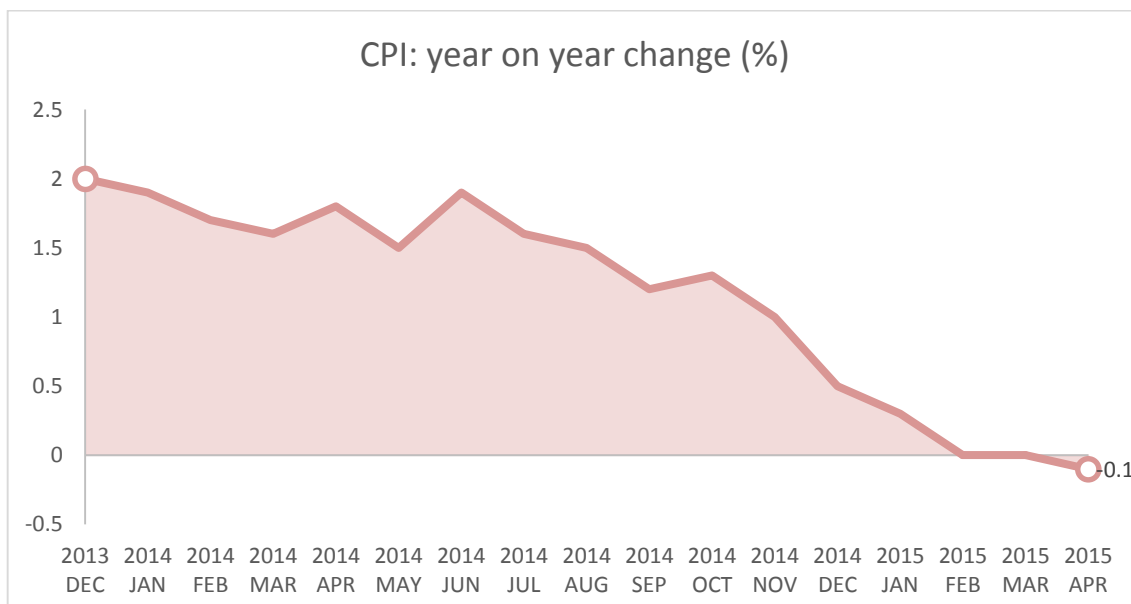
38. This consultation runs from 2 June to 30 June 2015. Responses received after the closing date may not be considered.
39. Please send us your response by email to [mppayandpension@parliamentarystandards.org.uk](mailto:mppayandpension@parliamentarystandards.org.uk).
40. If you do not have access to email, you may send a response to our postal address:
- MPs' Pay Consultation  
Independent Parliamentary Standards Authority  
4th Floor, 30 Millbank  
London SW1P 4DU
41. We will publish your response in full, including your name (but not your contact details), unless you ask us not to. We will also publish our analysis of the responses.

## Data Annex

**Graph 1:** the change in the Gross Domestic Product on the same quarter a year ago. These data are published by the Office for National Statistics as the IHYR series and were last updated on 28 April 2015.<sup>3</sup>



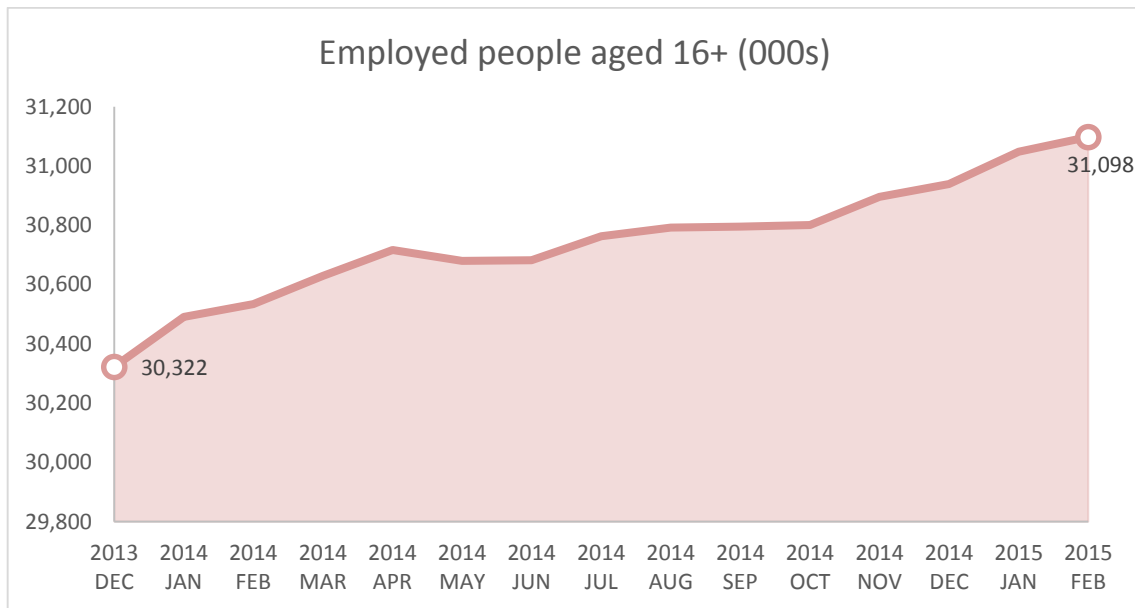
**Graph 2:** the percentage change in the Consumer Price Index. These data are published by the Office for National Statistics as the D7G7 series and were last updated on 19 May 2015.<sup>4</sup>



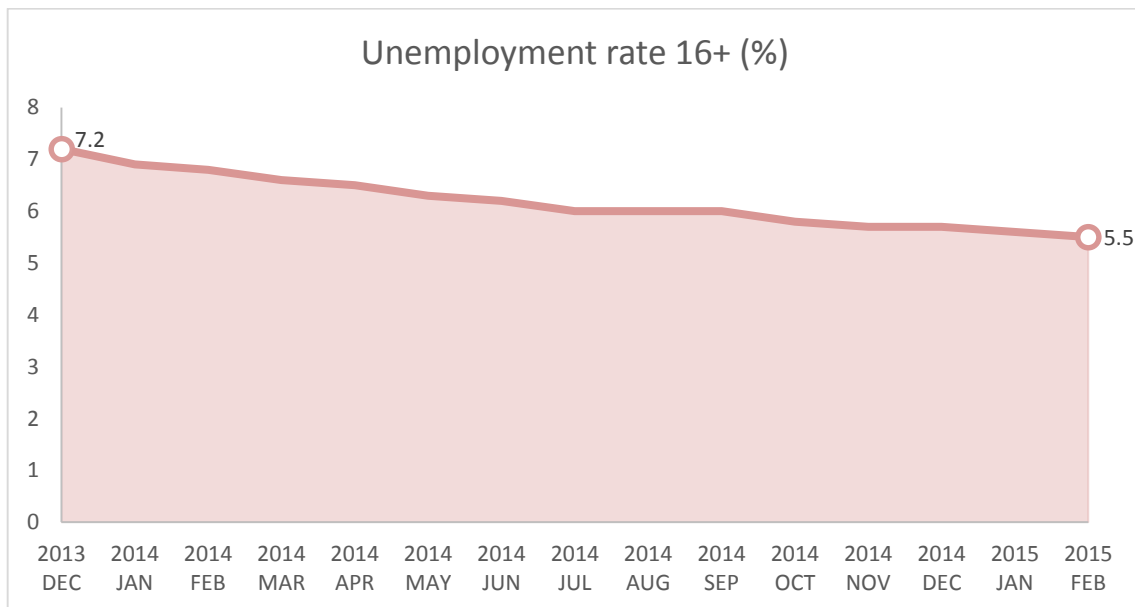
<sup>3</sup> <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cid=IHYR&dataset=pgdp&table-id=PREL>

<sup>4</sup> <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cid=D7G7&dataset=mm23&table-id=1.2>

**Graph 3:** the change in the number of working age employed people. These data are published by the Office for National Statistics as the MGRZ series and were last updated on 13 May 2015.<sup>5</sup>



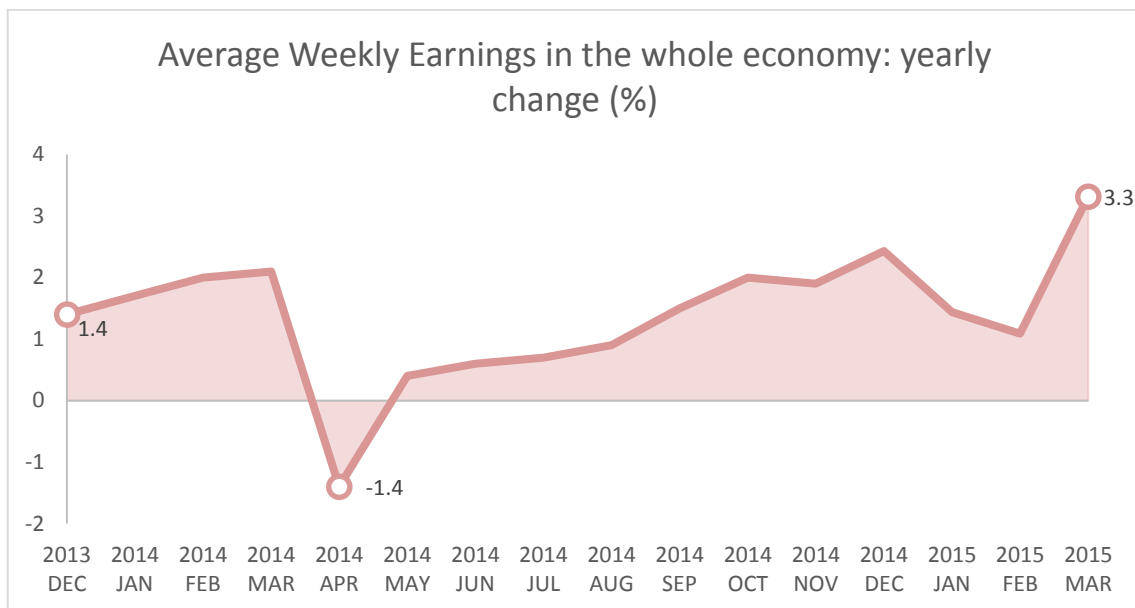
**Graph 4:** the percentage change in the rate of working age people who are unemployed. These data are published by the Office for National Statistics as the MGSX series and were last updated on 13 May 2015.<sup>6</sup>



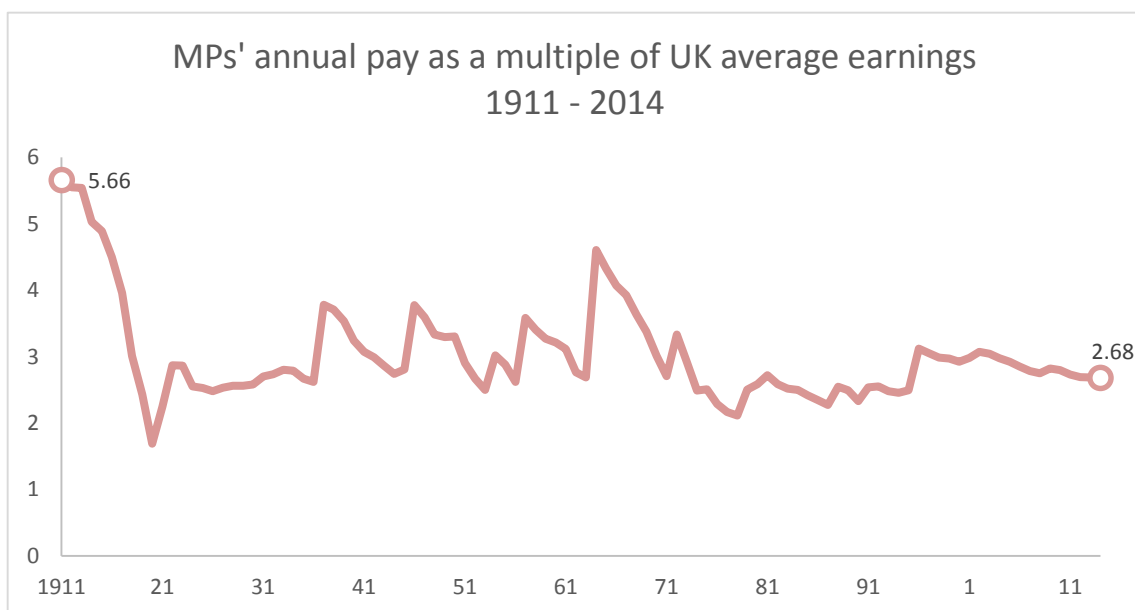
<sup>5</sup> <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=MGRZ&dataset=lms&table-id=1>

<sup>6</sup> <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=MGSX&dataset=lms&table-id=1>

**Graph 5:** the percentage change in average weekly earnings across the whole economy. These data are published by the Office for National Statistics as the KAC2 series and were last updated on 13 May 2015.<sup>7</sup>



**Graph 6:** MPs’ pay as a multiple of average earnings since 1911.<sup>8</sup>

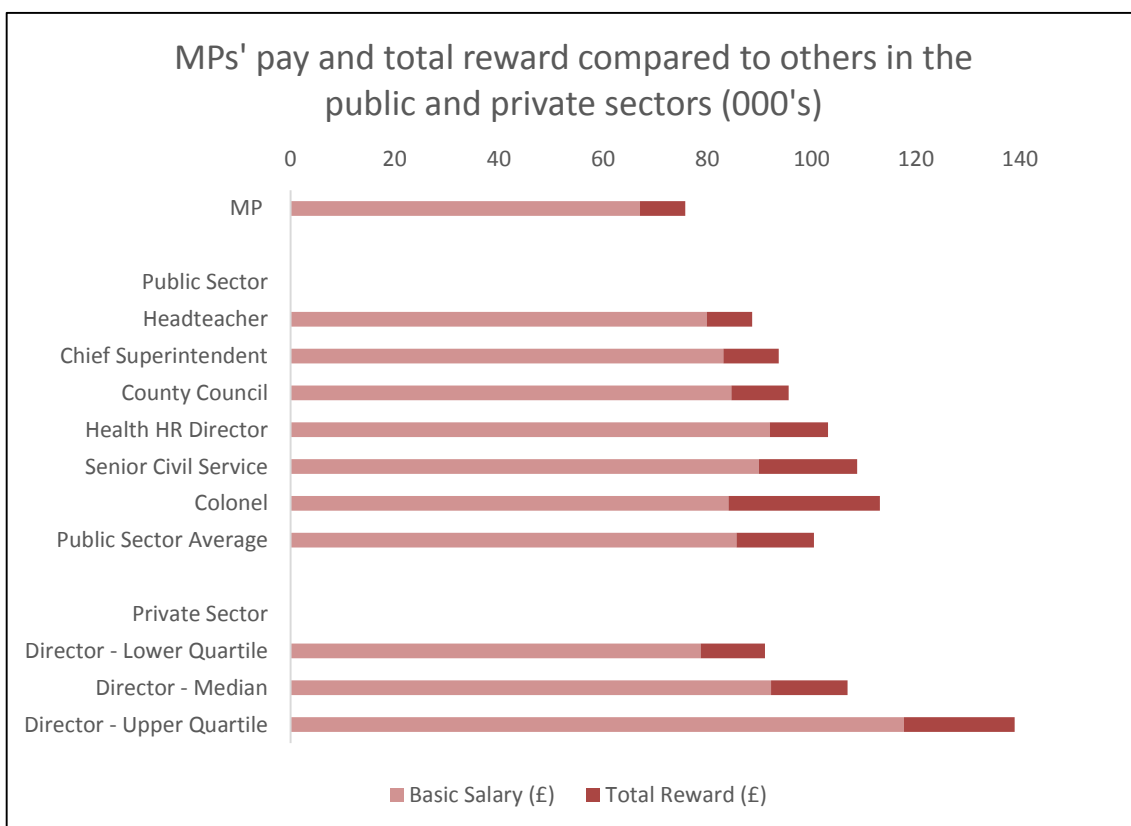


<sup>7</sup> <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=KAC2&cdid=KAC5&cdid=KAC8&dataset=emp&table-id=AWE03>

<sup>8</sup> This diagram, by IPSA, shows the relationship between MPs’ pay and UK average earnings in money of the day. We used MPs’ pay data from the House of Commons Library and average earnings from “Measuring Worth” (<http://www.measuringworth.com/index.php>). The way average earnings are measured has changed over time but Measuring Worth has adapted the figures to provide a consistent time series. The methodology is explained on their website. The money of the day figures were converted into real terms using a GDP deflator time series. 1911-54 from Measuring Worth, 1955 onwards from HM Treasury statistics.

**Table 1: MPs' pay and total reward compared to others in the public and private sectors.**

	Basic Salary (£)	MP as % of Comparator	Total Reward (£)	MP as % of Comparator
<b>MP</b>	67,060	100%	75,785	100%
Public Sector comparators updated for 2015 salaries				
<b>Headteacher – National grade L31</b>	79,872	84%	88,578	86%
<b>Police - Chief Superintendent pay point 3</b>	83,094	81%	93,730	81%
<b>Senior Civil Service Grade 1</b>	89,900	75%	108,780	70%
<b>County Council, 2nd Tier, England</b>	84,601	79%	95,599	79%
<b>Armed Forces – Colonel, pay point 1</b>	84,037	80%	113,114	67%
<b>Health - HR Directors</b>	91,984	73%	103,170	73%
<b>Public sector average</b>	85,581	78%	100,495	75%
Private Sector Directors				
<b>Lower Quartile</b>	78,724	85%	91,073	83%
<b>Median</b>	92,243	73%	106,897	71%
<b>Upper Quartile</b>	117,739	57%	138,989	55%





## Points to note

- These comparators were identified by PricewaterhouseCoopers (PwC) (commissioned by the SSRB) in its 2007 exercise to benchmark MPs' salaries.<sup>9</sup> The salary and reward levels have been updated by Pay Auditor, commissioned by IPSA in 2015 and amended to include the current MP salary.
- Total reward refers to the annual salary plus pension, medical benefits, company car benefits (including the value of cash alternatives).
- The Head Teacher pay spine runs from L1 to L43. L31 is reasonably senior.
- The Senior Civil Service Grade 1 salary is based on the midpoint of the range.
- The County Council Tier 2 salary refers to staff who report directly to Strategic and Corporate Directors.
- The private sector figures are based on a sample of 223 directors of companies with annual turnover of £50 million to £150 million.

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<sup>9</sup> Report to the Review Body on Senior Salaries: Review of Parliamentary Pay and Allowances 2007, 31 March 2007.