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Dear Mr Thomas

Inquiry on the Remuneration Board's Determination Underspend

The Independent Parliamentary Standards Authority (IPSA) is the statutory regulator responsible for determining the pay and pensions for UK Members of Parliament, as well as a scheme for the business costs and expenses which they can claim. IPSA was set up in 2009 to take on the role of regulating and administering business costs and expenses, which was previously carried out by the House of Commons. Our powers in relation to MPs' pay and pensions came into effect in 2011.

We understand that you are currently undertaking an inquiry to establish how the Assembly Commission forecasts its budget for Remuneration Board determinations, and as part of this how other parliaments budget for expenditure related to Members' pay and allowances.

The Office of the Clerk of the House of Commons have asked us to provide a response in respect of the areas that IPSA is responsible for. I am therefore attaching a short document which sets out the budget limits for MPs in different areas of expenditure, with information on how these figures were arrived at; as well as an explanation of how MPs' salaries and loss of office payments have been determined. I have also set out how these feed into IPSA's overall budget estimate.

I hope this is useful for the inquiry, but please do not hesitate to contact me if you require further or more detailed information.

Yours sincerely

Nicole Casey
Head of Policy and Assurance

CC John-Paul Flaherty, Private Secretary to the Clerk of the House of Commons

IPSA response to National Assembly for Wales Finance Committee Inquiry on the Remuneration Board's Determination Underspend

Scheme budget limits

Under the Parliamentary Standards Act 2009, IPSA has the power to prepare a scheme for MPs' allowances, which may impose limits on the amounts that are paid. We set budget limits for a number of areas of expenditure. MPs must normally stay within these limits; however in exceptional circumstances we can agree an uplift for an individual MP.

Below we have set out the budget limits for 2017/18 and an explanation of how they have been calculated. These are the basis for IPSA's budget for MPs' costs.

- **Accommodation (rent)**

Renting in London	Renting outside London
£22,760	£15,850

MPs from non-London constituencies can choose to rent a property in London, or in their constituencies. The London rental budget is based on the average cost of a one-bed property in the boroughs of Westminster and Lambeth, plus £3,000 for 'associated costs' (i.e. utilities and council tax). Previously, there were a number of bands for renting outside London, corresponding with different regions, but since 2017/18 they have been simplified and now all MPs can claim up to what was the highest band. This also includes a nominal £3,000 for associated costs.

- **Accommodation (associated costs only)**

London area MP	Non London area MP
£5,000	£5,000

MPs who do not need to rent because they own their homes can still claim for associated costs in either London or their constituencies. The limit was for several years set at £8,850, as a transitional amount from the period when MPs were able to claim for mortgage interest subsidies. However, from 2017-18 we used previous claims data over time to reduce this to an amount which more closely reflects what the vast majority of MPs actually claim in a year (£5,000).

- **Staffing costs**

London area MP	Non London area MP
£161,550	£150,900

The staffing costs budget covers primarily the salaries of MPs' staff members, as well as employers' contributions to National Insurance and pension schemes. It can also be used to cover incidental expenses for volunteers; one-off health and welfare costs such as eye tests; and other things related to employing staff. Staff can only be employed within certain job role categories and a corresponding salary range. In arriving at the budget figure, we assume four members of staff per MP – an Office Manager, a Senior Parliamentary Assistant and two

Caseworkers – and use the 60% mark of each salary range. These are totalled up and the on-costs added.

- **Office costs**

London area MP	Non London area MP
£26,850	£24,150

The office costs budget covers rental costs for MPs' constituency offices, as well as equipment and stationery purchases, venue hire for surgeries and other costs that the MP judges are necessary for carrying out their role (and which are not covered by other budgets). Until 2011-12 there were two separate Constituency office rental expenses (CORE) and General Admin Expenditure (GAE) budgets. CORE and GAE were based on data of expenditure incurred by MPs which was provided to IPSA by the House of Commons, uprated for inflation. Afterwards, these two budgets were combined into a single office costs budget in order to provide greater flexibility for MPs. Since then, the limits have been uprated in line with inflation (for 2017-18 this was an increase of 1.6%).

- **Winding up costs**

London area MP	Non London area MP
£57,150	£53,950

MPs who leave Parliament – either because they stand down or lose an election – can continue to claim for costs for a further two months in order to wind up their affairs. These budget limits were originally based on an amount equivalent to three months of office and staffing costs, and have not changed since 2014/15. Most former MPs significantly underspend their winding up budget.

Salaries and loss of office payments

Our legislation also gives IPSA the power to set MPs' salaries and other payments made in connection with an individual ceasing to be an MP (what we call 'loss of office payments'). Information on these is set out below. These also feed into IPSA's budget for MPs' costs.

- **Basic salary**

All MPs receive a basic salary, provided they have taken the Oath. In 2015, after an extensive review spanning several years, we implemented a one-off increase to MPs' salaries, to £74,000 per annum. At the same time, we indexed salaries to the average change in salaries across the public sector. In 2016/17 the salary was increased by 1.3% in line with this index, and in 2017/18 it was increased by 1.4%. It is currently £76,011.

- **London Area Living Payment**

MPs with a constituency in the London area receive a London Area Living Payment (LALP) on top of their basic salary. This additional sum recognises the higher cost of living and travelling in the London area. (However, they are not able to claim for accommodation costs or for commuting costs into Westminster.) Those MPs whose constituencies are in outer London receive an additional LALP amount, essentially to cover their higher travel costs. In 2017/18, the

LALP is £3,820 and additional LALP is £1,350. Previously these amounts had been stagnant (at £3,760 and £1,330) but were uplifted this year by inflation. The original amounts were based on recommendations made by the Senior Salaries Review Board in 2007, rated for inflation.

- **Additional salary for Committee Chairs**

MPs who are the Chair of a Select Committee or a Member of the Panel of Chairs receive an additional salary amount. In 2016 after a review this was set at £15,025 per annum for all relevant MPs. It is subject to the same annual adjustment as the base salary, in line with the average change in salaries across the public sector. In 2017/18 it was increased by 1.4% to £15,235.

- **Loss of office payments**

MPs who lose their seats at an election are entitled to a loss of office payment (LOOP), which is equivalent to twice their statutory redundancy entitlement. Because it is calculated based on the statutory entitlement, the amounts vary by individual depending on their age and length of service, and are only available to MPs who have completed at least two years of service. After the 2017 General Election, the amounts that former MPs were entitled to ranged from £1,956 to £29,340.

IPSA's budget estimate

Our approach to budgeting aims to be accurate and minimise underspends, whilst remaining prudent. Each year, IPSA produces a budget estimate which must be approved by the Speaker's Committee for IPSA (SCIPSA). The estimate covers MPs' costs, known as 'Subhead A', as well as IPSA's own costs, known as 'Subhead B'. This section is focused on how the estimate for Subhead A is produced.

With regard to MPs' costs subject to budget limits, we do not as a general rule assume 100% uptake by MPs. We use data from previous years to establish a reasonable assumption of the uptake in each area. This ensures that the money drawn from the Treasury over the course of the year is a closer approximation of the actual amounts spent. However, we do provide a 1% contingency in the budget to cover for any unexpected changes that could not be foreseen at the time of budget setting.

Arriving at a budget estimate for salaries and LALP is more straightforward as there are fixed numbers of relevant MPs. The exception is the additional salary for Committee Chairs, as the number can fluctuate during a year. We budget based on the number of relevant MPs at the time.

IPSA does not retain any money or carry forward unspent budget to subsequent years; all unused budget is sent back to HM Treasury. We also do not transfer monies between Subhead A and Subhead B.