



Review Body on Senior Salaries

REPORT No. 57

Review of Parliamentary Pay and Allowances 2004

Chairman: John Baker, CBE

Volume 1: Report



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Presented to Parliament by the Prime Minister
by Command of Her Majesty

October 2004

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Foreword

Review Body on Senior Salaries

On 25th November 2003 the Prime Minister asked the Review Body on Senior Salaries (SSRB) to carry out a review of parliamentary pay and allowances. This followed the Review Body's 1996 recommendation, accepted by the Government, that parliamentary pay should be reviewed every three years starting in 2000. The commissioning letter is at Appendix A. The areas the Review Body was asked to cover are as follows:

- i. the salary of Members of the House of Commons, taking into account the recent improvements to pension accrual rates for the Parliamentary Pension Scheme;
- ii. the salaries of Ministers and other office holders;
- iii. the rate of allowances for Members of the House of Commons, including for those members choosing to locate their offices outside Westminster, and consideration of the London Supplement to see whether it adequately reflects the rise in London living costs;
- iv. the rate and structure of Peers' expenses allowances including the Secretarial allowance for Ministers and other paid office holders in the House of Lords; and
- v. the implications for the Parliamentary Pension Scheme of the recent Pensions Green Paper and the associated paper on the reform of pensions taxation.

In addition the Review Body was asked to consider the application of the London Supplement to Ministers and other paid office holders; and the appropriate level of IT provision for the new Parliament.

The SSRB was asked to report in 2004.

The Members of the Review Body are:

John Baker, CBE *Chairman**
David Clayman
Mary Galbraith*
Professor David Greenaway
Mei Sim Lai, OBE*
Jim McKenna
Janet Rubin*
Richard Pearson

The Secretariat is provided by the Office of Manpower Economics.

6 July 2004

* Members of the Parliamentary Pay and Allowances Sub-committee, chaired by John Baker.

Contents

		<i>Paragraph</i>	<i>Page</i>
	Summary of recommendations		vii
<i>Chapter 1</i>	Introduction and sources of evidence		1
	Introduction	1.1	1
	Sources of evidence	1.3	1
	The main issues in context	1.5	2
<i>Chapter 2</i>	The salaries of Members of Parliament, Ministers and other office holders		5
	Introduction	2.1	5
	General principles	2.6	5
	Evidence	2.8	6
	Members of Parliament	2.11	6
	Ministers and other paid office holders	2.16	7
<i>Chapter 3</i>	Parliamentary pension arrangements		11
	Introduction	3.1	11
	Overview – the main provisions of the scheme	3.3	11
	Previous review	3.6	11
	Introduction of the 1/40 th scheme	3.11	12
	Options for recovering the additional cost to the Exchequer	3.15	13
	Implications of the Government’s pensions proposals	3.19	15
<i>Chapter 4</i>	House of Commons allowances		19
	Introduction	4.1	19
	Previous review	4.4	20
	Staffing Allowance	4.5	20
	Incidental Expenses Provision	4.28	26
	Computers and other IT equipment	4.40	29
	Additional Costs Allowance	4.44	30
	London Supplement	4.47	30
	Travel	4.50	31
	Resettlement Grant	4.55	32
	Winding-Up Allowance	4.57	33
<i>Chapter 5</i>	House of Lords allowances		35
	Introduction	5.1	35
	Previous review	5.5	35
	Reform of the House of Lords	5.6	35
	Evidence	5.8	36
	Working on official House business away from the House ..	5.9	36
	Day subsistence	5.12	37
	Overnight subsistence	5.15	37
	Night Subsistence Allowance for Ministers in the Lords ...	5.18	38
	Office costs	5.19	38
	Secretarial expenses for Ministers in the House of Lords ..	5.22	39
	Travel	5.23	39

<i>Appendix A</i>	Commissioning letter from the Prime Minister	41
<i>Appendix B</i>	Current salary levels and allowances	43
<i>Appendix C</i>	List of those who provided evidence	47
<i>Appendix D</i>	Public and private sector comparators	48
<i>Appendix E</i>	Main provisions of the Parliamentary Contributory Pension Fund (PCPF)	55
<i>Appendix F</i>	Website references	59
<i>Appendix G</i>	List of past reports	61

Summary of recommendations

The salaries of Members of Parliament, Ministers and other office holders

Recommendation 1: We recommend that there should be no increase in the salary of MPs in 2004-05, beyond the two per cent increase from 1 April 2004 that has already been awarded.

Recommendation 2: We recommend that there should be no increase in the salary of Ministers and other office holders in 2004-05, beyond the two per cent increase from 1 April 2004 that has already been awarded.

Parliamentary pension arrangements

Recommendation 3: We recommend that the Trustees of the PCPF should decide what action to take on the recommendations outstanding from our report on the Parliamentary Pension Scheme in March 2001.

Recommendation 4: We recommend that the contribution rate for those MPs who have opted for the 1/40th accrual rate should be increased by one per cent, to ten per cent, with effect from 1 April 2004.

House of Commons allowances

Recommendation 5: We recommend that the Staffing Allowance should be increased to a base level of £72,000, rising to a maximum of £80,460, according to the number of full-time equivalent members of staff based in London. Both the base level and the maximum should be increased on 1 April each year (commencing 1 April 2005) in line with movements in the Average Earnings Index for public and private sectors combined.

Recommendation 6: We recommend that the extra pay intended for London-based staff (by virtue of the higher Staffing Allowance in respect of London-based staff) should be recognised in the pay ranges for such staff.

Recommendation 7: We recommend that the House authorities should (i) review standard job descriptions at the latest in 2006-07, in advance of our next review; and (ii) review the pay ranges for caseworkers.

Recommendation 8: We recommend the following changes to the Incidental Expenses Provision:

- (a) The IEP should be increased to a maximum of £27,500.
- (b) The amount of IEP that may be claimed by MPs should be abated by £7,500 for each permanent workstation occupied by their staff on the Parliamentary Estate. The maximum amount should be available only to those MPs who have no permanent workstation for their staff on the Parliamentary Estate.
- (c) The level of the IEP should be increased on 1 April each year (commencing 1 April 2005) in line with movements in the Retail Prices Index.

Recommendation 9: We recommend that detailed headings should be drawn up by the House authorities for classifying expenditure reimbursed under the IEP and that they should be used for recording purposes from now on.

Recommendation 10: We recommend that "hot desking" facilities should be made available to cope with demand at peak times.

Recommendation 11: We recommend that the level of provision of IT equipment should be increased so that each MP has access to one fixed workstation and one laptop for his or her own use, plus three further workstations, so that each full-time equivalent member of staff paid for through the Staffing Allowance has his or her own PC. Each MP should also have access to a heavy-duty printer in both Westminster and the constituency.

Recommendation 12: We recommend that the level and range of IT support offered to constituency offices should be improved to a level comparable with that offered on the Parliamentary Estate.

Recommendation 13: We do not recommend that any change should be made to the level of the Additional Costs Allowance at present, beyond the normal annual uprating in line with movements in the Retail Prices Index.

Recommendation 14: We recommend that the London Supplement should be increased to £2,500. It should be increased on 1 April each year (commencing 1 April 2005) in line with movements in the Average Earnings Index for public and private sectors combined.

Recommendation 15: We recommend that the automatic entitlement of Ministers and office holders to the London Supplement should be ended. In future, they should be able to claim the London Supplement only if they do not claim the Additional Costs Allowance.

Recommendation 16: The car mileage rate should be brought into line with the approved Inland Revenue rate of 40p per mile up to 10,000 miles, and 25p per mile thereafter.

Recommendation 17: The car mileage rate should in future be maintained in line with the approved Inland Revenue rate.

Recommendation 18: We recommend that there should be no change in the current rules regarding MPs' entitlement to claim reimbursement in respect of visits to EU institutions, etc., and in respect of journeys by their employees, spouses and children.

Recommendation 19: We recommend that the Resettlement Grant should be reviewed after the next General Election.

Recommendation 20: We recommend that no changes should be made to the Winding-Up Allowance.

House of Lords allowances

Recommendation 21: We recommend that Members who are away on mandated parliamentary business should be entitled to claim up to two-thirds of the night subsistence allowance, plus reimbursement of actual travel and hotel costs, for each day of absence from the House.

Recommendation 22: We recommend that the day subsistence allowance should be increased to a maximum of £75 per day, inclusive of the uprating due on 1 August 2004. Thereafter it should be increased on 1 August each year in line with movements in the Retail Prices Index.

Recommendation 23: We recommend that the overnight allowance should be increased to a maximum of £150 per night, inclusive of the uprating due on 1 August 2004. Thereafter it should be increased on 1 August each year in line with movements in the Retail Prices Index.

Recommendation 24: We recommend no change in the method of calculating the Night Subsistence Allowance for Ministers in the Lords.

Recommendation 25: We recommend that the office costs allowance should be increased to a maximum of £65 per day, inclusive of the uprating due on 1 August 2004. Thereafter it should be increased on 1 August each year in line with movements in the Retail Prices Index.

Recommendation 26: We recommend that no change should be made in the level of allowance for secretarial expenses that may be claimed by Ministers and other office holders in the House of Lords, beyond the normal annual uprating in line with movements in the Retail Prices Index.

Recommendation 27: We recommend that the motor mileage allowance should be reduced to 40p per mile up to 10,000 miles, and 25p per mile thereafter. The allowance should subsequently be maintained in line with the approved Inland Revenue rate.

Recommendation 28: We recommend that the bicycle allowance should be increased to 20p per mile, and that a new motorcycle allowance should be introduced at 24p per mile. Both allowances should be maintained in line with the approved Inland Revenue rate.

Recommendation 29: We recommend that Members should be entitled to claim reimbursement in respect of six validated return journeys per year between home and London by their spouse and each of their children up to the age of 18.

Chapter 1

Introduction and sources of evidence

Introduction

- 1.1 In November 2003 the Government asked the Senior Salaries Review Body to carry out a review of the salaries of MPs, taking into account the recent improvements to pension accrual rates for the Parliamentary Pension Scheme. It also asked us to review the salaries of Ministers and other office holders; the rate of allowances for MPs and Peers; and the implications for the Parliamentary Pension Scheme of the Pensions Green Paper and associated paper on the reform of pensions taxation. A copy of the Prime Minister's letter is at Appendix A.
- 1.2 The current salaries and allowances of Members of Parliament, Ministers and office holders are set out in Appendix B. They were last reviewed by the Review Body in 2000-01¹. Our report then included the following recommendations, all of which were implemented:
- The salaries of MPs, Ministers, and other office holders should be increased by £2,000 in addition to any increase resulting from the annual review mechanism, in both 2001 and 2002.
 - MPs' staff should remain the employees of MPs but their salaries should be paid centrally by the House authorities. New staff should be employed on agreed pay scales which would apply to all MPs' staff. MPs should be able to employ up to the equivalent of three full-time members of staff.
 - Central supply and maintenance should be provided for a standard IT package for each MP, consisting of up to three PCs, two printers, copiers and other items, and a laptop.
 - The Office Costs Allowance should be replaced by a new Incidental Expenses Provision.

Sources of evidence

- 1.3 In line with our usual practice we established a Sub-committee to consider the issues in detail and to report findings and recommendations to the full Review Body. Working through the Sub-committee we commissioned PricewaterhouseCoopers (PwC) to provide a report reviewing parliamentary pay and allowances. In the course of its work, PwC carried out interviews with 29 MPs and peers to establish how well the system was working in practice. PwC's report is published in full in Volume 2 to this report. We also commissioned the Government Actuary's Department to provide a report on the Parliamentary Pension Scheme. GAD's report is likewise published in full in Volume 2. Both reports can in addition be downloaded from our website at <http://www.ome.uk.com/downloads/parliamentarypayandallowances2004volume2.pdf>.
- 1.4 We also invited direct evidence from a large number of sources. In response, we received representations from the Speaker's Advisory Panel and the Information Committee of the House of Commons, which were endorsed by the Leader of the House; from the Chairman of the Parliamentary Contributory Pension Fund Trustees; from a number of individual MPs and peers; from the administrative authorities of both Houses; and from staff

¹ Review of parliamentary pay and allowances, Cm 4997-I & II. London. The Stationery Office. 2001.

representatives. In addition the Government provided evidence on the current position and the historical background, and made observations on some of the issues. In all, we received 32 submissions, and held a number of oral evidence sessions. A full list of those providing evidence is at Appendix C. We are grateful to everyone for their contribution.

The main issues in context

- 1.5 Parliamentary pay and allowances are important, not least for the individual recipients, but also because they help to shape the way in which Parliament functions. Among the main issues that have engaged us are the following:
- *The salaries of MPs and Ministers.* We have considered the difficult question of whether salaries should be expected to keep pace with comparators in the public and private sectors, or whether a ‘discount’ should be recognised for high political office. This question becomes more acute with the seniority of Ministerial position.
 - *House of Commons allowances.* Our concern has been to ensure that the allowances are fit for their purpose. One important issue is the impact of the allowance structure on where MPs locate their staff. There is increasing pressure on the Parliamentary Estate, arising from the fact that no charge is made for use of the impressive new facilities at Portcullis House, and that responsibility for allocating space is divided between the House authorities and the Whips. A second important issue is the level of the Staffing Allowance, in particular whether it is adequate to meet a typical MP’s needs.
 - *The reimbursement of Members of the House of Lords.* Our concern here is more fundamental. The present allowance system is outdated and should be replaced as soon as the reform process is clear, possibly with a mixed system of remuneration and allowances as in the House of Commons. However we accept that it would be premature to consider fundamental changes to the allowance system at this stage, and accordingly we address the appropriate levels of the current allowances.
- 1.6 In view of the significant public interest in parliamentary pay and allowances, any recommendations for up-rating existing scales or changing the present arrangements have obvious potential for generating controversy. We do not anticipate that the recommendations in this report should give rise to particular difficulty. We do nevertheless emphasise that they should be viewed as a whole. Some aspects may appear more attractive than others, depending on one’s perspective; and individual recommendations may impact differently on individual MPs, Ministers and Members of the House of Lords given that circumstances vary widely. It is not possible to address all these differing circumstances with a highly bespoke system: the outcome would be overly complex to compute and administer. The system, designed as it is to address *typical* circumstances, will always involve having an element of swings and roundabouts. However our recommendations are intended to strike a fair and reasonable overall balance, and we urge that they are seen and implemented as a package.
- 1.7 In general we judge that there is broad satisfaction within Parliament with the structure of allowances established by the previous report, and the current levels of salaries and allowances. That is the general tenor of the evidence that we have received, and it is also supported by the fact that we received many fewer representations than when we conducted our last review three years ago. Our assumption therefore in undertaking this remit is that major changes are not required, and that our focus should be on fine-tuning the present arrangements.
- 1.8 So far as House of Commons allowances are concerned, there appears to be a trend for MPs to give more time to constituency matters, and to embrace the opportunities which information technology offers to provide a better service to constituents. This trend is

consistent with the Government's commitment to modernise the House of Commons, and to encourage closer engagement with the public. It is supported by the reforms that resulted from our last report, which significantly increased the resources available to MPs for staffing and running an office, and enabled many MPs to develop a more professional relationship with their staff. We make a number of recommendations in Chapter 4 to reinforce these developments. We also make recommendations in Chapter 4 designed to help the House authorities to manage the pressure on the Parliamentary Estate and its support services, and to ensure that the structure of allowances does not unfairly discriminate against MPs who wish to locate staff in their constituency rather than in Westminster.

- 1.9 In the House of Lords, there has been no further reform of the role and composition of the House since our last review. In the intervening period, the appointment of 15 "people's peers" has taken place on the recommendations of the House of Lords Appointments Commission (in April 2001), and the nomination of 46 new peers was announced by the Prime Minister on 1 May 2004. The Government's Bill to abolish the remaining hereditary peers was withdrawn from the present session of Parliament and the Government has yet to announce a new plan for reform.
- 1.10 When the reform process has been clarified, we believe that it will be appropriate to consider the case for remuneration of Members of the Upper House, in order to ensure that all Members have the necessary financial resources to be able to contribute to its business in a professional way. We would be pleased to provide advice on salaries if we were invited by the Government to do so. However for the present we conclude that the time is still not right to consider fundamental changes of this nature. We have therefore once again focussed our attention on the amounts of the allowances and the rules applying to them, on the principle that Members of the House of Lords should not be out of pocket as a result of carrying out their duties. Our recommendations are contained in Chapter 5.
- 1.11 Whilst our task is to set levels of parliamentary pay and allowances and not to administer the manner in which they are utilised or monitored, we note that outside Parliament, the nature of the various allowances and how they relate to each other is not necessarily well understood. Questions are raised in the media, for example when it is thought that Parliamentarians are profiting from exploiting the allowance system, or directing allowances for quasi-political use. It is for Parliament and the House authorities to establish the detailed rules according to which allowances may be claimed. We believe that public acceptance of the way Members of Parliament and of the House of Lords use allowances requires their use to be transparent, individual by individual, on the basis that claims should be justified and documented in all cases, and that the maximum available allowance is not a "right". We welcome the decision that information relating to the take-up of allowances by individual Members of Parliament and of the House of Lords will be published for the first time from October 2004 onwards. This will not only increase transparency but will also provide data on how allowances are used that will be valuable in considering the structure and level of allowances in future.

Chapter 2

The salaries of Members of Parliament, Ministers and other office holders

Introduction

- 2.1 All Members of Parliament receive the same parliamentary salary. Those MPs who also hold a Ministerial or other paid office continue to be paid their parliamentary salary, in recognition that they retain their constituency responsibilities.
- 2.2 Ministers and other paid office holders receive a separate salary for their office. This is higher for those in the House of Lords, reflecting the fact that they do not also receive a parliamentary salary. Only Lord Falconer (the Lord Chancellor and Secretary of State for Constitutional Affairs) does not draw his full statutory salary entitlement, having chosen to receive the same amount as a Secretary of State in the Lords.
- 2.3 We are asked by the Government to review these salaries from time to time. The review in 1996 recommended that a mechanism should be introduced for adjusting the salaries of MPs, Ministers and other paid office holders annually in line with the average movement in the mid-points of the nine senior civil service pay bands below the level of Permanent Secretary. The 1996 review also recommended that there should be an automatic review of parliamentary pay levels every three years, starting in 2000. This is the second such review.
- 2.4 The review in 2000 found that parliamentary salaries had lost ground against their comparator salaries, and recommended that they should be increased by £2,000 in both 2001 and 2002, in addition to the increase resulting from the operation of the normal updating mechanism. This recommendation was subsequently implemented.
- 2.5 Since the introduction of the current pay system for the senior civil service in April 2002, parliamentary salaries have been increased by the rate of revalorisation of the senior civil service pay bands and target rates. The most recent increase, on 1 April 2004, raised the salary of MPs by two per cent to £57,485. Full details of current parliamentary salaries are set out at Appendix B.

General principles

- 2.6 The 1996 Report set out the general principles applied by the Review Body in determining pay levels. In its evidence to us the Government commented that these principles remained a good basis for determining parliamentary pay and allowances. We consider they remain relevant, and have applied them again in this review. They are:
 - Pay should not be so low as to deter suitable candidates, or so high as to make pay the primary attraction of the job;
 - Pay should reflect levels of responsibility rather than workload;
 - Whereas those with outside interests should not be deterred from entering Parliament, those who choose to make Parliament a full-time career should be adequately rewarded to reflect their responsibilities;
 - Pay should not be augmented in an attempt to compensate MPs for job insecurity, which is not unique to MPs;
 - The basic parliamentary salary should continue to be the same for all MPs;

- There should be no pay progression linked to length of service; and
- A clear distinction must be made between salary and reimbursement of expenses.

2.7 To this list we would add one further principle, to which the new disclosure rules, to be implemented from October 2004, will help give effect:

- Claims for expenses should be appropriately validated, and their reimbursement should be transparent.

Evidence

2.8 We received no submissions proposing that pay should be increased. Indeed we received very few comments on the subject of pay at all, beyond a few passing references to the need for pay comparability.

2.9 We commissioned the consultants, PricewaterhouseCoopers (PwC), to evaluate whether MPs, Ministers and other paid office holders had retained their comparative salary position since the last review in relation to comparator workers in both the public and private sectors. We did not ask PwC to re-evaluate job descriptions on this occasion, since it is generally agreed that parliamentary roles have not changed materially since the last review of parliamentary pay, carried out in 2000 by Hay Group Management Ltd.

2.10 Parliamentary roles are of course unique in many respects, and there are no direct market comparators for the purpose of salary levels. PwC's approach was to measure the job size for each role under their job evaluation methodology – the Monks Six Factor – and compare the parliamentary salaries with those jobs of comparable size in the public and private sectors. A full list of comparators for each role is at Appendix D.

Members of Parliament

2.11 PwC concluded that the appropriate comparators for the job of an MP included the following:

Private sector

- director of a subsidiary company with a turnover of around £100m to £500m;

Public sector

- head teacher of a mid-sized secondary school;
- pay band 1 senior civil servant;
- 1-star officer in the armed services; and
- Chief Superintendent in the police services.

2.12 With the comparators established, PwC was able to provide us with actual salaries of the comparator jobs, as well as salary increases for those jobs over the last three years. Its database indicates that the salary of an MP is 85 per cent of those of typical comparators in the private sector, and 88 per cent of those in the public sector, but that it has increased by a slightly higher percentage over the last three years, i.e. the MP's salary has increased by 15 per cent compared with 14 per cent for private sector comparators and 12 per cent for public sector comparators. This is summarised in Table 2.1.

Table 2.1: Salary comparisons – MPs

	Median salary April 2004	MP's salary as a % of comparator salary	% increase in salary April 01 – April 04
MP	£57,485		15%
Typical private sector comparator	£68,000	85%	14%
Typical public sector comparator	£65,000	88%	12%

Source: Extract from Tables 2, 3 and 5 of PwC report. (This can be seen in graphical form in the management summary of the PwC report, Charts 1 and 2.)

Note: Figures exclude non-consolidated bonus payments and other benefits or earnings.

2.13 Although Table 2.1 would appear to indicate that the salary of MPs has increased by a little more than typical comparators, it should be borne in mind that MPs are not eligible for non-consolidated bonus payments. These have been a feature of remuneration in the private sector for a long time (moving up and down in line with corporate and individual performance), and they are being increasingly applied in the public sector. Taking this into account, we conclude that, overall, the relative market position of MPs' pay has remained about the same over the last three years.

2.14 In the light of all the evidence, we recommend that there should be no further increase in the salary of MPs this year in addition to that resulting from the normal uprating mechanism (i.e. two per cent), which was applied on 1 April 2004.

Recommendation 1: We recommend that there should be no increase in the salary of MPs in 2004-05, beyond the two per cent increase from 1 April 2004 that has already been awarded.

2.15 We have been asked to take into account the improved accrual rate of the Parliamentary Pension Scheme in any recommendations on pay. We propose that this should be dealt with through an increase in contribution rates, rather than an abated salary, or differential salary rates. Our recommendations are contained in Chapter 3.

Ministers and other paid office holders

2.16 As with the salary of MPs, the salaries of Ministers and other paid office holders are lower than those of their comparator jobs in the private and public sectors, and indeed significantly lower in the case of more senior roles. Thus the salary of a 'mid-tier' Cabinet Minister¹ is only 37 per cent of the private sector market median for comparator jobs, and 70 per cent of the public sector market median. The disparity is even greater in the case of the Prime Minister, whose salary equates to 26 per cent of the private sector market median for comparator jobs and 58 per cent of the public sector market median. Details are summarised in Table 2.2.

¹ The roles of Cabinet Ministers and Ministers of State vary considerably, depending on, for example, departmental responsibilities, membership of Cabinet Committees, etc. PwC has sized what would be considered to be a mid-tier job, but has included upper-tier and lower-tier figures to reflect comparator salaries for the larger and smaller roles.

Table 2.2: Salary comparisons – Ministers

Post	Total salary (including MP's salary) 1 April 2004	Typical private sector comparator		Typical public sector comparator	
		Median salary 1 April 2004	Salary as a % of comparator salary	Median salary 1 April 2004	Salary as a % of comparator salary
Prime Minister	£178,922	£692,000	26%	£310,000	58%
Cabinet Minister – mid-tier	£130,347	£350,000	37%	£185,000	70%
Minister of State – mid-tier	£95,281	£157,000	61%	£120,000	79%
Parliamentary Under Secretary of State	£86,173	£120,000	72%	£95,000	91%

Source: Extract from Tables 2 and 3 of PwC report. (This can be seen in graphical form in the management summary of the PwC report, Chart 1.)

Notes:

Figures exclude non-consolidated bonus payments and other benefits or earnings.

Examples of public sector comparators used by PwC include the following:

Prime Minister: the Chief Executives of the ten largest Non-Departmental Public Bodies (e.g. BBC, Royal Mail Holdings).

'Mid-tier' Cabinet Minister: the Cabinet Secretary, Metropolitan Police Commissioner, Lord Chief Justice, and Chief of Defence Staff.

'Mid-tier' Minister of State: Chief Executive of larger City or District Council; Chief Constable of mid-sized force.

Parliamentary Under Secretary of State: Chief Executive of NHS Trust; Deputy Chief Constable.

The full list of comparators is at Appendix D.

2.17 Unlike in the case of MPs, increases over the past three years for most senior Ministerial posts have lagged behind those received by public and private sector comparators. Again the position is more marked for the more senior posts. Thus in the case of a "mid-tier" Cabinet Minister, the salary increase has been 10 per cent, compared with 14 per cent for the typical public sector comparator and 20 per cent for the typical private sector comparator. Details are given in Table 2.3.

Table 2.3: Salary increases since April 2001

Post	% increase in salary, April 2001 to April 2004	% increase in typical private sector salary	% increase in typical public sector salary
Prime Minister	9%	28%	15%
Cabinet Minister – mid-tier	10%	20%	14%
Minister of State – mid-tier	12%	19%	13%
Parliamentary Under Secretary of State	12%	17%	12%

Source: Extract from PwC report, Table 4. (This can be seen in graphical form in the management summary of the PwC report, Chart 2.)

Note: Figures exclude non-consolidated bonus payments and other benefits or earnings.

- 2.18 One factor to bear in mind in considering the read across to the comparators is that a major factor driving higher rates of pay in the private sector is the need for companies to compete for a limited pool of talent, and in some circumstances salaries are driven by international rates of pay. There is of course no competitive dimension of this nature when filling the higher political posts in the land.
- 2.19 The analysis in paragraphs 2.16 to 2.18 above presents a dilemma. On the one hand, we have received no submissions calling for Ministerial salaries to be increased. There appears to be no shortage of those who seek to attain Ministerial office at current pay rates, and although Ministers resign from time to time for a wide variety of reasons, none so far as we are aware has cited pay as a reason. It is likely that a recommendation for significant increases would be unwelcome to the Government and Parliament. We would wish to avoid a repeat of the situation that arose following our 1996 Report, when on taking office the Prime Minister and the Cabinet decided to forego the increases due to them². We observe that in practice there is a significant pay 'discount' for high political office and no one has proposed its removal.
- 2.20 On the other hand the PwC data indicate that differentials are continuing to widen, especially at higher levels, driven by the introduction of new pay structures in the economy at large designed to recruit and retain the best people and incentivise their performance. It would of course be contrary to the principles for setting parliamentary pay defined in paragraph 2.6 above if differentials were to widen to such an extent that suitable candidates were deterred from seeking Cabinet-level posts. We do not see any evidence that this point has been reached, but it is a matter of judgement whether it is in the longer-term national interest to allow the 'discount' to increase in relation to market rates for comparator jobs.
- 2.21 We make no recommendations on this occasion for increasing Ministerial salaries. However we flag that, on the basis of present trends, a significant adjustment of salaries for the most senior posts may come to be justified. We would like to see an open debate on this issue to inform our next review.

Recommendation 2: We recommend that there should be no increase in the salary of Ministers and other office holders in 2004-05, beyond the two per cent increase from 1 April 2004 that has already been awarded.

Payment of opposition office holders

- 2.22 Salaries are paid to the Leader of the Opposition and the Opposition Chief Whip in both Houses, and to the Opposition Deputy Chief Whip in the Commons. These payments result from the Ministers of the Crown Act 1937 and subsequent Acts up to 1975.
- 2.23 In addition 'Short Money' (named after the President of the Council in 1975, when it was introduced) is given to the parliamentary party of the Official Opposition and other qualifying opposition parties to enable them 'more effectively to fulfil their parliamentary functions'. It comprises a general fund, mainly for research support for front bench

² In 1996 the SSRB recommended that the salaries of the Prime Minister, Cabinet Ministers, the Speaker and the Law Officers should increase significantly. Salaries below Cabinet level were unchanged. On taking office the Prime Minister and the Cabinet decided to forego the salaries due to them and up to June 2001 drew salaries at the pre-election rate, uprated by the same percentage each year as MPs' salaries. This was a voluntary decision taken by the Cabinet collectively but came to an end following the SSRB's judgement in its 2001 Report that it was distorting the pay system.

spokesmen and assistance in the relevant Whips' offices; a travel allowance; and an allowance for running the Leader of the Opposition's Office. The amount of Short Money for each party is calculated on the basis of the number of MPs and the number of votes that they receive and is increased annually in line with inflation.

- 2.24 We received a submission on behalf of the Liberal Democrats arguing that the salaries paid to office holders of the Official Opposition (outlined in paragraph 2.22 above) are anachronistic and should be reviewed, given the public funds now available to opposition parties in the form of Short Money and the current closer arithmetic strength of the opposition parties in both Houses.
- 2.25 We regard any revision of the present arrangements as a constitutional matter for the Government and Parliament, rather than ourselves. However should a decision be taken at some future point that additional opposition posts should receive payment, we would be pleased to recommend appropriate salary levels.

Payment of Select Committee Chairmen

- 2.26 In June 2002, we were asked to advise the House of Commons on the appropriate level of payment for Chairmen of Select Committees carrying out scrutiny work.
- 2.27 In our report³, we recommended that a single level of payment, of £12,500 per annum in addition to parliamentary salary, should be made to the Chairmen of departmental Select Committees, and to certain externally focussed 'cross-departmental' committees such as the Public Accounts Committee. We said that the initial level of payment should err on the side of caution pending future developments, and that we would return to the level of payment as part of our continuing reviews of parliamentary pay and allowances. The recommended payment has now been implemented as from the start of the 2003-04 Parliamentary Session⁴.
- 2.28 The evidence we have received in the course of the present review is in general supportive of the new payment in principle, but also takes the view that more time is needed to allow the payment to bed in, before further changes are considered.
- 2.29 The new payment may come to be seen as an important first step, welcomed by many, towards remunerating parliamentary careers devoted to scrutiny, as opposed to serving in the Government. We agree that it would be premature to make changes to the new payment so soon after its introduction. However we expect to reconsider the payment in the light of developments at our next review.

³ Pay for Select Committee Chairmen in the House of Commons, Cm 5673. The Stationery Office. July 2003.

⁴ Date of resolution was 30 October 2003.

Chapter 3

Parliamentary pension arrangements

Introduction

- 3.1 In advising on parliamentary salaries, we have been asked to take into account recent improvements to pension accrual rates for the Parliamentary Contributory Pension Fund (PCPF). We have also been asked to consider the implications for the PCPF of the recent Pensions Green Paper and the associated paper on the reform of pensions taxation.
- 3.2 We have been assisted in our consideration of these issues by the Government Actuary's Department (GAD). Its report is published in Volume 2. In addition it is available at <http://www.ome.uk.com/downloads/parliamentarypayandallowances2004volume2.pdf>.

Overview – the main provisions of the scheme

- 3.3 All serving MPs may participate in the PCPF. Ministers and certain other office holders (in both the House of Lords and House of Commons) may participate in a supplementary section of the scheme and qualify for a pension on essentially the same terms as MPs. A description of the primary benefits is summarised at Appendix E.
- 3.4 Most scheme members (90 per cent) opted in 2002 to pay contributions at an increased rate of nine per cent of salary, and to accrue pension at the rate of 1/40th of final salary per year of service. The remainder opted to continue paying contributions at the lower rate of six per cent of salary and to accrue pension at the rate of 1/50th of final salary per year of service.
- 3.5 Retirement pensions are payable from age 65 to those who are no longer MPs or office holders. Where service as an MP exceeds 15 years and age is at least 60 the pension may be paid without any reduction for its early payment when age plus service totals 80. Pensions that are reduced for early payment may be paid to any member from age 50.

Previous review

- 3.6 In March 2001 we published a separate report on the Parliamentary Pension Scheme, which included eight recommendations. Four have now been implemented as amendments to the scheme's rules. They are as follows:
- The death in service lump sum benefit has been increased from three times salary to four times salary;
 - Non-concurrent service in devolved assemblies now counts towards the qualifying period for unreduced early retirement benefits;
 - The rules in respect of children's benefits have been revised to ensure sex equality; and
 - Abatement of pension no longer applies for former MPs who serve as office holders in the House of Lords.
- 3.7 A fifth recommendation was that equality proofing of the PCPF rules should be undertaken to ensure that there was no systemic discrimination. We understand that following a review of the scheme's governing regulations by the Treasury Solicitor, it was decided that no further action was needed.

3.8 Our remaining three recommendations were as follows:

- That the provision for curtailing widows' and widowers' pensions upon their remarriage should be removed, at Exchequer cost;
- That the Trustees of the PCPF should explore with the managers of the MEPs' pension scheme and the Trustees of the pension schemes for Members of the devolved assemblies the merits of establishing a Parliamentary Transfer Club; and
- That the Trustees should canvas the views of members of the PCPF on the issue of survivor pensions for unmarried partners.

3.9 The first of these recommendations was rejected by the Government and was referred to the scheme's trustees for possible implementation at members' cost. The other two recommendations were also referred to the scheme's trustees to take forward. In our view the recommendations remain valid and we are disappointed to note that no action has yet been decided on.

Recommendation 3: We recommend that the Trustees of the PCPF should decide what action to take on the recommendations outstanding from our report on the Parliamentary Pension Scheme in March 2001.

3.10 At the same time as voting on the SSRB's recommendations (in July 2001), the House of Commons also voted to increase the accrual rate for benefits under the scheme from 1/50th to 1/40th of final salary per year of service. This was contrary to our decision not to recommend such an increase to the accrual rate. The Government referred the financing of the increased accrual rate back to the SSRB. We subsequently recommended that members opting for the higher accrual rate should pay additional contributions of three per cent of salary, in addition to the existing members' contribution rate of six per cent of salary. We indicated that this would leave 2.1 per cent to be funded initially by the taxpayer. We said that we considered that this additional amount should be taken into account in subsequent reviews of MPs' pay, so that eventually the full cost of implementing the increased accrual rate was borne by MPs on an ongoing basis.

Introduction of the 1/40th scheme

3.11 All PCPF members were given a choice in 2002 of three different accrual rate options as follows:

- To continue accruing benefits at the rate of 1/50th of final salary for each year of service, and to contribute six per cent of salary;
- To increase their accrual rate to 1/40th of final salary for each year of service from 15 July 2002, and contribute nine per cent of salary from that date; or
- To increase their accrual rate to 1/40th of final salary for each year of service and backdate the change to 5 July 2001, and contribute nine per cent of salary backdated to that date.

3.12 Of the 679 PCPF members concerned, only 68 opted to remain on the 1/50th accrual rate. The remainder opted for the 1/40th rate, with somewhat more than half choosing to backdate the change.

3.13 Our consultants, GAD, have estimated that the additional cost to the Exchequer of the improved 1/40th accrual rate, after taking into account the additional three per cent contribution by those who have opted for the 1/40th accrual rate, is 1.9 per cent of the total Parliamentary payroll. The calculation is summarised in Table 3.1. It takes into account that just over ten per cent of MPs have opted for the 1/50th accrual, but, because it relates to the additional cost of benefits accruing on an ongoing basis, it does not include the additional cost of the 1/40th accrual rate between the date of introduction (5 July 2001 or 15 July 2002) and the present.

Table 3.1: Additional cost of 1/40th accrual over 1/50th accrual (percentage of total pensionable payroll)

	100% take-up of 1/40 th option	Actual take-up of 1/40 th option
Additional cost of 1/40 th	5.1%	4.6%
Members' additional contributions	3.0%	2.7%
Net cost to Exchequer	2.1%	1.9%

Source: Extract from GAD report, paragraph 3.8.

3.14 The above calculation is an estimate of the cost of providing the additional benefit. The actual cost will depend on the precise mix of members who opt for the 1/40th rate. It will vary in relation to individual members according to their age, length of reckonable service including additional service from transfers-in and added years, and the level of retained benefits from other pension schemes.

Options for recovering the additional cost to the Exchequer

3.15 We have considered two main options for recovering the additional cost to the Exchequer of the improved 1/40th accrual rate.

- Restrict future pay increases for MPs. The appropriate amount for the restriction might be 1.9 per cent, if applied across-the-board to all MPs, or 2.1 per cent if applied only to those who have opted for the 1/40th accrual rate.
- Increase the contribution rate of MPs who have opted for the 1/40th rate. Again 2.1 per cent would be the appropriate baseline figure.

3.16 We do not favour the first option (restricting future pay increases). In our view it would be unfair to apply a future salary restriction to all MPs, including those who had not opted for the 1/40th accrual rate. On the other hand, applying it just to those who had opted for the 1/40th rate would create different salaries for two classes of MPs, which we would wish to avoid. We prefer the alternative of further increasing the contribution rate for those members who opted for the 1/40th accrual rate.

3.17 Taking into account our recommendation that there should be no further increase in parliamentary pay as a result of this review, we consider that an appropriate step towards recovering the outstanding cost to the Exchequer of the improved 1/40th accrual rate would be for the contribution rate for those MPs who have opted for the improved rate to be increased by a further one per cent, to ten per cent, with effect from 1 April 2004. However it remains our view that the full cost of implementing the increased accrual rate should in due course be borne by MPs on an ongoing basis, and we intend that the outstanding amount (of one per cent, in round terms) should be taken into account when we conduct our next review of parliamentary pay and allowances.

3.18 An employee contribution rate of ten per cent is high by comparison with the private sector, where employee contributions into defined benefit pension plans by comparator groups are typically around five per cent¹. It is also high by comparison with many schemes in the public sector, but it is not unique. For example, contribution rates are 11 per cent in the case of the police and fire service, which also have relatively advantageous accrual rates compared to other schemes. Further examples are set out in Table 3.2. Of course, a full range of factors would need to be taken into consideration in carrying out a comprehensive assessment of the benefits of different pension schemes, which is beyond our scope in this remit.

Table 3.2: Summary of main terms of public service pension schemes

	Employees' contribution	Pension Age	No. of years service for full pension	Accrual Rate
MPs	9% or 6%	65 ¹	26½ or 33½	1/40 or 1/50
Civil Service (Classic)	1.5%	60	40	1/80 + lump sum of 3x pension
Local Government	6% ²	65 ³	40	1/80 + lump sum of 3x pension
NHS	5% or 6%	60	40	1/80 + lump sum of 3x pension
Teachers	6%	60	40	1/80 + lump sum of 3x pension
Armed Forces (Officers)	Nil	55 ⁴	34	Between 1/56 and 1/70 ⁵ + lump sum of 3x pension
Police	11%	55 or 60 ⁶	30	1/60 for first 20 years, 1/30 thereafter
Fire Service	11%	55 or 60 ⁷	30	1/60 for first 20 years, 1/30 thereafter
Judiciary	3%	65	20	1/40 + lump sum of 2.25x pension

Source: Government Actuary's Department

Notes:

¹ Unreduced pension payable from 60 if age + service total 80.

² Some existing members contribute 5 per cent.

³ Unreduced pension payable from 60 if age + service total 85.

⁴ Unreduced pension payable earlier, subject to completion of commission.

⁵ Depending upon age at retirement.

⁶ 55 for junior ranks, typically 60 for senior ranks (but unreduced pension payable from 50 with 25 years of service, or at any age with 30 years of service).

⁷ 55 for junior ranks, typically 60 for senior ranks (but unreduced pension payable from 50 with 25 years of service).

¹ See Table 6 and paragraphs 3.12 and 3.13 of PwC's report.

Recommendation 4: We recommend that the contribution rate for those MPs who have opted for the 1/40th accrual rate should be increased by one per cent, to ten per cent, with effect from 1 April 2004.

Implications of the Government's pensions proposals

3.19 There are two major Government initiatives in train, one relating to general pensions legislation, the other to simplification of the taxation regime. In connection with the former, the Government's December 2002 Green Paper and its follow-up in June 2003 ("Action on occupational pensions") have been followed by a Pensions Bill, which is currently before Parliament.

Pensions Green Paper and Pensions Bill

3.20 The main aspects of the Bill, as they are likely to affect pension scheme members in general, are discussed in GAD's report in Volume 2 of this report. The Bill establishes a Pension Protection Fund, which will take on responsibility for paying pensions, up to a specified maximum level, earned in schemes where the employer is no longer able to support the scheme. However the PCPF, as a statutory government-backed scheme at no risk of insolvency, will not pay levies to the Pension Protection Fund or be covered by it. GAD accordingly concludes that the establishment of the Pension Protection Fund, and other changes in the Bill, are likely to have only a very limited impact on the PCPF.

3.21 However one aspect of the reforms (not part of the Bill) which could have a significant impact on the PCPF is the change in Government policy on retirement age in relation to public service occupational pension schemes. The new policy is to implement a retirement age of 65 (rather than 60) for public servants who take up employment from a date yet to be fixed, probably no later than 2006. The Government also intends that the retirement age for the future service of existing members of pension schemes should be increased to 65 from a date yet to be agreed (e.g. it could relate to service after 2010).

3.22 As noted in paragraph 3.5 above, MPs with at least 15 years of service may currently draw their pension on retirement from age 60 without any reduction for its early payment, if age and service total more than 80 years. Pensions that are reduced for early payment – but on favourable terms to the extent that length of service exceeds 15 years – may also be paid to any member from age 50. It would be possible to alter the PCPF provisions in line with the proposed policy for public service workers, by removing the favourable early retirement terms for future new entrants (from, say, the date of the next election). Such a change might also be applied to the future service of existing PCPF members. If introduced as part of a package of changes, it may be possible to make improvements to the scheme (e.g. in respect of unmarried partners' pensions, and by removing the cessation on remarriage provisions) without increasing members' contribution rates.

3.23 The Government's evidence to us indicated that it expected the new retirement age of 65 to be applied to the PCPF. Assuming that this is confirmed in due course, the current provisions which allow unreduced pensions to be payable before age 65, subject to completion of a minimum length of service, would no longer be available. Such a change would lead to some reduction in the costs of the pension scheme, which are estimated by GAD at 1.5 per cent of pay on an ongoing basis, when spread across the membership as a whole. As noted above, this saving could offset the additional cost of providing other benefits.

Inland Revenue Tax Simplification

- 3.24 As part of the budget announcements on 17 March 2004, the Government confirmed that a new taxation regime applicable to pension schemes will be implemented from 6 April 2006. The new regime will be significantly different from the current regime. In summary, the maximum benefits (and contributions) that can be provided through tax-relieved pension vehicles will be significantly increased for the great majority of workers. However, for highly paid workers currently exempt from the earnings cap, the new regime will result in a decrease in the tax reliefs available. The new regime will also make substantial changes to the mechanism for providing, controlling and monitoring the tax reliefs available for pension arrangements.
- 3.25 Details of the new regime are set out in GAD's report. The main changes include the following:

Lifetime Allowance – The tax-relieved benefit value of all pension arrangements for any individual will be capped at the limit of the Lifetime Allowance, which will be £1.5 million for the tax year 2006-07.

Annual Allowance – The tax-relieved increase in benefit value for any one individual in any one year will be capped at the limit of the Annual Allowance, which will be £215,000 for 2006-07.

Lump sum limit – The maximum tax-free lump sum available will be 25 per cent of the total benefit value for each pension arrangement.

Contribution limit – The maximum for tax-relieved contributions from members will be set at 100 per cent of annual earnings, or alternatively £3,600, if higher.

Flexible retirement – The requirement that an individual must be retired from employment before receiving pension benefits will be removed.

Minimum pension age – The minimum age at which pension benefits can begin to be paid will be increased from the current age of 50 to age 55 for members retiring from 2010.

Implications for members of the PCPF

Lifetime Allowance (LTA)

- 3.26 For the majority of current MPs who are not Ministers or office holders, and who do not have other substantial pension entitlements, the LTA is unlikely to be of concern. However, because it may in future increase more slowly than general rates of salary inflation, it is possible that MPs who have accrued the maximum pension of 2/3rds of final remuneration might in future breach the LTA even in the absence of any further pension provision. Ministers and other office holders could be affected by the LTA rather sooner, because of the extra pension that they earn in relation to their additional salaries.
- 3.27 The LTA is likely to have significant implications for high-earning members of comparator groups in private sector pension schemes. The remuneration packages applicable to those high earners are likely to be redesigned in the light of the pensions tax changes, so as to avoid the high tax rates that would apply for pensions exceeding the limits. In particular, higher earners might be expected to be pensioned at a lower level than under the current regime or to have some benefits provided on an unapproved basis. Higher earners who are already at or beyond the limit of £1.5 million are likely to take advantage of the transitional protections, which will shelter existing pensions from the high tax rates, but will in practice preclude any further build up of pension rights on advantageous terms.

- 3.28 It is likely that a number of MPs have significant Retained Benefits (earned in pension arrangements before joining Parliament). These will need to be taken into account in assessing total pension benefits against the LTA, as will any other pension benefits earned concurrently with service as an MP. MPs with a high level of Retained Benefits that take their current pension entitlements above the LTA (or close to the LTA) will need to consider taking advantage of one of the transitional protection options otherwise they may face an effective tax rate of 55 per cent.

Annual Allowance

- 3.29 With the Annual Allowance pitched at a relatively high level (£215,000 for the first year of the new regime), it is unlikely to be of any practical significance for PCPF members.

Lump sum limit of 25 per cent

- 3.30 The additional lump sum benefit that a member is currently able to receive on a tax-free basis could be much higher under the new regime. This may lead to pressure from members for a relaxation of the limits on lump sum payments from the scheme and a consequent increase in use of the commutation facility. Provided the actuarial factors used for the commutation of pension were reasonable, there would be no expected cost (or expected saving in cost) to the Exchequer from increasing the portion of PCPF benefits that could be taken in lump sum form. However, the consequence would be a lower level of continuing pension to the member (and possibly the spouse).

Contribution limits

- 3.31 One significant advantage to PCPF members from the increase in contribution limits is that determination of the headroom available for Additional Voluntary Contributions and added years purchase will no longer be necessary for the majority of the membership, assuming that the PCPF contribution limits are to be relaxed in line with the new Inland Revenue regime.

Two-thirds limit

- 3.32 Since the accrual rate for members' pensions in the PCPF is either 1/40th or 1/50th salary per year of service, the current Inland Revenue limit of two-thirds of final remuneration means that a maximum of either 26 $\frac{2}{3}$ or 33 $\frac{1}{3}$ years of service can count (e.g. 33 $\frac{1}{3}$ /50 x pay = two-thirds of pay). In the new Inland Revenue regime, there will be no requirement for schemes to have such a limit. For example, if the two-thirds limit were removed, a member who had 40 years of reckonable service could become entitled to a pension of 80 per cent of pay (1/50th accrual) or 100 per cent of pay (1/40th accrual).

Issues for consideration

- 3.33 GAD concludes its report by advising that specific changes to the PCPF's detailed benefit provisions that could be considered in conjunction with the introduction of the new Inland Revenue regime include the following:
- Allowing a greater proportion of the PCPF pension to be commuted to a tax-free lump sum at retirement, possibly up to the level permitted under the new Inland Revenue regime. This change may be particularly attractive, as the cash commutation facility is generally popular with members, and there should be no additional cost to the scheme.
 - Abolishing the limit of 2/3rds final salary on pension benefits payable from the PCPF. This would increase the cost of providing pensions for those members who are already restricted by the current limit, as well as those who would have been restricted by it in future.

- Removing the “earnings cap” restriction on the salary level that may be pensioned in the PCPF. This restriction only applies to members who joined after 1989 and whose total parliamentary salary (including office holder salary) exceeds the earnings cap – £102,000 p.a. for 2004-05. For members currently affected, removing this restriction would represent a windfall gain in terms of the value of the accrued pension benefits, if the relaxation were to be given in respect of pension rights already accrued, as well as those that will accrue after the change. Removing this restriction would increase the cost of providing pensions for those members who are restricted by the current limit, as well as those who would have been restricted by it in future.
- Removing the restrictions that relate to Retained Benefits (pension rights earned prior to joining PCPF). This limitation restricts those with a substantial level of other pension provision to a PCPF pension accrual rate of only 1/60th of final salary per year of service. Its removal would increase the cost of providing pensions for the relatively small number of members who are likely to be affected by it.

3.34 A further issue for consideration is that referred to in paragraph 3.31, namely whether the PCPF contribution limits should indeed be relaxed in line with the new Inland Revenue regime.

3.35 In due course it will be important to consider whether or not any changes should be made to the structure of the PCPF. In the first instance it will be for the Government to clarify its policy intention in respect of the retirement age for members of the Fund, and its early retirement provisions. It will then be for the Government in conjunction with the Trustees to consider:

- Changes consequent upon the new tax regime;
- Changes to survivor benefits under the scheme to cover civil partners; and
- The mechanism for meeting the cost (or taking account of the savings) of such changes.

Depending on what is ultimately decided, we may need to consider the implications for MPs’ remuneration in our next report.

Chapter 4

House of Commons allowances

Introduction

4.1 We have been asked to review the rate of allowances for Members of the House of Commons. The main allowances are as follows (April 2004 rates):

- Staffing Allowance: £66,458 to £77,534. Enables MPs to employ up to 3 full-time equivalent staff.
- Additional Costs Allowance: £20,902. Reimburses MPs for additional expenses incurred in staying away from their main home while performing parliamentary duties (may be used to pay mortgage interest or rent on a second home, whether in London or in the constituency).
- Incidental Expenses Provision: £19,325. Covers other expenditure – e.g. costs of maintaining a constituency office.
- Car mileage allowance: 57.7 pence per mile up to 20,000 miles, 26.6 pence per mile thereafter.
- London Supplement: £1,618. Paid to MPs with inner London constituencies.

A full list of all the available allowances is included in Appendix B. The Staffing Allowance is increased on 1 April each year in line with movements in the Average Earnings Index (for public and private sectors combined)¹. Other allowances are uprated on 1 April each year in line with movements in the Retail Prices Index², with the exception of motorcycle and bicycle mileage allowances, which are adjusted in line with movements in the Inland Revenue approved rates.

4.2 Overall, the evidence we have received suggests that the allowance system is working well. The changes introduced following our last report have been widely welcomed. However there is a widespread view that some adjustment is needed to the Incidental Expenses Provision, first on grounds of equity, and secondly to encourage MPs to locate staff in the constituency rather than Westminster, so as to relieve pressure on the Parliamentary Estate. There is also general agreement that the central provision of IT equipment and support services has been successful and should be extended. On the Staffing Allowance most feel that the allowance is fit for its purpose, although we received evidence from one constituency MP that it was not adequate to enable MPs to employ the three full-time members of staff envisaged, and staff representatives expressed concern to us that salaries were not adequate to ensure a professional level of support to MPs. In addition PwC reported that a number of interviewees felt that the allowance offered little scope to give increases, pay overtime, or reward additional skills or experience.

4.3 If changes are to be introduced successfully, it is essential that they command the support of the majority of those to whom they apply. We have therefore consulted the House authorities in developing the recommendations below.

¹ House of Commons Resolution 2c(ii) of 5 July 2001 provides for the Staffing Allowance to be uprated annually to reflect changes in pay levels for equivalent jobs outside the House.

² House of Commons Resolutions 1c and 4 of 13 July 1994, Resolution 3d of 5 July 2001, and Resolution 4 of 10 July 1996 provide for the Additional Costs Allowance, the London Supplement, the Incidental Expenses Provision and the car mileage allowance to be uprated annually by reference to the Retail Prices Index.

Previous review

4.4 The current system of allowances results from our last review in 2000, which recommended fundamental changes to the way in which MPs are funded and reimbursed for their staff and office expenses. The review abolished the old Office Costs Allowance, which covered secretarial assistance, general office expenses and employment of research assistants, and replaced it with the Staffing Allowance, Incidental Expenses Provision, and the central provision of IT equipment.

Staffing Allowance

4.5 The Staffing Allowance is available to meet costs wholly, exclusively and necessarily incurred on the provision of staff to help MPs perform their parliamentary duties. The allowance is between £66,458 and £77,534 per year (April 2004 rates), dependent on whether the employees are based in London. (MPs with London constituencies may claim up to the maximum figure.) Staff paid from the Staffing Allowance must be paid in accordance with pay ranges linked to job descriptions and standard contracts prepared by the House of Commons Department of Finance and Administration. The allowance is ring-fenced and unspent balances cannot be transferred to meet shortfalls elsewhere during the year. However following a recent rule change, up to ten per cent of the allowance, if unspent, can be carried forward to the following year in specific circumstances.

4.6 Table 4.1 lists present job categories and their pay ranges.

Table 4.1: Pay ranges for MPs' staff, 2004-05

Job type	Pay ranges (1 April 2004)	Recommended starting pay
<u>Secretaries/Office Managers</u>		
Office Managers/ Executive Secretaries	£18,277 to £34,337	£18,277 (outside London) £24,923 (London)
Senior Secretaries	£14,954 to £26,030	£14,954 (outside London) £19,384 (London)
Junior Secretaries	£12,184 to £21,599	£12,184 (outside London) £16,061 (London)
<u>Caseworkers</u>		
Senior Caseworkers	£14,954 to £25,476	£14,954 (outside London) £19,384 (London)
Caseworkers	£11,630 to £21,599	£11,630 (outside London) £16,061 (London)
<u>Research/Parliamentary Assistants</u>		
Senior Research/ Parliamentary Assistants	£23,815 to £34,337	£23,815 (outside London) £28,246 (London)
Research/ Parliamentary Assistants	£12,184 to £29,353	£12,184 (outside London) £16,614 (London)

Source: House of Commons Department of Finance and Administration

- 4.7 The allowance is set at a level that is designed to enable MPs to employ up to three full-time (or equivalent) members of staff. This follows the recommendation of our last review, which noted that while two and a half staff would be adequate for many MPs, more active Members could make effective use of three staff.
- 4.8 In the course of carrying out this remit, we have obtained data from the House of Commons Department of Finance and Administration on overall staffing allowance expenditure together with more detailed information for a sample of 150 MPs and their staff³. Table 4.2 indicates that MPs currently employ on average 2.3 full-time equivalent members of staff, excluding unpaid volunteers and interns.

Table 4.2: Average number of staff employed per MP

Full-time equivalent staff ¹	Number	Percentage
3 or more	15	14%
2.5 but fewer than 3	19	18%
2 but fewer than 2.5	46	44%
1.5 but fewer than 2	20	19%
Fewer than 1.5	4	4%

Overall average²: 84.6 hours or 2.3 full-time equivalents

Source: Sample, 104 complete records, supplied by the House of Commons Department of Finance and Administration.

¹ It is assumed that full-time equates to 37.5 hours per week.

² Best estimate based on the sample data, but subject to sampling error.

- 4.9 Table 4.3 indicates that overall the allowance is between 94 and 98 per cent utilised by MPs, with the rate of utilisation being a little higher for MPs with more staff in London.

Table 4.3: Overall take-up of the Staffing Allowance, 2002-03¹

MPs by category	Maximum allowance claimable	Number of MPs	Minimum claim	Average claim	Average claim as a % of maximum
3 staff in London	£72,310	86	£60,624	£70,758	98%
2.5 staff in London	£71,020	9	£64,151	£69,329	98%
2 staff in London	£69,212	87	£50,777	£67,491	98%
1.5 staff in London	£67,404	29	£51,557	£64,408	96%
1 staff in London	£65,596	237	£36,955	£62,685	96%
0.5 staff in London	£63,788	40	£44,821	£60,781	95%
0 staff in London	£61,980	161	£34,113	£58,321	94%

Source: Data supplied by House of Commons Department of Finance and Administration

¹ Figures for 2003-04 not yet available.

³ We requested the following data in respect of the paid members of staff of 150 MPs: annual salary, job title, place of work (Westminster or constituency) and hours of work in 2003-04. Some information was incomplete so the total number of complete records for each analysis varies, as reflected in the relevant table.

- 4.10 MPs may augment the Staffing Allowance from the Incidental Expenses Provision, and we understand from the House authorities that in 2003-04, 185 MPs used an average of £3,240 from the IEP to support their staffing costs.
- 4.11 Our further detailed analysis of the sample indicates that MPs on average use 86 per cent of the maximum allowance for salaries, including employer's national insurance contributions at 12.8 per cent on earnings above £91 per week. The balance is available for other allowable expenses including overtime and bonus payments (which may be made out of any unspent allowance), payments to self-employed staff, bought-in services (e.g. accountancy advice, cleaning and reception services), severance pay, travel and subsistence for staff and volunteers, and cover for short-term staff absences. A ten per cent employer's pension contribution is paid centrally, and is not funded from the allowance.
- 4.12 We have also analysed current salaries being paid, again using the sample data. The figures set out in Table 4.4 show that average actual salaries paid to staff are above the midpoint of the pay ranges (April 2003 rates), with the exception of four roles in London (Junior Secretary, Senior Caseworker, Senior Researcher, and Researcher).

Table 4.4: Average salaries of MPs' staff compared with salary range midpoint (2003-04)

Role ¹	Mid-point of guideline range (April 2003)		Sample salary average ²		Sample salary as a % of midpoint of guideline range	
	National	London	National	London	National	London
Office Manager/ Executive Secretary	£25,442	£28,656	£29,222	£31,169	115%	109%
Senior Secretary	£19,818	£21,961	£22,248	£22,174	112%	101%
Junior Secretary	£16,336	£18,211	£16,374	£15,903	100%	87%
Senior Caseworker	£19,550	£21,693	£22,810	£19,000 ³	117%	88% ³
Caseworker	£16,069	£18,211	£16,290	£19,956 ³	101%	110% ³
Senior Researcher/ Parliamentary Assistant	£28,120	£30,263	£30,814	£29,054	110%	96%
Researcher/ Parliamentary Assistant	£20,086	£22,228	£20,847	£21,849	104%	98%

Source: Sample of 275 complete staff records, supplied by the House of Commons Department of Finance and Administration.

¹ In cases where the job description does not fit the standard House of Commons Department of Finance and Administration, assumptions have been made.

² Best estimates of the population average based on the sample data, but subject to sampling error.

³ Numbers shown in italics are based on a sample size of 1. The size of the other samples varies between 5 and 48.

- 4.13 Table 4.5 indicates that average actual salaries are also in a number of cases in excess of the market median⁴ for the role in question.

⁴ Derived from market information held on PwC's database.

Table 4.5: Average salaries of MPs' staff compared with market average (2003-04)

Role ¹	Sample salary average ²		Market Information		Sample salary as a % of market average	
	National	London	National	London	National	London
Office Manager/ Executive Secretary	£29,222	£31,169	£25,000 to £30,000 Ave £26,500	£27,000 to £32,000 Ave £28,000	110%	111%
Senior Secretary	£22,248	£22,174	£17,000 to £25,000 Ave £19,250	£21,000 to £27,000 Ave £24,500	116%	91%
Junior Secretary	£16,374	£15,903	£13,000 to £18,000 Ave £14,500	£15,000 to £23,000 Ave £19,000	113%	84%
Senior Caseworker	£22,810	£19,000 ³	£20,000 to £25,000 Ave £24,500	£22,000 to £27,000 Ave £25,500	93%	75% ³
Caseworker	£16,290	£19,956 ³	£15,000 to £21,000 Ave £17,000	£16,000 to £22,000 Ave £18,500	96%	108% ³
Senior Researcher/ Parliamentary Assistant	£30,814	£29,054	£23,000 to £26,000 Ave £24,500	£24,000 to £29,000 Ave £25,500	126%	114%
Researcher/ Parliamentary Assistant	£20,847	£21,849	£18,000 to £23,000 Ave £20,500	£19,500 to £23,500 £21,000	102%	104%

Source: Table 10 of PwC's report, and sample of 275 complete staff records, supplied by the House of Commons Department of Finance and Administration.

¹ In cases where the job description does not fit the standard House of Commons Department of Finance and Administration, assumptions have been made.

² Best estimates of the population average based on the sample data, but subject to sampling error.

³ Numbers shown in italics are based on a sample size of 1. The size of the other samples varies between 5 and 48.

4.14 In summary our analysis indicates that the Staffing Allowance at its present level is used by MPs to employ on average 2.3 full-time equivalent members of staff at rates which are on average above the mid-point of the current pay scales, and in many cases are above the market median for the role in question.

4.15 We conclude that the present level of the allowance enables MPs to pay a team of two or two-and-a-half full-time equivalent staff relatively well, but that it may be inadequate for those MPs who wish to employ a larger team, particularly if their staff have been in post for a significant number of years and are paid towards the top of the salary band.

- 4.16 We have gone on to consider at what level the allowance should be set, if it were to enable MPs to employ up to three full-time (or equivalent) members of staff, as recommended in our last review of parliamentary pay and allowances.
- 4.17 Of course many permutations of job type are possible but an analysis of job descriptions for 275 staff indicates that the most frequently performed roles are Office Manager/Executive Secretary, Junior Secretary, and Researcher/Parliamentary Assistant⁵. The mid-points of the guideline range for these three roles, as set out in Table 4.1, are as follows:

Table 4.6: Typical costs of employing three staff (April 2004 rates)

	Outside London rates	London rates
Office Manager/Executive Secretary	£26,307	£29,630
Junior Secretary	£16,892	£18,830
Researcher/Parliamentary Assistant	£20,769	£22,984
Subtotal	£63,968	£71,444
Plus 12.8% national insurance ⁶	£6,371	£7,328
Subtotal	£70,339	£78,772
Plus additional sum (say 10%) to cover overtime, bonuses, etc ⁷	£7,034	£7,877
Total	£77,373	£86,649

- 4.18 This illustrative calculation suggests that the cost of employing three full-time (or equivalent) members of staff at a mid-point in the salary range is about £77,000 to £87,000, depending on whether staff are based in or outside London. The figures reduce to £67,000 to £75,000 for a team of two-and-a-half full-time equivalent staff (assuming roles as above, but only half a Junior Secretary).
- 4.19 The present Staffing Allowance, in comparison, is £66,458 to £77,543. It comprises a base level of £66,458, which is increased by between £3,320 and £3,878 for each full-time equivalent member of staff based in London, up to a maximum of £11,076⁸.
- 4.20 We recognise that most MPs appear able or willing to manage within the present allowance, and we have received few representations calling for it to be increased. We also recognise that there is some ambiguity in our previous recommendation that the allowance should be adequate to enable “up to” three staff to be employed. Nevertheless it is clear that MPs cannot employ three full-time equivalent staff under the present allowance unless they resort to expedients such as the use of unpaid volunteers or interns. We consider it appropriate to take a further step towards enabling MPs to employ three full-time equivalent staff at proper rates of pay. Accordingly we recommend that the allowance should be increased to a base level of £72,000. We will continue to pay close attention in subsequent reviews to the take-up of the allowance, and actual staff salaries being paid.

⁵ In an analysis of 275 job descriptions, the main roles were Office Manager/Executive Secretary (28 per cent), Junior Secretary (23 per cent), and Researcher/Parliamentary Assistant (24 per cent). Other roles were Senior Secretary (10 per cent), Senior Researcher/Parliamentary Assistant (9 per cent), Caseworker (4 per cent), and Senior Caseworker (2 per cent).

⁶ On earnings above £91 per week.

⁷ See paragraph 4.11.

⁸ MPs are eligible to claim £3,878 in respect of each of the first two full-time equivalent members of staff employed in London, and £3,320 in respect of the third.

- 4.21 So far as the additional cost of employing London-based staff is concerned, we are concerned both about the level of the additional allowance and the lack of transparency in its payment. We received some comment from staff representatives that the additional amount was treated by MPs as part of the total allowance ‘pot’ and was not necessarily paid to the individual staff who worked in London.
- 4.22 With regard to the level of the additional allowance, PwC states in its report⁹ that the average London weighting for administrative assistant and administrative officer roles in the public sector will typically range between £900 and £2,500, although it can be as high as £3,000. In the case of public sector employees generally, allowances typically range from £2,000 to £3,000 and in some cases up to £5,000¹⁰. On this basis we consider that an appropriate maximum level of enhancement for the Staffing Allowance in respect of London-based staff is £8,460, calculated on the basis of £2,500 for each of three full-time equivalent members of staff employed in London plus 12.8 per cent National Insurance contributions.
- 4.23 With regard to increasing the level of transparency of the extra pay intended for London-based staff, we believe that this may be achieved most appropriately by developing separate pay ranges for staff employed inside and outside London. This is a matter for the House authorities. We emphasise however that this recommendation should not be interpreted to mean that the existing salaries of London staff should be increased, since in most cases they will already include a London element, even if it is not explicit.

Recommendation 5: We recommend that the Staffing Allowance should be increased to a base level of £72,000, rising to a maximum of £80,460, according to the number of full-time equivalent members of staff based in London. Both the base level and the maximum should be increased on 1 April each year (commencing 1 April 2005) in line with movements in the Average Earnings Index for public and private sectors combined.

Recommendation 6: We recommend that the extra pay intended for London-based staff (by virtue of the higher Staffing Allowance in respect of London-based staff) should be recognised in the pay ranges for such staff.

- 4.24 The overall employment package for staff appears reasonable and appropriate, and a significant improvement on the position three years ago. It is also apparent that many MPs make full use of flexible working arrangements such as employment of part-time staff. However, both MPs and staff raised the issue of training with us, expressing the feeling that not all MPs, or their staff, were fully persuaded of the benefits. We cannot emphasise strongly enough the importance of training, particularly in IT. We welcome the improvements that have been made to the overall training package, but it must be supported. We encourage MPs to seek training for their staff, and we encourage the House authorities to continue to explore ways of providing training and development facilities for those outside London.
- 4.25 In our final comments under this section, we draw attention to the need to keep under review the basis on which MPs’ staff are employed. As already noted, MPs’ staff are paid in accordance with pay ranges linked to job descriptions and standard contracts prepared by the House of Commons Department of Finance and Administration, who also operate the payroll. The MP however remains the employer.

⁹ Paragraph 4.16 of PwC report.

¹⁰ Paragraph 4.37 of PwC report.

- 4.26 In the near term, there is a need to keep the standard job descriptions and associated pay scales up to date. We recognise that the examination of a sample of MPs' staff (paragraphs 4.8 to 4.17 above) did not include a review of their job descriptions. We believe that the standard job descriptions should be reviewed periodically by the House authorities, say every three years, in order to ensure that they adequately reflect the employment patterns in MPs' offices. Specifically, we recommend that they should be reviewed at the latest in 2006-07, in advance of our next review. We also recommend that the pay ranges for caseworkers should be reviewed, in the light of the data in Table 4.5 which suggest that their salaries may be generally below market rates.
- 4.27 Looking further ahead, we think that there may be a case to consider whether the contractual employer/employee relationship might be assumed centrally by the House authorities. The advantage of the present arrangements from the perspective of MPs is that it gives them freedom to select those who work for them and considerable flexibility as to pay rates. We recognise the importance MPs attach to choosing their own staff, but we question whether it is sensible that MPs should each carry individually the full range of responsibilities of employer, especially bearing in mind the complex regulations relating to many aspects of employment and the need for due process in relation to recruitment, discipline, grievances and dismissal. At some future point, therefore, it may be appropriate for MPs and the House authorities jointly to review what would be the best basis for the future employment of staff.

Recommendation 7: We recommend that the House authorities should (i) review standard job descriptions at the latest in 2006-07, in advance of our next review; and (ii) review the pay ranges for caseworkers.

Incidental Expenses Provision

- 4.28 The Incidental Expenses Provision (IEP), of £19,325 per year (April 2004 rates), is available to meet a range of operating costs incurred on parliamentary duties. It may be used to meet the cost of accommodation for office or surgery use, equipment and supplies for the office or surgery, work commissioned and other bought-in services, and certain travel and communications. MPs must provide evidence in the form of invoices or receipts for all items of expenditure of £250 or more. The IEP cannot be used to meet personal costs (e.g. public relations advice, hospitality and entertainment), or the costs of party political activities or campaigning, but it can be used to augment the Staffing Allowance.
- 4.29 Alongside this allowance, modern, high quality, fully serviced accommodation for MPs and their staff is available free of charge on the Parliamentary Estate in Westminster, particularly in Portcullis House. Unsurprisingly, the main point to emerge from the evidence is that the present system as a whole acts as an incentive to locate staff on the Parliamentary Estate. On the one hand, the IEP is barely adequate to cover all the costs of maintaining a constituency office, especially one in a visible high street location. On the other hand, free accommodation is available at Westminster. The inevitable consequence is that MPs want to locate a relatively high proportion, and in some cases all, of their staff in Westminster.
- 4.30 The current official provision of accommodation at Westminster is one desk space for an MP and one additional space for their staff. However the House authorities calculate that each MP has an average of 1.5 paid staff on the Estate (and understand that between 40 and 50 MPs base their whole constituency operation at Westminster). This is summarised in Table 4.7. The difficulty of managing the allocation of accommodation is exacerbated by the fact that responsibility for allocating space is shared with the Whips.

Table 4.7: Location of MPs' paid staff

Number of paid staff at Westminster	Percentage of MPs
0	20%
1	40%
2	22%
3 or more	18%

Source: House of Commons Department of Finance and Administration, based on analysis of 2003-04 MPs' staff budgets.

- 4.31 The current situation thus leads to some financial unfairness between those MPs who, out of necessity or by choice, base their staff in their constituency, and those who base them on the Parliamentary Estate. It also leads to great pressure on the facilities of the Parliamentary Estate, which the House authorities are keen to relieve.
- 4.32 We regard it as inappropriate that the interaction of the system of allowances and the provision of free accommodation should distort decisions on where MPs locate their staff. In order to produce a more balanced regime we recommend that MPs who do not locate any staff on the Parliamentary Estate should be entitled to claim a higher sum under the IEP than at present (subject, of course, to the additional expenditure being properly incurred); and that (subject to transitional arrangements) MPs who locate more than one member of staff on the Parliamentary Estate should have their IEP allowance abated. The allowance should remain at about its present level for MPs who locate a single member of staff on the Estate.
- 4.33 We recognise that rental and other office costs can vary considerably for MPs, depending for example on size and location. We regard it as important that the allowance should be set at a level that enables all MPs to finance a constituency office. On the other hand it should not be set at such a level, or so structured, that it produces a 'windfall' which those MPs who for one reason or another have access to relatively cheap accommodation, or make excessive demands on the free Westminster Estate, can then spend on other items.
- 4.34 Taking the above factors into account we make the following detailed recommendations. They are based on the best estimate by the House authorities that the value of the benefit received from having a workstation in Portcullis House is approximately £7,500.
- The IEP should be increased to a maximum of £27,500.
 - MPs should be able to claim expenses to the maximum value of the increased allowance only if they have no permanent workstation for their staff on the Parliamentary Estate (over and above their own workstation or desk).
 - The maximum IEP allowance for individual MPs should be abated by £7,500 for each permanent workstation occupied by their staff on the Parliamentary Estate. Thus:
 - MPs who have a provision of one permanent workstation for their staff should be eligible to claim up to £20,000 (compared with the present sum of £19,325).
 - MPs who have a provision of two permanent workstations for their staff should be eligible to claim up to £12,500.
 - MPs who have a provision of three permanent workstations for their staff should be able to claim up to £5,000.

- 4.35 In calculating the recommended levels of IEP set out above we have allowed in all cases a sum of £5,000 for costs not directly related to running an office such as communications and travel costs, production of an annual report, and operating a website. The remainder of the allowance (i.e. the part which is variable according to the number of workstations occupied on the Parliamentary Estate) is intended to cover office costs such as the cost of office accommodation, equipment and supplies (e.g. rent, rates, heat, light, office furniture and stationery).
- 4.36 The non-office cost element of the IEP is in our view a separate category of expenditure, and we should have preferred to see this element of the IEP capped at £5,000 (or made a separate allowance) in order to restrict as far as possible any use of the IEP for political activities as opposed to providing a service to constituents. However we recognise the difficulty of defining the two categories of expenditure sufficiently tightly for this to be practicable. We have not therefore recommended a cap on the non-office cost element of the IEP on this occasion, but we recommend that detailed headings should be drawn up for classifying expenditure reimbursed under the IEP and should be used for recording purposes from now on. This will enable us to take a more informed view of the issue in our next review.
- 4.37 We consider that the above recommendations should apply to all MPs from the outset. However, we are aware that they could involve a significant reorganisation of current office arrangements for many MPs. We would therefore understand if the House were to conclude that the recommendations should apply only to new MPs who enter the House at the next General Election, and that a transitional arrangement should operate for currently serving MPs whereby those with a provision of two or three permanent workstations on the Parliamentary Estate should be able to claim up to £20,000 or £12,500 respectively, until the next-but-one General Election.
- 4.38 We also recommend that “hot desking” facilities (including IT and telephone services) should be made available to cope with demand at peak times.

Recommendation 8: We recommend the following changes to the Incidental Expenses Provision:

- (a) The IEP should be increased to a maximum of £27,500.
- (b) The amount of IEP that may be claimed by MPs should be abated by £7,500 for each permanent workstation occupied by their staff on the Parliamentary Estate. The maximum amount should be available only to those MPs who have no permanent workstation for their staff on the Parliamentary Estate.
- (c) The level of the IEP should be increased on 1 April each year (commencing 1 April 2005) in line with movements in the Retail Prices Index.

Recommendation 9: We recommend that detailed headings should be drawn up by the House authorities for classifying expenditure reimbursed under the IEP and that they should be used for recording purposes from now on.

Recommendation 10: We recommend that “hot desking” facilities should be made available to cope with demand at peak times.

- 4.39 There are factors other than the allowance structure which the House authorities recognise will need to be addressed in operating a strategy of reducing pressure on the Parliamentary Estate and encouraging MPs to locate their staff in constituency offices. One is the availability of staff passes for unpaid volunteers and interns, which clearly needs to be controlled by the House authorities. Another is to ensure that the level of IT support for constituency offices matches that available in Westminster – to which aspect we now turn.

Computers and other IT equipment

- 4.40 Computers and other items of IT equipment are available for MPs and their offices free of charge, on loan for Parliamentary use only. The provision is for one laptop, three desktop PCs, two CD-rewriters, and one or two printers per MP. MPs can also use their IEP to buy additional items, providing they are used solely for Parliamentary purposes. MPs and their staff now make substantial use of the Parliamentary Network and associated services.
- 4.41 The evidence that we have received from the House of Commons Information Committee suggests that central provision of equipment has been a great success. There has been a heavy take-up of the available allowance and we are informed that the benefits of central provision and standardised equipment are showing through in terms of network resilience and reliability. The Leader of the House has endorsed the submission of the Information Committee, and has told us that he believes that the provision of as much IT equipment as is possible should be encouraged in order to facilitate a better service by MPs to their constituents.
- 4.42 The Information Committee proposes that recent developments should be reinforced by extending the level of provision, and by improving the level of support available in constituency offices. We agree on both counts. So far as the level of provision is concerned, most MPs use one desktop on the Parliamentary Estate, and one laptop at home or when travelling. This leaves two PCs for their staff. We think that in principle the number of PCs available to MPs' staff should match the number of full-time equivalent employees for which the Staffing Allowance is intended to provide. MPs also require the use of at least two heavy-duty printers, one in Westminster and one in the constituency office. It is clearly sensible to provide an adequate supply of IT equipment centrally, to ensure that all equipment used is compatible with the Parliamentary Network.

Recommendation 11: We recommend that the level of provision of IT equipment should be increased so that each MP has access to one fixed workstation and one laptop for his or her own use, plus three further workstations, so that each full-time equivalent member of staff paid for through the Staffing Allowance has his or her own PC. Each MP should also have access to a heavy-duty printer in both Westminster and the constituency.

- 4.43 We heard from a number of MPs that the level of IT support available in constituencies falls well below the level available in Westminster. The House authorities wish to encourage MPs to locate their office staff in the constituency. It is essential that support in the constituency is improved if the incentives to base in Westminster are to be reduced. A key challenge will be to find a means of managing from the centre the provision of support and services to constituency offices to the high standard that MPs expect. It is also important that the help desk service dovetails with the training and other support provided, so that users are helped to tackle knowledge gaps and action can be taken to reduce repeat calls. We understand that the House authorities are currently evaluating options.

Recommendation 12: We recommend that the level and range of IT support offered to constituency offices should be improved to a level comparable with that offered on the Parliamentary Estate.

Additional Costs Allowance

- 4.44 The Additional Costs Allowance (ACA) reimburses MPs for expenses wholly, exclusively and necessarily incurred when staying overnight away from their main home¹¹ for the purpose of performing parliamentary duties. The level of the allowance is up to £20,902 per year (April 2004 rates), with payment dependent on allowable costs, and production of receipts for claims of £250 or more. If an MP's main home is in the constituency, he or she can claim the ACA for overnight stays in London, or if the main home is in London, he or she can claim the ACA for overnight stays in the constituency. Examples of expenditure under the ACA include rent on a second home, mortgage interest costs on a second home, legal and other associated costs associated with obtaining a second home, hotel expenses, utilities, furnishings, insurance, and basic security measures.
- 4.45 Until recently, Ministers and other paid office holders were deemed to have their main home in London, so that if they wished to claim against the ACA, they did so by claiming for overnight stays in the constituency. However, this rule was dropped in February 2004 and Ministers are now subject to the same rules as other MPs.
- 4.46 We received little evidence on the level of the ACA. It was put to us that the ACA may be inadequate for newly-elected MPs, who may face significant costs in acquiring a London base for the first time. On the other hand the allowance may be perceived as over-generous in that it does help MPs to acquire the (potentially valuable) asset of a second home. We welcome the improvements made to the procedures for claiming the allowance, some of which are very recent. In the circumstances we are not inclined to recommend further changes to the allowance at this point. However we note that information on the take-up of the allowance will be published from October 2004 onwards, and we put down a marker that we may need to review the allowance more substantively at our next review.

Recommendation 13: We do not recommend that any change should be made to the Additional Costs Allowance at present, beyond the normal annual uprating in line with movements in the Retail Prices Index.

London Supplement

- 4.47 The London Supplement, of £1,618 per year (April 2004), is payable to MPs with inner London constituencies, who are not eligible to claim the Additional Costs Allowance. It is designed to assist with living expenses in London. It is also payable to MPs with outer London constituencies, if they elect not to claim the ACA; and to Ministers and paid office holders, who until recently were deemed to have their main home in London.
- 4.48 Whilst no representations have been made to us about the level of the London Supplement, data supplied by PwC suggests that it is low by comparison with London allowances in the public sector generally, which range from £2,000 to £3,000 and in

¹¹ On entering Parliament, MPs are asked to nominate a main home for purposes of ACA and travel entitlements. If MPs have more than one home, the main home will normally be the one where most nights are spent.

some cases up to £5,000¹². We recommend that the London Supplement should be increased to £2,500, i.e. the same level as the enhancement to the Staffing Allowance in respect of London-based staff proposed in paragraph 4.22 above. Like the Staffing Allowance, the London Supplement should be increased on 1 April each year in line with movements in the Average Earnings Index for public and private sectors combined (rather than in line with the Retail Prices Index, as at present).

Recommendation 14: We recommend that the London Supplement should be increased to £2,500. It should be increased on 1 April each year (commencing 1 April 2005) in line with movements in the Average Earnings Index for public and private sectors combined.

4.49 Since Ministers and office holders are no longer deemed to have their main home in London, and may now claim the Additional Costs Allowance in respect of either their London or their constituency home, we can see no reason why they should continue to receive the London Supplement as an automatic entitlement. In future, they should be treated on a par with other MPs, that is they should be able to claim the London Supplement only if they do not claim the ACA.

Recommendation 15: We recommend that the automatic entitlement of Ministers and office holders to the London Supplement should be ended. In future, they should be able to claim the London Supplement only if they do not claim the Additional Costs Allowance.

Travel

4.50 MPs are entitled to claim for travel expenses on parliamentary business, including attendance in the House, visits to undertake constituency work, and travel relating to matters currently before the House or a Select Committee. Travel between the main home, Westminster and the constituency is allowable as well as additional constituency travel. The current rates are:

- Car mileage: 57.7p per mile up to 20,000 miles, and at 26.6p per mile thereafter.
- Bicycle allowance: On 29 January 2004, the House agreed to uprate the bicycle allowance from 7.2p per mile to 20p per mile, in line with the approved Inland Revenue (IR) rate.
- Motorcycle mileage: At the same time, the House also introduced a new motorcycle allowance, at the IR approved rate of 24p per mile.

4.51 The present rate of car mileage is well above the approved IR rate of 40p per mile up to 10,000 miles, and 25p per mile thereafter. Although the difference is taxable, the rate is very generous compared with general practice in both the public and private sectors, not only in terms of the rate itself but also the number of miles in respect of which the higher level can be claimed. The approved IR rate is calculated to represent the actual cost of motoring, including fuel costs, wear and tear (including servicing and depreciation), road fund licence, and insurance. We received no evidence to justify why MPs should be

¹² PwC report paragraphs 4.37 and 4.38.

entitled to a more advantageous rate. We also consider that it is inconsistent to fix the bicycle and motorcycle allowances by reference to the approved IR rates but not also the car allowance. Furthermore it sets a bad environmental example by encouraging and rewarding car use.

- 4.52 We recommend that the car mileage allowance should be brought in line with the approved IR rate. We further recommend that the present automatic annual increase by reference to the RPI should cease, and that in future the allowance should only be increased in line with increases in the IR rate.

Recommendation 16: The car mileage rate should be brought into line with the approved Inland Revenue rate of 40p per mile up to 10,000 miles, and 25p per mile thereafter.

Recommendation 17: The car mileage rate should in future be maintained in line with the approved Inland Revenue rate.

- 4.53 MPs are also entitled to:

- Up to 3 return visits per year to EU institutions and/or the national Parliaments of EU member states or candidate countries.
- Up to 18 single journeys each calendar year shared between their employees. These journeys must be between Westminster and the constituency, and can only be used for employees paid through the Staffing Allowance.
- MPs' spouses and children (up to the age of 18) are each entitled to 30 single journeys per calendar year for journeys between London and the main home, and London and the constituency.

- 4.54 We have received no representations on these allowances and make no recommendations.

Recommendation 18: We recommend that there should be no change in the current rules regarding MPs' entitlement to claim reimbursement in respect of visits to EU institutions, etc., and in respect of journeys by their employees, spouses and children.

Resettlement Grant

- 4.55 The Resettlement Grant is payable to any MP who leaves the House of Commons at a general election. The grant ranges from 50 to 100 per cent of one year's salary depending on age and length of service, in accordance with Table 4.8 below. The first £30,000 of the grant is tax exempt.

Table 4.8: Calculation of Resettlement Grant

Age (years)	Percentages of annual salary payable						
	Number of completed years service						
	Under 10	10	11	12	13	14	15 or over
Under 50	50	50	50	50	50	50	50
50	50	50	52	54	56	58	60
51	50	52	55	58	62	65	68
52	50	54	58	63	67	72	76
53	50	56	62	67	73	78	84
54	50	58	65	72	78	85	92
55 to 64	50	60	68	76	84	92	100
65	50	58	65	72	78	85	92
66	50	56	62	67	73	78	84
67	50	54	58	63	67	72	76
68	50	52	55	58	62	65	68
69	50	50	52	54	56	58	60
70 or over	50	50	50	50	50	50	50

4.56 We have not received any representations on the grant. We note that MPs who may leave the House at the next election have an expectation that they will receive a grant in accordance with the above table. Furthermore it is reasonable to consider the grant as a part of MPs' overall pay package which, as noted in Chapter 2 above, operates at a discount to the remuneration of comparator groups in the public and private sectors. We therefore make no recommendations for change on this occasion. However we note that the grant is an anomalous provision which bears some similarity to a terminal bonus and some to a redundancy payment scheme. There is a case for revisiting the structure of the grant, for example to consider whether it should be payable to MPs who are entitled to a full pension, given that a good pension scheme is now in place, and to consider whether it gives rise to questions of age discrimination. We believe that an appropriate time to review the grant would be after the next election, and would be pleased to carry out such a review if invited to do so.

Recommendation 19: We recommend that the Resettlement Grant should be reviewed after the next General Election.

Winding-Up Allowance

4.57 The Winding-Up Allowance is equivalent to one-third of the current IEP and Staffing Allowance combined. It is paid to meet the costs of any work on parliamentary business undertaken on behalf of a deceased, defeated or retiring MP after the date on which they cease to be a MP. The total winding-up allowance represents a ceiling for eligible claims and is not an entitlement. It is normally available for six months after departure.

4.58 We have received no representations on this allowance and make no recommendations.

Recommendation 20: We recommend that no changes should be made to the Winding-Up Allowance.

Chapter 5

House of Lords allowances

Introduction

- 5.1 Members of the House of Lords who are not Ministers or office-holders do not receive a salary but can claim expenses incurred in attending the House. The main allowances are as follows (August 2003 rates):
- Day subsistence: up to £64 per day, to cover meals and refreshment at the House, and travel within five miles of Westminster;
 - Overnight subsistence: up to £128 for the night before or after each day of attendance, to cover hotel costs or to contribute to the cost of maintaining a London home; and
 - Office costs allowance: up to £53.50 per day, to cover incidental office costs, and secretarial and research costs.
- 5.2 The day and overnight allowances can be claimed only in respect of days on which the Member attends a sitting of the House or a Select Committee at Westminster. This means that up to four day subsistence claims, and five overnight subsistence claims, can be made in respect of a week in which the House sits on four days. The office costs allowance can be claimed for each day the Member attends the House or takes part in an official delegation or a Committee visit away from the House, plus up to an additional 40 days per year. The allowances are updated each August in line with the Retail Prices Index¹.
- 5.3 Peers can also claim travelling expenses for journeys in excess of five miles between their main residence and the House, and, for limited parliamentary business reasons, elsewhere in the UK. They may also claim for two return journeys per year to an EU institution, and for two journeys per year by their spouses to attend a parliamentary occasion in London.
- 5.4 Payments for attendance expenses are made on the basis of submitted claims. Receipts are not required but the Member's signature effectively certifies that the amount claimed has been spent for the purposes of parliamentary duties. As repayment of expenses incurred on unpaid parliamentary business, payments are not subject to tax.

Previous review

- 5.5 In our last review (2000-01) we concluded that the time was not right to consider fundamental change to the structure of the allowances, since there might be further reform of the House. We therefore reviewed the amounts of the allowances and the rules applying to their payment, on the principle that Members should not be out of pocket as a result of carrying out their parliamentary duties. The present allowances result from our recommendations on that occasion.

Reform of the House of Lords

- 5.6 So far as procedure in the House is concerned, the trend towards more intensive participation by Members in proceedings, identified in the last review, has continued. In particular many more committee stages are now taken off the floor of the House, in

¹ House of Lords Resolution was 20 July 1994 Hansard column 235, paragraph 9.

Grand Committee, and there has also been an expansion in Select Committee activity, in part reflecting new emphasis on pre-legislative scrutiny. In 2003-04, 39 per cent of Members attended 75 per cent or more of sittings and 50 per cent of Members attended 65 per cent or more.

- 5.7 As for reform of the composition of the House, new proposals from the Government are awaited. When the reform process is clearer, we believe that it may be appropriate at the implementation stage to consider the case for remuneration of Members of the Upper House, and the closer alignment of the relevant allowances for Members of the two Houses. In the meantime, we have once again focussed our attention on the amounts of the allowances and the rules applying to them, on the principle that Members of the House of Lords should not be out of pocket as a result of carrying out their duties.

Evidence

- 5.8 Evidence received from a number of individual Members suggested that there are concerns about two features of the allowance system:
- The fact that they cannot claim the day and overnight subsistence allowances when away from Westminster on official House business, in particular on Select Committee visits; and
 - The restricted allowance for travel by spouses to Westminster (only two return journeys, compared with the MPs' entitlement of 15 return journeys for family members).

Working on official House business away from the House

- 5.9 The basis of the current allowances is attendance at the House. This means that Members who are travelling on official House business cannot claim day or night subsistence, although they are reimbursed actual hotel and meal costs. Such 'official' House business (i.e. business mandated by the House) falls into three categories: participation in a Select Committee visit; membership of an official delegation to certain international parliamentary assemblies; and travel in a representative capacity on behalf of the House.
- 5.10 Members have long regarded this restriction as unfair. They argue that the night allowance may (legitimately) be used to support rent or mortgage interest costs in respect of a second residence in London which is acquired to enable them to attend the House regularly. Such costs are ongoing, whether or not the Member is present in London. Our consultants, PwC, found that this was a real financial constraint for Members without private financial means, and that registering daily attendance in order to claim the allowance was a critical factor in planning travel arrangements.
- 5.11 We accept that the current rules, based on the principle of attendance at the House, do not satisfy the principle that Members should not be out of pocket as a result of carrying out their duties. Accordingly we recommend that Members who are unable to attend the House in person because they are elsewhere on mandated parliamentary business should be entitled to claim up to two-thirds of the night subsistence allowance, in addition to reimbursement of actual travel and hotel costs, for each day of absence from the House. This sum should be claimable in respect of continuing accommodation expenses incurred by the Member, on the same basis as the overnight subsistence allowance at present.

Recommendation 21: We recommend that Members who are away on mandated parliamentary business should be entitled to claim up to two-thirds of the night subsistence allowance, plus reimbursement of actual travel and hotel costs, for each day of absence from the House.

Day subsistence

- 5.12 Members may claim a day subsistence allowance, within a limit of £64 for each day of attendance. It is intended to cover items such as the cost of meals and incidental travel costs not separately recoverable (e.g. short distance journeys within a five mile radius of Westminster, taxi fares, tolls and car parking charges). It also includes an element to cover the costs of providing refreshments for visitors to the House on official business.
- 5.13 PwC reported that Members they had interviewed were largely content with the level of the allowance. The main exception was that a number of Members felt it unfair that they were not able to claim separately for taxi fares home, following late sittings in the House, if the distance was less than five miles, but rather had to meet the cost from the allowance. PwC noted that London taxi fares after 10pm had in fact increased significantly above the rate of inflation since 2001. They also commented that some Members faced additional incidental costs such as the congestion charge, and that others felt that the allowance was not adequate for the amount of entertaining required in their role.
- 5.14 In our view a round-sum allowance remains appropriate to meet daily subsistence expenses, and taxi fares for distances of less than five miles should continue to be met within the allowance. However in recognition of the pressures described above, we recommend that the allowance should be increased to a maximum of £75 per day. As now, Members should certify that claims are in respect of expenses actually incurred for the day in question, and the allowance should continue to be updated annually on the basis of increases to the RPI.

Recommendation 22: We recommend that the day subsistence allowance should be increased to a maximum of £75 per day, inclusive of the uprating due on 1 August 2004. Thereafter it should be increased on 1 August each year, in line with movements in the Retail Prices Index.

Overnight subsistence

- 5.15 Members who do not live within reasonable daily travelling distance of Westminster, and incur the expense of overnight accommodation in London while away from their only or main residence for the purpose of attending the House, may claim for such expenses, up to a maximum of £128 per day. The allowance can be used to cover the cost of staying in a hotel or club, or put towards the cost of maintaining a second residence in London for the purpose of attending the House.
- 5.16 In our last review, we increased the overnight allowance to £120 per day, in order to keep pace with increases to hotel prices in London. Evidence from our consultants this time suggests that the average mid-week cost of a 4-Star hotel in central London ranges between £120 and £150 per night. The cost of bed and breakfast in a club is generally around £90 per night, although there will be a joining fee and annual subscription on top of this.

- 5.17 We recommend that the allowance should be increased to a maximum of £150 per night. The allowance should continue to be uprated annually on the basis of increases to the RPI. As now, claims should be certified by Members as being in receipt of expenses actually incurred for the day in question.

Recommendation 23: We recommend that the overnight allowance should be increased to a maximum of £150 per night, inclusive of the uprating due on 1 August 2004. Thereafter it should be increased on 1 August each year, in line with movements in the Retail Prices Index.

Night Subsistence Allowance for Ministers in the Lords

- 5.18 Ministers in the Lords cannot claim the Members' overnight allowance as such but those who do not have an official London residence can claim a sum equivalent to the overnight allowance consolidated for 220 nights. It is paid by the Minister's department and taxed as income. We have no evidence to suggest that a change to this arrangement is necessary and make no recommendation.

Recommendation 24: We recommend no change in the method of calculating the Night Subsistence Allowance for Ministers in the Lords.

Office costs

- 5.19 Members may recover office costs, including the cost of secretarial help, research assistance, the cost of providing necessary equipment, the cost of certain additional expenses (e.g. domestic costs, purchase of books and periodicals and professional subscription charges), incurred for the purpose of attending a sitting or a meeting at the House, up to a maximum of £53.50 per day. Office costs incurred in respect of days on which the House is not sitting, or the House is sitting but the Member does not attend, may also be claimed for up to an additional 40 days a year.
- 5.20 The allowance was increased at the last review from £36 per day to £50 per day, and the number of additional days a Member could claim was increased from 30 days to 40 days.
- 5.21 Our consultants reported criticism from a number of Members that the allowance was too low to cover research costs. We heard some evidence to the same effect, and more generally we note that it is widely agreed that the volume of work in the Lords continues to rise significantly. It is reasonable that the allowance for office and secretarial support should be adjusted to reflect this situation, and accordingly we recommend that it should be increased to a maximum of £65 per day. We recommend no increase in the number of days in respect of which it may be claimed.

Recommendation 25: We recommend that the office costs allowance should be increased to a maximum of £65 per day, inclusive of the uprating due on 1 August 2004. Thereafter it should be increased on 1 August each year, in line with movements in the Retail Prices Index.

Secretarial expenses for Ministers in the House of Lords

5.22 Ministers and other office holders in the Lords cannot claim the office costs allowance but instead can claim up to £4,742 a year to cover secretarial expenses incurred on non-departmental parliamentary business. The allowance is uprated annually in line with the RPI. We received no representations on the allowance, and make no recommendations for change.

Recommendation 26: We recommend that no change should be made in the level of allowance for secretarial expenses that may be claimed by Ministers and other office holders in the House of Lords, beyond the normal annual uprating in line with movements in the Retail Prices Index.

Travel

5.23 Members are entitled to claim for travel expenses for journeys of more than five miles between their main place of residence and Westminster. The current rates are:

- Car mileage: 57.6p per mile up to 20,000 miles, and 26.6p per mile thereafter;
- Bicycle allowance: 7.4p per mile.

5.24 The present rate of the car mileage allowance matches that for MPs (see paragraph 4.50 above). It is well above the approved Inland Revenue rate of 40p per mile up to 10,000 miles, and 25p per mile thereafter. As in the case of MPs, we can see no justification for this. We recommend that the allowance should be brought into line with the Inland Revenue rate, which is normal practice elsewhere.

Recommendation 27: We recommend that the motor mileage allowance should be reduced to 40p per mile up to 10,000 miles, and 25p per mile thereafter. The allowance should subsequently be maintained in line with the approved Inland Revenue rate.

5.25 Unlike in the Commons, the bicycle allowance in the Lords remains at 7.4p per mile. We recommend that it should be increased to 20p per mile, in line with the approved Inland Revenue rate. We also recommend that the Lords should follow the Commons in introducing a motorcycle allowance, again at the approved Inland Revenue rate of 24p per mile.

Recommendation 28: We recommend that the bicycle allowance should be increased to 20p per mile, and that a new motorcycle allowance should be introduced at 24p per mile. Both allowances should be maintained in line with the approved Inland Revenue rate.

Spouses' travel

5.26 We received numerous representations from Members that the travel entitlement of spouses should be increased to the level that applied in the House of Commons. MPs are entitled to reimbursement for up to 15 return journeys for spouses and children up to the age of 18 to London, whilst Members of the House of Lords are entitled to reimbursement of only up to two such return journeys for their spouses only. We agree that this disparity is unfair. However MPs, unlike Members of the House of Lords, represent constituencies and many have family homes in or near their constituencies. Recognising these different circumstances, we consider that Members of the House of Lords should have a lower level of entitlement, and that reimbursement of up to six return journeys by spouses and children would be appropriate.

Recommendation 29: We recommend that Members should be entitled to claim reimbursement in respect of six validated return journeys per year between home and London by their spouse and each of their children up to the age of 18.

JOHN BAKER, CBE

DAVID CLAYMAN

MARY GALBRAITH

PROFESSOR DAVID GREENAWAY

MEI SIM LAI, OBE

JIM MCKENNA

RICHARD PEARSON

JANET RUBIN

6 JULY 2004

Appendix A

Commissioning letter from the Prime Minister



10 DOWNING STREET
LONDON SW1A 2AA

25 November 2003

THE PRIME MINISTER

Dear John,

Your letter of 14 April to the President of the Council indicated that the Senior Salaries Review Body were ready to undertake a review of Parliamentary pay and allowances.

This letter is to confirm that the Government would like to see the following areas covered in your report:

- The salary of Members of the House of Commons, taking into account the recent improvements to pension accrual rates for the Parliamentary Pension Scheme;
- The salaries of Ministers and other office holders;
- The rate of allowances for Members of the House of Commons, including for those members choosing to locate their offices outside Westminster, and consideration of the London supplement to see whether it adequately reflects the rise in London living costs;
- The rate of Peers' expenses allowances, including the Secretarial allowance for Ministers and other paid office-holders in the House of Lords; and

- The implications for the Parliamentary Pension Scheme of the recent Pensions Green Paper and the associated paper on the reform of pensions taxation.

There are two further detailed points on which I should be grateful for your recommendations. First, the application of the London Supplement to Ministers and office holders. The Leader of the House is considering a proposal that Ministers and office holders should be put on the same footing as other Members in respect of the Additional Costs Allowance, by removing the presumption that the main home is necessarily in London. If a decision is taken to proceed with that change, then the question whether they should retain the London Supplement would need to be addressed, and the SSRB's view on this would be helpful.

Secondly, central provision of IT equipment for Members of the House of Commons (as recommended in the Review Body's 48th report) has bedded in well. There are now pressures to extend the IT equipment and services Members receive, especially in constituencies. I should like the SSRB to make recommendations on the appropriate level of provision for the new Parliament.

I look forward to receiving your recommendations early next year.

Yours ever,
Tom

Mr John Baker CBE

Appendix B

Current salary levels and allowances

1. Parliamentary salary levels at 1 April 2004¹

	House of Commons			House of Lords
	Ministerial/ office holders salary	Parliamentary salary	Total salary	Salary
Members of Parliament		£57,485		
Ministers				
Prime Minister	£121,437	£57,485	£178,922	
Cabinet Minister	£72,862	£57,485	£130,347	£98,899
Minister of State	£37,796	£57,485	£95,281	£77,220
Parliamentary Under Sec	£28,688	£57,485	£86,173	£67,255
Government Chief Whip	£72,862	£57,485	£130,347	£77,220
Govt. Deputy Chief Whip	£37,796	£57,485	£95,281	£67,255
Govt. Whip/Asst. Govt. Whip	£24,324	£57,485	£81,809	£62,191
Opposition				
Leader of the Opposition	£66,792	£57,485	£124,277	£67,255
Opposition Chief Whip	£37,796	£57,485	£95,281	£62,191
Deputy Chief Opposition Whip	£24,324	£57,485	£81,809	
Others: Commons				
Speaker	£72,862	£57,485	£130,347	
Chairman Ways & Means	£37,796	£57,485	£95,281	
Deputy Chairman Ways & Means	£33,218	£57,485	£90,703	
Chairmen of Select Committees ²	£12,500	£57,485	£69,985	
Others: Lords				
Lord Chancellor ³				£207,742
Chairman of Committees				£77,220
Prin. Dep. Chairman of Committees				£72,243
Law Officers				
Attorney General				£103,461
Solicitor General	£63,486	£57,485	£120,971	

¹ Salaries increased by 2 per cent on 1 April 2004.

² The payment to the Chairmen of departmental Select Committees and to the Chairmen of externally focused 'cross-departmental' committees was introduced in 2003.

³ The Lord Chancellor's salary is set at £2,500 higher than the salary of the Lord Chief Justice. However, Lord Falconer is drawing only the Ministerial salary of £98,899.

2. MPs' Allowances at 1 April 2004

The following main allowances are available to MPs.

Allowance	Rate	Notes
Staffing Allowance ¹	£77,534	MPs who have London constituencies and/or three or more full-time equivalent employees in London
	£74,214	Other MPs who have two full-time equivalent employees in London
	£70,336	Other MPs who have one full-time equivalent employee in London
	£66,458	MPs with no employees in London
Incidental Expenses Provision ²	£19,325	Other expenditure that MPs may incur in the course of their duties, e.g. office accommodation costs, equipment or costs related to security, disability access or H&S improvements.
London Supplement ²	£1,618	Constituencies within inner London.
Additional Costs Allowance ²	£20,902	Reimburses MPs for additional expenses incurred in staying overnight away from their main home while performing parliamentary duties.
Travel		
Car mileage allowance ²	57.7p per mile	Up to 20,000 miles
	26.6p per mile	Further mileage
Motorcycle allowance ³	24p per mile	Journeys by motorcycle while on parliamentary duties in UK.
Bicycle allowance ³	20p per mile	Journeys by bicycle while on parliamentary duties in UK.
Travel warrants	For journeys within the triangle of home, constituency and Westminster	
Travel by spouse and family	15 return journeys between home and Westminster or the constituency and Westminster per calendar year.	
Winding Up Allowance	1/3 of the sum of the Staffing Allowance and the Incidental Expenses Provision.	Reimbursement of the cost of any parliamentary business undertaken on behalf of a deceased, defeated or retiring MP.
Resettlement Grant	Based on age and length of service, varies between 50%-100% of MP's salary	Assists with the costs of adjusting to 'non-parliamentary life'. Payable to any person who ceases to be an MP at a General Election.

¹ Level of allowance is updated on 1 April each year, in line with the December AEI (whole economy) figure.

² Level of allowance is updated on 1 April each year, in line with the December RPI figure.

³ Level is maintained in line with the Inland Revenue approved rate.

3. Allowances for attendance at the House of Lords at 1 April 2004

Peers (other than Ministers and paid office holders) do not receive a salary. They are entitled to a number of allowances, which are for reimbursement of expenditure incurred.

Allowance	Rate	Notes
Day subsistence ¹	Up to £64 per day	Meals and refreshments at the House and travel within London
Night subsistence ¹	Up to £128 per day	Hotel costs or to put towards the cost of maintaining a London home
Office and secretarial allowance ¹	Up to £53.50 per day	Office, secretarial, postage and certain additional expenses
<u>Travel</u>		
Car mileage allowance ²	57.6p per mile	Up to 20,000 miles
	26.6p per mile	Further mileage
Bicycle allowance ²	7.4p per mile	Journeys by bicycle while on Parliamentary duties in UK.
Travel by spouse	2 return journeys between home and Westminster per calendar year.	

Allowances when on Parliamentary duties away from the House

When Peers travel elsewhere as part of their official parliamentary duties, they are entitled to claim actual expenses under the UK parliamentary travel scheme.

Reimbursement of expenses connected with disability

Lords who are disabled may also recover additional expenses incurred as a result of their disability.

¹ Level of allowance is updated on 1 August each year, in line with the July RPI figure.

² Level of allowance is updated on 1 April each year, in line with the March RPI figure.

4. Allowances for Ministers in the House of Lords and paid office holders at 1 April 2004

In addition to their salary, Ministers in the Lords and paid office holders have the following allowances:

Allowance	Rate	Description
Ministers in the Lords Night Subsistence Allowance ¹	£28,160 a year	For Ministers in the Lords who have to maintain a second home in London.
London Supplement ²	£1,615 a year	For those who live in London
<u>Travel</u>		
Car mileage allowance ²	57.6p per mile 26.6p per mile	Up to 20,000 miles Further mileage
Bicycle allowance ²	7.4p per mile	Journeys by bicycle while on Parliamentary duties in UK.
Travel by spouse	2 return journeys between home and Westminster per calendar year.	
Ministers in the Lords Secretarial allowance ¹	£4,742 a year	This is used to recover expenses on secretarial assistance for parliamentary, non-departmental purposes.

¹ Level of allowance is updated on 1 August each year, in line with the July RPI figure.

² Level of allowance is updated on 1 April each year, in line with the March RPI figure.

Appendix C

List of those who provided evidence

The Government (Cabinet Office)

Leader of the House of Commons, the Rt. Hon Peter Hain MP

Chair of the Speaker's Advisory Panel, Anne Campbell MP¹

Chairman of the Information Committee, Robert Key MP¹

Chairman of Parliamentary Contributory Pension Fund Trustees, Sir John Butterfill MP¹

Shadow Leader of the House (Conservative), Oliver Heald MP

Opposition Deputy Chief Whip, Patrick McLoughlin MP¹

Chair of the Labour Party, the Rt. Hon Ian McCartney MP

Shadow Leader of the House (Liberal Democrat), Paul Tyler CBE MP

Chair and Deputy Chair of the European Parliament (UK Representatives) Pension Scheme, Roy Perry MEP and Peter Skinner MEP

Representatives of the Transport and General Workers Union Parliamentary Branch¹

Chairman of the House of Commons Secretaries and Assistants' Council¹

Director of Finance and Administration at the House of Commons; and Director of Operations and Head of the Fees Office of the House of Commons¹

House of Lords Principal Finance Officer¹

8 individual MPs²

10 individual Peers

¹ Those who provided oral evidence.

² Includes Ian Stewart MP who provided oral evidence.

Appendix D

Public and private sector comparators

Post	Current Entitlement – 2004	Senior Civil Service	County Councils/Local Authorities	NHS	Education	Police	Armed Forces	Judiciary	Charities	Non-Departmental Public Bodies	Private Sector Guidelines		
	Commons	Lords									Lower Quartile	Median	Upper Quartile
Prime Minister	£178,922	–								Chief Execs of the ten largest Non-Departmental Public Bodies, e.g. BBC, Royal Mail Holdings	“Number 1 Director”, FTSE 100 £594,000	£692,000	£827,000
Cabinet Minister – Upper Tier	£130,347	£98,899								Heads of major public bodies, e.g. Bank of England, ITC, Strategic Rail Authority	“Number 2 Director”, FTSE 100 Finance Director FTSE 100 £420,000	£518,000	£687,000
Cabinet Minister – Mid Tier	£130,347	£98,899	Cabinet Secretary £200,000 – £204,999			Metropolitan Police Commissioner £168,198 – £180,777	Chief of Defence Staff £189,000	Lord Chief Justice £205,242		Heads of high profile public bodies, e.g. Audit Commission, CITB, Law Commission £137,000 – £214,000	Operations Director/Divisional Director, FTSE 100 £299,000	£350,000	£405,000
Cabinet Minister – Lower Tier	£130,347	£98,899	SCS Permanent Secretaries £121,000 – £256,550	Metropolitan Area Chief Executives median £142,740	Mayor of London 2002-03 £108,000	Metropolitan Police Deputy Commissioner £136,638 – £146,853	4 Star Officer £125,882 – £142,205	Housing Association Chief e.g. Learning & Skills Council, Historic Royal Palaces; £124,685 – £205,000	Highest Paid £205,000	Heads of mid-sized public bodies £185,000	Managing Director, Subsidiary Companies, turnovers over £500m	£220,000	£250,000

Post	Current Entitlement – 2004	Senior Civil Service	County Councils/Local Authorities	NHS	Education	Police	Armed Forces	Judiciary	Charities	Non-Departmental Public Bodies	Private Sector Guidelines		
	Commons	Lords									Lower Quartile	Median	Upper Quartile
Government Chief Whip	£130,347	£77,220	Metropolitan Area Chief Executives median £142,740						Highest Paid Housing Association Chief Exec: £213,000 Highest Paid Charity Chief Exec: £205,000	Heads of high profile public bodies £137,000 – £214,000	Main Board Professional Roles, large plcs (turnovers £1bn – £5bn) £213,000 £275,000 £336,000		
Speaker	£130,347	–			Vice Chancellors, Top 10 Universities £166,000 – £193,000					Chairmen (below Chief Exec) of major public bodies £150,000	Executive Chairmen, FTSE 100 and FTSE 250 £220,000 £283,000 £385,000		
Leader of the Opposition	£124,277	£67,255					4 Star Officer £125,882 – £142,205			Heads of high profile public bodies £137,000 – £214,000	Number Two Directors, companies with turnovers £1bn – £5bn £231,000 £288,000 £333,000		
Solicitor General	£120,971	–			Vice Chancellors, Top 10 Universities £166,000 – £193,000					Heads of high profile public bodies £137,000 – £214,000	Heads of Legal Departments, FTSE 100 £148,500 £173,500 £222,000		
Attorney General	–	£103,461			Vice Chancellors, Top 11-50 Universities £145,000 – £163,000					Heads of mid-sized/high profile public bodies £122,000 – £132,000	Heads of Legal Departments, companies with turnovers around £1bn £110,000 £129,500 £171,000		

Post	Current Entitlement – 2004	Senior Civil Service	County Councils/Local Authorities	NHS	Education	Police	Armed Forces	Judiciary	Charities	Non-Departmental Public Bodies	Private Sector Guidelines		
											Lower Quartile	Median	Upper Quartile
Commons Lords													
Minister of State	£95,281	£77,220	£90,867 – £192,424	Pay Band 3	Larger City Council Chief Executives median £135,000	Highest Paid NHS Trust Chief Top 10 Executives £152,500 – £178,000	Vice Chancellors, Chief Constable Cter Manchester, Strathclyde, W Mids £114,648 – £129,390	3 Star Officer – £102,227 – £114,995	Executive Committee Divisional Directors, FTSE 100	£170,000	£200,000	£230,000	
Minister of State	£95,281	£77,220	Larger City/District Council Chief Executives median £127,000	Mid-Sized NHS Trust Chief Executives £300m – £400m	Vice Chancellors, Chief Constable: population > 2m £110,646 – £124,866	Chief Constable: population > 2m £110,646 – £124,866	Charity Chief Exec (20 highest): median £105,000. Housing Association Chief Exec (20 highest): median £121,000	Heads of mid-sized public bodies £105,750 – £123,500	Divisional Directors, FTSE 250	£126,000	£157,000	£199,000	
Minister of State	£95,281	£77,220	Mid-Sized District Council Chief Executives median £111,918	Mid-Sized NHS Trust Chief Execs (budget £300m – £400m)	Chief Constable: population 1m – 2m £99,984 – £116,151	Chief Constable: population 1m – 2m £99,984 – £116,151	Subsidiary Company Directors, turnovers around £500m	Heads of mid-sized public bodies £105,750 – £123,500	Divisional Directors, FTSE 250	£109,000	£141,000	£166,000	
Government Deputy Chief Whip	£95,281	£67,255	Vice Chancellors, Top 11-50 universities £145,000 – £163,000	W Mids £91,718 – £103,512	Charity Chief Exec (20 highest): median £105,000. Housing Association Chief Exec (20 highest): median £121,000	Heads/Directors of Professional Function, larger plcs (turnovers £1bn – £5bn)	£145,000	£183,000	£231,000				

Post	Current Entitlement – 2004	Senior Civil Service	County Councils/Local Authorities	NHS	Education	Police	Armed Forces	Judiciary	Charities	Non-Departmental Public Bodies	Private Sector Guidelines			
											Lower Quartile	Median	Upper Quartile	
	Commons	Lords												
Opposition Chief Whip	£95,281	£62,191	Mid-Sized District Council Chief Executives median £111,918		Vice Chancellors, Top 11-50 universities £145,000 – £163,000				Charity Chief Exec (20 highest): median £105,000. Housing Association Chief Exec (20 highest): median £121,000		Heads/Directors of Professional Function, larger plcs (turnovers £1bn – £5bn) £145,000 £183,000 £231,000			
Chairman Ways & Means	£95,281	–		NHS Trust Chief Exec (budget £200m – £300m) £112,000 – £125,000	Vice Chancellors, Top 11-50 universities £145,000 – £163,000				Charity Chief Exec (20 highest): median £105,000. Housing Association Chief Exec (20 highest): median £121,000		Senior executive roles, larger plcs £120,000 £164,000 £206,000			
Deputy Chairman Ways & Means	£90,703	–	Small – Mid-sized Council Chief Executives median £98,222	NHS Trust Chief Executive, £200m budget: £104,000 – £122,500					Charity Chief Exec: median £92,500; Housing Association Chief Exec median £93,501 £88,000	Heads of smaller public bodies £71,500 – £93,501	Executive roles, larger plcs £117,000 £137,000 £164,000			

Post	Current Entitlement – 2004	Senior Civil Service	County Councils/Local Authorities	NHS	Education	Police	Armed Forces	Judiciary	Charities	Non-Departmental Public Bodies	Private Sector Guidelines			
											Lower Quartile	Median	Upper Quartile	
Parliamentary Under-Secretary of State	£86,173	SCS Pay Band 2 £73,762 – £155,008	Small – Mid-sized Council Chief Executives median £98,222	NHS Trust Chief Executive, £100m budget: £92,500 – £110,500	Headteacher Top of spine- £90,360	Deputy Chief Constable population > 2m £88,517 – £99,893	2 Star Officer £87,559 – £98,063	Charity Chief Exec: median £92,500; Housing Association Chief Exec median £93,501	Charity Chief Exec: median £92,500; Housing Association Chief Exec median £88,000	Heads of smaller public bodies £71,500 – £93,501	Operations Directors, mid-sized companies £120,000 – £148,000	Lower Quartile	Median	Upper Quartile
Government Whip	£81,809	£62,191	Small District Council Chief Executives median £89,133		Headteacher Upper quartile of spine- £72,453 – £90,360	Deputy Chief Constable – others £83,736		Lower Quartile Charity Chief Exec £70,000			Heads of Professional Function (e.g. HR, Communications) £97,000 – £117,000 £147,000			
Deputy Opposition Chief Whip	£81,809	–	Small District Council Chief Executives median £89,133		Headteacher Upper quartile of spine- £72,453 – £90,360	Assistant Chief Constable £72,948 – £83,736					Heads of Professional Function (e.g. HR, Communications) £117,000 – £137,000 £164,000			
Chairman of Committees	–	£77,220	Small District Council Chief Executives median £89,132		Headteacher Upper quartile of spine- £72,453 – £90,360						Heads of Department (e.g. Legal, Finance – mid-sized companies) £60,000 – £81,500			
Principal Deputy Chairman of Committees	–	£72,243	Small District Council Chief Executives median £89,133		Headteacher Upper quartile of spine- £72,453 – £90,360						Heads of smallest public bodies, £60,000 – £81,500			
Chairman of Select Committees	£69,985	–	Small – Mid-sized Council Chief Executives median £98,222	NHS Trust Chief Exec, £100m budget: £92,500 – £110,500	Headteacher Upper quartile of spine- £72,453 – £90,360	Deputy Chief Constable population over 2m £88,517 – £99,893					Assistant Heads of Department public bodies, £64,000 – £81,500			
											Heads/Directors of Professional Function (e.g. Legal, Finance – mid-sized companies) £85,000 – £102,000 £115,000			

Post	Current Entitlement – 2004	Senior Civil Service	County Councils/Local Authorities	NHS	Education	Police	Armed Forces	Judiciary	Charities	Non-Departmental Public Bodies	Private Sector Guidelines			
	Commons	Lords									Lower Quartile	Median	Upper Quartile	
Member of Parliament	£57,485	SCS Pay Band 1/1A £53,451 – £122,938	Mid-Sized Council Divisional Director £60,000 – £80,000		Headteacher Mid-Sized Secondary School £68,979	Chief Superintendent £59,988 – £63,465	1 Star Officer £78,227 – £81,563				Directors of Subsidiary Companies, turnover responsibilities around £100m to £500m	£61,000	£68,000	£77,000

Sources

Senior Civil Service: 26th Report on Senior Salaries, Feb 2004
County Councils/Local Authorities: Guardian Survey, October 2003
NHS: Guardian Survey, October 2003
Education: THES Vice Chancellor Salary Survey, February 2002; School Teachers' Review Body, 13th Report 2003
Police: Police Negotiating Board, September 2003
Armed Forces: 26th Report on Senior Salaries, February 2004; Armed Forces' Pay Review Body, 33rd Report 2004
Judiciary: 26th Report on Senior Salaries, February 2004
Charities: Guardian Survey October 2003
Non-Departmental Public Bodies: Public Bodies 2003
Private Sector Guidelines: PricewaterhouseCoopers Pay Database, March 2004

Appendix E

Main provisions of the Parliamentary Contributory Pension Fund

	<i>MEMBERS OF PARLIAMENT</i>	<i>OFFICE HOLDERS</i>
1. Retirement age	65 years. Where service as an MP exceeds 15 years and age is at least 60 the pension may be paid without any reduction for its early payment when age plus service totals 80. Accordingly, MPs may retire at age 60 without any reduction for early payment if they have completed 20 years of service.	65 years. Benefits earned as an office holder can be drawn without any reduction for early payment at the same time as any benefits accrued as an MP, but service as an office holder whilst not serving as an MP does not count towards the qualifying period for early payment.
2. Pensionable Salary	MP's salary, currently £57,485 p.a.	Salary received as an office holder. For those who joined the scheme after 1989, the combined MP and office holder salary that can reckon for pension purposes is limited to the statutory pensions earnings cap, currently £102,000 p.a.
3. Final Pensionable Salary	Pensionable Salary in the last 12 months before service ends.	Not applicable for office holders.
4. Members' contributions	A member may choose whether to contribute at the rate of 6% or 9% of Pensionable Salary.	As for MPs.
5. Relationship to State Second Pension	Contracted-out ^a .	As for MPs.

6. Normal retirement (i) pension	<p>1/40th of Final Pensionable Salary per year of pensionable service for period in which a member has contributed 9% of Pensionable Salary.</p> <p>1/50th of Final Pensionable Salary per year of pensionable service for period in which a member has contributed 6% of Pensionable Salary.</p>	<p>1/40th (or 1/50th) of each year's Pensionable Salary for periods in which a member contributed 9% (or 6%) of Pensionable Salary, increased in line with increases to MPs' salaries whilst office holder service continues.</p>
(ii) lump sum	<p>By commutation of part of the pension (i.e. exchange of pension for lump sum).</p>	<p>As for MPs.</p>
7. Early retirement	<p>Members can draw their pension without reduction at the age described in 1. above. Otherwise, members can draw the pension from any time after age 50 but at a level reduced for its early payment.</p>	<p>As for MPs.</p>
8. Ill health early retirement	<p>Pension is paid immediately, based on the service that the member would have accrued had they continued to serve as an MP until age 65.</p>	<p>Pension is paid immediately, based on accrued service only.</p>
9. Late retirement	<p>Extra pensionable service accrues.</p>	<p>As for MPs.</p>
10. Benefit limits	<p>The maximum pension payable is typically limited to the greater of:</p> <ul style="list-style-type: none"> – 2/3 of Final Pensionable Salary less retained benefits^b; – 1/60th of Final Pensionable Salary per year of service. 	<p>As for MPs.</p>

11. Death in service	(i) lump sum 4 x Pensionable Salary. (ii) spouse's pension 5/8 of member's ill health pension entitlement, which ceases if the widow(er) remarries. A temporary pension at the rate of Pensionable Salary is payable after death for 3 months. Children's pensions are also payable.	As for MPs.
12. Death after retirement	(i) lump sum None. (ii) spouse's pension The spouse's pension is 5/8 of member's pension before any reduction that was made for commutation to a lump sum at retirement. The pension ceases if the widow(er) remarries. Children's pensions are also payable. If the member dies within 5 years of retirement the spouse's pension is payable at the rate of the member's pension for the remainder of the 5 years. If the member dies outside that period a temporary pension at the rate of the member's pension is payable for 3 months after the member's death.	As for MPs.
13. Withdrawal benefits	A deferred pension, which can be drawn without reduction at the age described in 1 above. On death before retirement a spouse's pension of 5/8 of the member's pension is payable. Members with less than 2 years service can opt for a refund of their contributions.	As for MPs.

14. Additional benefits	<p>Additional contributions can be paid to increase benefits by means of:</p> <ul style="list-style-type: none"> – purchasing added years of service at rates determined by the actuary; – contributing to the Additional Voluntary Contributions scheme with funds to be invested with an insurance company and used to purchase extra benefits on retirement. 	<p>Office holders may contribute to the Additional Voluntary Contributions scheme but are not able to purchase added years of service.</p>
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15. Increases to pensions	<p>As for MPs.</p>
(i) in payment	<p>Annual increases in line with the Retail Prices Index.</p>
(ii) in deferment	<p>Annual increases in line with the Retail Prices Index.</p>

Source: Government Actuary's Department

^a Contracting-out means that members forgo entitlement to State Second Pension (which is the earnings-related element of the State pension arrangements and was previously known as SERPS) and pay a reduced rate of National Insurance contributions.

^b Retained benefits are pension benefits earned by the member in other pension schemes.

Appendix F

Website references for publications

Past reports from the SSRB, since 2001, can be found at

<http://www.ome.uk.com/>

Review of parliamentary pay and allowances, March 2001

Volume 1: <http://www.ome.uk.com/downloads/volume1.pdf>

Volume 2: <http://www.ome.uk.com/downloads/volume2.pdf>

Review of the Parliamentary Pension Scheme, March 2001

<http://www.ome.uk.com/downloads/pension.pdf>

Pay for Select Committee Chairmen in the House of Commons, July 2003

<http://www.ome.uk.com/downloads/Report%20on%20Select%20Committee%20Chairmen.pdf>

Review of Parliamentary Pay and Allowances, July 2004

Volume 1: <http://www.ome.uk.com/downloads/parliamentarypayandallowances2004volume1.pdf>

Volume 2: <http://www.ome.uk.com/downloads/parliamentarypayandallowances2004volume2.pdf>

Appendix G

Previous Review Body reports on relevant matters

First Report: Ministers of the Crown and Members of Parliament	Cmnd. 4836, December 1971
No. 5: Members of Parliament: Allowances	Cmnd. 5701, July 1974
No. 7: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I	Cmnd. 6136, July 1975
No. 8: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part II	Cmnd. 6574, July 1976
No. 9: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part III	Cmnd. 6749, March 1977
No. 12: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part I	Cmnd. 7598, June 1979
No. 13: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance: Part II	Cmnd. 7825, February 1980
No. 15: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance	Cmnd. 7953, July 1980
No. 17: Ministers of the Crown and Members of Parliament and the Peers' expenses allowance	Cmnd. 8244, May 1981
No. 20: Review of Parliamentary Allowances: Volumes I & II	Cmnd. 8881, May 1983
No. 24: Review of Parliamentary Allowances: Volumes I & II	Cm. 131, April 1987
No. 26: Review of Aspects of the Parliamentary Pension Scheme and Other Members	Cm. 362, May 1988
No. 31: Review of the Parliamentary Scheme and of Resettlement Grants for Members of Parliament	Cm. 1576, June 1991
No. 32: Review of the House of Commons Office Costs Allowance	Cm.1943, July 1992
No. 36: Review of the Parliamentary Pension Scheme	Cm. 2830, March 1995
No. 38: Review of the Parliamentary Pay and Allowances: Volumes I and II	Cm. 3330, July 1996

No. 42:	Initial pay, allowances, pensions and severance arrangements for: Members of the Scottish Parliament, National Assembly for Wales, Northern Ireland Assembly	Cm. 4188, March 1999
No. 43:	Devolution: Salaries for Ministers and Office-holders and office support for Members; and Parliamentary Development Recommendations	Cm. 4246, March 1999
No. 44:	The Greater London Authority: initial pay, expenses, pensions and severance arrangements for the Mayor and Assembly Members	Cm. 4547, February 2000
No. 47:	Review of the Parliamentary Pension Scheme	Cm. 4996, March 2001
No. 48:	Review of the parliamentary pay and allowances: Volumes I and II	Cm. 4997, March 2001
No. 49:	National Assembly for Wales: Review of Pay and Allowances	June 2001
No. 50:	Scottish Parliament: Review of Pay and Allowances	December 2001
No. 52:	Northern Ireland Assembly: Review of Pay and Allowances	May 2002
No. 53:	Greater London Authority: Review of pay and expenses for the Mayor of London and London Assembly Members	May 2002
No. 55:	Pay for Select Committee Chairmen in the House of Commons	Cm 5673, July 2003



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