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Cities of London and Westminster



HOUSE OF COMMONS  
LONDON SW1A 0AA

Sir Christopher Kelly KCB  
Chairman  
Committee on Standards in Public Life  
35 Great Smith Street  
London, SW1P 3BQ

29 April 2009

*Dear Sir Christopher,*

#### INQUIRY INTO MPS' EXPENSES/ALLOWANCES

I am writing in response to your call for evidence regarding the arrangements for Members' expenses and allowances. As you may be aware, I have recently been interviewed extensively on radio and television on this subject having made my views on the system known to colleagues for several years. In particular I have warned that the second home allowance has long been open to abuse that in any other walk of life would be regarded as tantamount to fraud. I also made a detailed submission to the Members' Estimates Committee this time last year in response to its consultation on allowances.

Unfortunately these concerns have now been proved justified by the series of high-profile scandals which have severely undermined the reputation of all MPs and the parliamentary system as a whole. This mess should have been cleared up after last year's detailed inquiry. As a result of parliament's abject failure to do so, we are now striving to reform the system at a time when the country is in deep recession, making this incessant navel gazing over expenses/allowances even less palatable.

After all if parliamentarians are not able to put their own House in order over their own allowances and expenses, the public will rightly ask how we can be trusted to regulate and legislate for the rest of the country. I regard this as all the more reason to conclude this matter swiftly and comprehensively, putting into place a robust system that will stand the test of time.

I fully support a 'root and branch' review of allowances but hope you will forgive me if I focus my observations on two main areas:-

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Personal Additional Accommodation Expenditure (PAAE), formerly Additional Costs Allowance (ACA)

I believe the time has come to abolish the PAAE/ACA, which has all too frequently resulted in the improper use of parliamentary allowances tantamount to a serious diversion of public funds.

Insofar as there has ever been a firm distinction between 'pay' and 'reimbursement for living away from home' (i.e. the former ACA) this was surely blown apart by the resolution of the House in 2001 which resulted in a 60% uplift of the ACA (from approximately £12,000 to £19,000 per annum) despite there being no Senior Salaries Review Board (SSRB) recommendation to this effect. The fact that some 95% of MPs were in the position to take the ACA ensured that this proposal was railroaded through parliament. Almost immediately an overwhelming majority of MPs claiming the ACA did so at or near the new inflated maximum level – a clear indication that the ACA was not 'reimbursement' at all, but part of an overall pay and rations package.

The reluctance of parliament to increase the headline salary of MPs (on three occasions since 2001 ignoring an SSRB recommendation) has led to substantial increases in ACA and staff allowances (both now around double their level on my election to parliament in June 2001) with an implicit recognition (at least at a time when lack of transparency and public scrutiny could be assured) that any annual uplift in these allowances could be siphoned off as the equivalent of a pay increase.

I now fear that public dismay and disgust over each new revelation about the use (and arguably misuse) of the PAAE/ACA means that any step short of its total abolition will result in little confidence being attached to a fresh system. The constant refrain in newspaper coverage of PAAE/ACA is that 'there is no suggestion that any rules have been broken'. This surely is the point – as they stand the rules over allowances and expenses are far too vague and need transparent tightening.

It is perhaps slightly easier for me as one of the twenty five London MPs who cannot claim PAAE/ACA to take such a detached view. However it seems to me that most MPs simply fail to understand the disbelief at the stream of revelations over the extensive enrichment of Members courtesy of this allowance.

The electorate's understanding (rightly in my view) is that public money should be properly incurred only in the renting of a furnished apartment in central London for the purposes of undertaking parliamentary duties. Hence the dismay at the widespread practice of taking out a mortgage with public funds, remortgaging at will to ensure that those payments are taken to the absolute maximum of PAAE/ACA allowable as well as calculating the location of a 'main home' in order to maximise financial benefit.



Similarly, the reason for the public uproar about the still intact, if much derided, 'John Lewis' list is surely the widespread belief that most of the items should not be on it at all. The PAAE/ACA was originally - and in my view properly - designed to cover the additional costs of living in London. No mortgage interest payments. No remortgaging at will. No pocketing of capital gains on the sale of a taxpayer funded second home. No purchase of household furnishings. No buying of state-of-the-art plasma TVs, stereo systems and barbecues. No payment of £400 monthly grocery and food bills. All of the foregoing are surely the purpose of a basic salary.

If some form of PAAE/ACA is to continue, it seems to me desirable that any accommodation expenditure should apply only to rental costs incurred in central London. In this spirit, I believe **either the nominated main home or the property for which ACA is being claimed should be within the boundaries of inner London** - current rules allow MPs (amongst others) to nominate a main home (with additional implications for travel allowances) outside the metropolis with PAAE being paid on a property within their suburban constituency. Yet apparently they live so far out of inner London that they need accommodation costs subsidised by the taxpayer. It is common knowledge that four MPs representing Greater London seats (as highlighted in the 'Mail on Sunday' and 'Sunday Times' in March/April 2009) have nominated as their main home a seaside property an hour or more from London. They can claim travel allowances for journeys to and from this 'main home' outside the metropolis (all 'within the rules' needless to say). I would also contend that Members claiming the PAAE whilst already either owning or renting a property in inner London also amounts to a serious breach of the spirit of the rules.

I would also recommend that if the current PAAE is to remain, the £24,000 should be taxed as income (non-pensionable) with a provision for Members of Parliament to claim the tax back from HMRC if they can demonstrate the expenditure was for a permitted/allowable business expense. It is scandalous that MPs have in essence created a tax haven of their own by dint of s272 of the ITEPA, 2002 enabling second home allowances to be tax free. This scandalous provision should be repealed at once. The fact that a headline PAAE of £24,000 amounts to £40,000 income when grossed up to MPs qualifying under these provisions is one of the biggest road blocks to proper reform and I fear it undermines parliamentarians' credibility in policing financial impropriety.

For those representing seats within a commuting distance of central London (and I would support a 30 mile radius from Westminster would be an equitable cut off point), I would suggest they qualify only for the London Costs Allowance. Members in receipt of this allowance would be able to claim tax back from HMRC should they be able to demonstrate that expenditure was for a permitted business expense. This would cover costs where an overnight stay in London is necessary.



We must also embrace a receipts based system rather than allowing sizeable monthly cash sums on mileage, food and drink, and second home costs to be paid out no questions asked. Naturally some claims made might not be allowable, but a rigorous system of checking would give clarity and certainty to the expenses and allowances. I cannot remember the number of times I have been told by colleagues that I could routinely claim as a London MP 350 miles car travel every month without needing to produce any evidence or receipts. This must all change.

### London

I appreciate that much of this paragraph will sound like special pleading. I accept there is a concern that a shake up in the allowances and expenses will lead to 'winners and losers' and I also acknowledge the recent uplift in the inner London allowance from a derisory £2812 (to which the SSRB had recommended an uplift, which was voted down in January 2008) to £7500. However I would contend in recent years inner London Members, and those outer London and Home Counties MPs not claiming the PAAE/ACA, have been the big losers for the reasons set out above. Insofar as any new allowances regime might benefit some London MPs, I would argue that this compensates for the extremely raw deal we have had in the eight years since the unprecedented uplift in ACA referred to earlier.

Despite the £12,000 increase in PAAE/ACA since 2001, there had never (until the recent change in arrangements for inner London MPs) been any commensurate increase in the level of the London Allowance to take account of the costs of making one's main, rather than second, home in the Capital, largely because London Members are in such a small minority here in parliament. If the 'reimbursement' argument - that has resulted in a £12,000 increase in the ACA over the last seven years, based on the costs of making a second home in central London - is accepted, then surely there should be a commensurate increase in the overall level of London allowance to take account of the costs of those London Members who have to make their primary, family residence here in inner London.

**The time has come to end the distinction between MPs in inner London and those representing seats within commuting distance (30 mile radius) for the purposes of the second home/London costs allowance.**

The ending of voting after 10pm (other than in exceptional circumstances) means it is arguable no MPs representing seats less than 30 miles from central London can honestly be said to 'require' a second home as envisaged by the ACA when it was originally set up. Indeed recent research by the *Mail on Sunday* which itemised the expenditure of second home allowances for the 158 MPs whose seats lie within a fifty mile radius of Westminster, revealed that there are nine Home Counties MPs who do



not have a second home. If MPs from Reading, Guildford, Luton and Hove regard themselves as within commuting distance of Westminster, it seems to me impossible to justify how suburban London MPs or those from neighbouring districts need PAAE other than as an element of their overall financial package.

Whilst remaining costs neutral, if all Members within a 30 mile radius (rather than simply those in inner London) were given London Costs Allowance and were disqualified from taking PAAE, the London Costs Allowance could be raised to between £12,000 and £14,000 per Member at a stroke. I would recommend the lower figure being adopted as LCA for all qualifying MPs.

I hope you will find my contribution as an inner London Member helpful and look forward to the conclusion of your inquiry which I trust will lead to a robust system, rigorous enough to restore the faith of the public in their parliamentarians.

*Yours em*

