



HOUSE OF COMMONS
LONDON SW1A 0AA

682
RECEIVED
- 5 JUN 2009

From Andrew Stunell MP

To Sir Christopher Kelly

27th May 2009

Dear Sir Christopher,

I am writing in respect of your Inquiry into MPs' pay and allowances, with particular regard to how accommodation costs for a second home should be calculated and accounted for.

I do so as an MP of 12 years service, who bought a single bedroom flat in London on a long lease 11 years ago, and who last year (2008/09) claimed a total of £12,400 of ACA. I was also my party's Deputy Chief Whip 1997-2001, and Chief Whip 2001-06. In those roles I was closely involved in several rounds of discussions by senior members on the structure and quantum of allowances, and their oversight.

Whilst I have studied during that time the pros and cons of a variety of different approaches to the task you now have, and have views about them, I simply want to focus on one limited point in this letter:-

What mechanism would make sense for the recovery of a fair share of any capital appreciation from the possession of a second home part subsidised by public money?

First, I have no doubt that there should be such a mechanism. Just as an illustration, my own flat could now be sold for about two and a half times the price I bought it. It is the case that I was only able to afford to buy it because of that support, but the taxpayer will recover no more from me when it is sold than from any other second home owner (i.e. CGT only). I urge you to produce a new regime that balances risk and reward, taking into account the legitimate claims of both taxpayer and owner to a fair share in their respective investments.

Second, as some of the more imaginative exploitation of the present system has shown very cruelly, there are often unintended consequences of rules intended to achieve (or mitigate) one result that create perverse incentives or a false market. It is therefore essential to consider the real world in which accommodation decisions are taken by MPs.

I am sure you will receive plenty of evidence on the relative costs and merits of hotel, rented, or owned/leased accommodation. The parameters of that calculation are not constant, but save for the case of periods of exceptionally high interest rates, ownership will in broad terms over time allow for the occupation of the same quality

and location of property for a lower cost than renting it. With interest-only payments on one hand, and rising rents based on capital values on the other, that has turned a 30% cost advantage 10 years ago into a 70% advantage now in my case. In other words, to rent my flat would now cost more than three times the current interest charges. In principle subsidising purchase is a less costly way to provide accommodation than subsidising renting, and should be encouraged rather than frowned on by the allowance system. (I fully accept that claims may then be made by members to soak up the balance, leaving no benefit to the taxpayer, but that is for regulation separately).

However it would be an even better outcome for the taxpayer if the benefits of capital appreciation were shared more equitably.

I strongly recommend you to introduce that principle.

I suggest that the starting point for any recovery mechanism should be the sum liable for CGT; the balance remaining of that sum after CGT payment would not then all accrue to the MP as it does now, but a share should go to the taxpayer.

There are alternative ways of calculating the taxpayer share, and I wanted to be sure you had a clear view of the consequences and pitfalls of various **generic options** you may wish to consider. Previous Sorcerers Apprentices have found too late that they only made the situation worse.

Option 1. A split of benefit strictly according to the initial capital split of MP input against value of loan financed by allowances. (e.g. in my case approx 25%/75%). One issue here is that loans may be either repaid or renegotiated since the initial arrangement started; if it was a comparatively short-term bridging loan, with many years debt free since (not my situation), should the original or the new situation be the basis of a repayment calculation?

When does the repayment have to take place? The MP might normally be expected to dispose of the accommodation when leaving office. But there are several reasons why that might not happen – continuing career in the Lords or elsewhere in London; use for relatives (already popular, it seems!), etc. Perhaps there should be a legal charge on the property? Timeless and helpful in such cases, and ultimately effective – but it would need to be supported by a valuation at time of leaving office (unless capital growth after departure is to be captured, too?).

Or is there a case for taking into account CGT paid as part of the refund?

Option 2. A deduction of taxpayer contributions paid: in other words a straight cash recovery of interest payments made. This could be extended to include capital improvements paid for (e.g. in my case a new boiler and replacement of asbestos panels and windows). It is less easy to see how it could be extended to cover recovery of claims for furniture and consumables without creating both complexity and anomalies, but it certainly is possible simply by reference to the claims record.

A major issue with this option is that those who enter Parliament more recently are put at a significant disadvantage compared to longer-serving members. This is

worsened where a member is only in for one term. Other things being equal, the more recently a member bought their property the higher the price likely to be paid, and the larger the mortgage and hence the larger the interest charge refunded by the taxpayer. And the shorter the time between purchase and sale the smaller the CGT surplus will be, due to the short time of capital appreciation. It is easy to see that a member first elected in 2005 and leaving in 2010 would be likely to have to repay all gains made even though they had invested their own money in the purchase, whereas a longer-serving member would get a disproportionately larger return.

Option 3. There is an option to say that there should be 100% recovery of all capital gains made – in effect 100% CGT for MPs' property. It might be quite popular in the current climate.

However it must be obvious that MPs would not undertake purchase and commit their own money to it if they were not permitted to have any return at all on capital invested. Instead they would leave their money earning interest elsewhere, and take up higher priced renting options, ultimately leading to higher costs to the taxpayer (presuming again that elsewhere claims on other aspects of this allowance were to be strictly regulated to avoid soaking up money to reach a ceiling, as well).

There is also an issue of natural justice if existing members who have already purchased on one set of assumptions were to face completely new ones leading to a real loss of capital invested. (I am in that category).

Members arrive in the House with diverse levels of wealth and commitments, and in a wide range of family circumstances. If possible the allowance arrangements should facilitate a widening of this, and not a narrowing. It seems likely that effectively closing the purchase option altogether would tend to reduce the range of viable options, perhaps particularly for those with larger young families, and therefore hinder public policy.

Option 4. An intermediate option would be to have repayment on a proportionate basis up to the point of full recovery of all property-based claims paid. Gains above that value would then fall fully to the member. There are many variations to this that would tilt the financial advantage one way or the other.

Certainly a recovery system that took account of the actual claims paid would have the serious political advantage of assuring the public that ALL payments, whether 'grey' or pure white, were ultimately going to be recovered, perhaps reducing the necessity to define with exact clarity every possible circumstance in which a claim is deemed acceptable.

Option 5. This is the Hall of Residence model – accommodation provided to members as support-in-kind. In its raw form it is clearly both very capital intensive and very restrictive: how would members with children in London schools be accommodated? More generally, who would decide on the mix of accommodation, and what would happen when they got the balance wrong? How much would 650 flats within (say) 2km of Parliament cost? What about the security implications of such a complex? Would government ministers move flats the way they move offices on appointment and resignation? What conceivable timescale would it take, and how

would existing commitments be unwound, and at whose expense? What happens at a General Election, when families have to move out (presumably with some period of notice) and new members found a bed from day one? For those of us who are MPs, the idea of sharing our sleeping hours as well as our waking hours with a randomly-chosen assortment of colleagues is not at all attractive. Would it be compulsory?

However, there is another version of the support-in-kind model, which is that the taxpayer takes 100% in the equity of the accommodation chosen by the member (who does so on the current basis, having regard to a ceiling on payments). The member would not put any money in and would not take any money out.

It is for consideration what financial model might be used to underpin this, but I note that it would be quite easy to 'migrate' members from existing arrangements in stages, with no big bang, so the cost profile can be tailored to need.

The residential estate would evolve according to the demands of the MPs at the time, and when a member's home was vacated it could be sold on the open market, with 100% of any capital gain accruing to the taxpayer. Responsibility for major repairs and refurbishment would rest with the taxpayer – with the incentive to do so being that they might have to put the property onto the open market shortly (quite apart from the MP's leverage as tenant). Just as at present there could be options for MPs to share, or to pass on accommodation to colleagues, or to 'trade up' if family or other circumstances dictate. MPs would get free accommodation, and the taxpayer would get free capital gains.

Such a system can work to allow a second home outside London in the member's constituency if they have a first home in London.

An MP could choose to live in other accommodation (e.g. a pre-existing London home) but could not claim money for its use.

Such a model would have a number of advantages so far as both integrity and financial benefit to the taxpayer are concerned, and you may want to explore it in more detail – and seek informed advice from a range of MPs and others on the snags, which must exist (because there is no miracle solution) but which I haven't yet spotted.

I hope this is of some use to you in your deliberations on this and other vexed issues. I am of course happy to comment further on this or other matters if you wish.

Yours sincerely,

Andrew Stynell MP
Hazel Grove