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Committee on Standards in Public Life
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Review of MPs' expenses

1. Thank you for the opportunity to make a submission to your review of MPs' expenses. It is very welcome. I have been calling for reform of this system for several years now – long before the current controversy – and I sincerely hope that these will be my final words on the issue. MPs have sacrificed the public trust required to manage this system themselves and I would now support acceptance of your recommendations without question providing they establish a system for determining expenses which is independent of MPs own decision-making. I strongly believe that MPs, party leaders and even Prime Ministers should resist the temptation to pre-empt your inquiry with any more of their own bright ideas cobbled together in hurried deals. These are unlikely to be as good as your considered views and certainly cannot be seen by the public as independent of political and party interest.

My own background and situation

2. I was only elected as an MP in 2005 but had 15 years' professional management experience in the private and voluntary sectors, including periods on the senior management teams of both the Alzheimer's Society and a medium-sized marketing agency based in my constituency.

Representing Cheltenham – between two and three hours away from Westminster - I currently rent a one-bedroom flat 15-20 minutes walk from Parliament as my 'second home'.

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The confusion of expenses, allowances, budgets and salaries

3. From a recent background in business and the third sector, I found the whole system of expenses, allowances and salaries at Westminster very surprising. As mentioned in para 3.4 of your 'Issues and Questions' document, it seemed to confuse and misname several quite distinct things:

- **Budgets:** our staff costs are not really expenses at all, let alone allowances. They should properly be called budgets as they are wholly administered by the House authorities, paid direct to our employees not to us and can be incurred up to a maximum fixed at the beginning of the year. Our office and travel costs are similar in that most of the money never comes anywhere near our personal bank accounts although in both cases we can also incur the expenditure ourselves and be reimbursed. The travel allowance would not qualify as a normal business budget however as it has no limit! The only key difference in the other cases is that overspending is impossible. While obviously not desirable, justifiable overspending against budget is a perfectly acceptable practice in business, for instance in cases such as sickness cover or additional maternity pay and are often covered by recharges to a central contingency budget.

Because these budgets are misnamed and also treated as allowances for tax purposes, they have some bizarre results such as MPs being taxed on the purchase of our office equipment!

- **Expenses:** most of the rest of our expenses and so-called allowances really are expenses: they are reimbursements for expenditure incurred out of our own pockets in the course of doing our jobs. But bizarrely the parliamentary system deviated from the norm with expenses by allowing MPs to claim large amounts without receipts.
- **Allowances:** with the recent exception of the £25 per diem overnight subsistence payment, we have had no true allowances in the normal sense of additions to the salary to reflect the higher costs of, say, living in London. Part of the problem with the second homes 'allowance' has nevertheless been that many MPs appear to have treated it like an allowance and spent it on just about anything they fancied, including the now notorious duck-houses, tennis courts and so on. Indeed some older MPs have told me they were actually encouraged to think of it this way, to make up for the allegedly poor salary they were paid.

4. I urge you to recommend that we remove the terminology and psychology of allowances from the system altogether and restrict MPs costs to expenditure against House budgets for staffing, accommodation, travel

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and office costs, including allowable overspends on individual budget lines, and with any true expenses incurred by anyone within these budgets entirely backed up by receipts.

Pay

5. I respect your wish not to duplicate the work of the Senior Salaries Review Board (SSRB) and join you in welcoming the now established principle that MPs should not vote on their own pay. However, pay and expenses have been linked in many public comments and, as explained in para 3.2 of your document, the non-voting principle was breached within six months of being established! Far from MPs incurring public wrath by voting themselves huge increases, I think the real risk in the past appears to have been that governments tried to make recommendations more frugal, MPs tried to avoid looking greedy by voting for the most frugal option and then tried to make up for it through the allowances system. Not only MPs *but governments* should now be kept out of the whole process or it will unravel altogether again.
6. For the record, I believe that MPs salaries are perfectly adequate and do not need to be supplemented to make up for any imminent loss of allowances. Apart from the resulting huge pay rise being likely to incite violent revolution, the whole point of the expenses and allowances system should be that it pays for actual additional expenditure and, as I have said above, gets away from the psychology of allowances that can be spent on just about anything.

In management, I have always advocated paying market rates. We still seem to be attracting plenty of applicants for the job of MP, so I see no justification for any jump in pay beyond the normal annual increases.

Accommodation

7. The origins of almost all the scandals that have paraded across the pages and of the *Daily Telegraph* and the websites, TV broadcasts and pages of most other media in recent months lie in two aspects of the MPs' accommodation payment system:
 - The use of taxpayers' money to supplement the cost of private homes, for instance through mortgage interest and claims for furnishings and maintenance
 - The ability to designate a 'second home' that is not in London
8. I would urge you to recommend that we abolish the first of these altogether and severely curtail the second. At a stroke the first move would prevent all the problems of moats, duck-houses, tennis courts, interior decorators, 'flipping', capital gains tax and profiting from public expenditure.

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9. MPs who need accommodation in London because their constituencies are too far from Westminster to get back at night after late votes should only be allowed to claim for hotel bills or for rented accommodation. I think we can safely leave furnishings and interior design to hotel management and landlords. No questions of personal profit should ever arise.
10. The ability to designate a second home outside London has allowed MPs to use a budget designed for modest apartments in the relatively very expensive central London market to subsidise properties far from London that are not at all modest and have caused a lot of public outrage. If the amount is designed for central London rents, that is what it should be used for and only rare exceptions should be made – for instance when a minister or party leader is obviously living with their family in London. In those circumstances, the amount payable to the MP for an out of London second home should reflect reasonable rent in the constituency concerned and be agreed on a case by case basis.
11. Needless to say, ministers provided with government accommodation with their jobs should not be able to claim for any other accommodation.
12. The suggestion by the party leaders to sharply cut the monthly amount of the second home allowance misses the point and may be unrealistic if only rent or hotel bills are to be allowed. There have been few public complaints about the absolute amount as opposed to what it is being spent on. If we do rule out claims for mortgage interest – as I suggest – the absolute limit should reflect realistic central London rents. A sharp cut in the absolute amount may simply rule out the environmentally friendly, healthy option of being within reasonable walking distance of Westminster – and subject MPs who already have to spend long hours each week travelling *to and from* London to commuting *within London* as well.
13. The Prime Minister's suggestion of a flat rate allowance for nights spent in London was wrong because, as repeatedly pointed out above, we need to get away from an 'allowances' culture and move back to one which pays only for actual expenditure incurred.
14. Any changes must honour MPs' existing arrangements made in good faith under the current rules, such as tenancy agreements or fixed-term mortgage agreements with high redemption penalties. Not all of us can afford to lose thousands of pounds because of overnight changes designed to appease the *Daily Telegraph*.

Staffing

15. The staffing allowance is in practice a staffing budget and should be described as such. Arguably it should be removed from the MPs' expenses and allowances system altogether although it should still be subject to Freedom of Information requests.

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16. There are significant problems with direct employment of staff by the House – constituencies and responsibilities vary widely amongst MPs and they should be given the freedom to organise their staff accordingly – but the trend towards consistent job descriptions and pay scales is helpful.
17. Justifiable overspending against these budgets should be allowed in the event of unexpected sickness, redundancy or maternity or paternity pay or cover being required and in other exceptional circumstances. These amounts should be generous enough to set an example to other employers and reflect good practice rather than the legal minimum. The House authorities could reasonably budget for these exceptional amounts using a central contingency budget to which individual MPs could recharge exceptional spending. This would avoid the unfortunate result of MPs cutting back on their staff's maternity or paternity pay to make sure they weren't embarrassed themselves by unusually high 'expenses'.
18. Pay rates for our staff are pretty poor, partly because many of us feel obliged by work volumes to try to employ as many people as possible within the limited budget. An urgent review should be conducted by whatever independent body takes on this responsibility. This should examine whether the pay levels and numbers of staff the budget permits are realistic given the huge volumes of casework and email in particular that modern MPs receive. Comparisons with staffing levels in other national assemblies should be made.
19. MPs should be urged to be equal opportunities employers, advertising all permanent posts and following best recruitment practice. This would tend to reduce employment of family members but I think there is an argument for allowing, for instance, spouses to work with MPs. Many in more distant constituencies spend little enough time with their families and this practice may well be preventing some family breakdowns. Also anecdote suggests that it is not unknown for MPs to marry their assistants and it seems harsh, in effect, to cause someone's dismissal for falling in love. There is however a strong argument for closer scrutiny of any arrangement in which a family member is employed. Employment of MPs' children, without interview, would be very unusual indeed in normal business practice and should probably be banned.
20. The bizarre restriction of some maternity cover arrangements to 'secretaries' is sexist and outdated. The same maternity *and paternity* arrangements should apply to all staff posts.

Office expenditure

21. Constituency offices, equipment and other office costs are absolutely essential for MPs to do their jobs. Office rents vary widely across the country and this expenditure line should be separated from other office expenditure budgets and made variable according to average office rental costs in constituencies which would be reasonably easy to verify. An

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allowance should also be made for constituencies so large that multiple offices are required. A square footage-based approach has been suggested but this is likely to be an enormously cumbersome and probably expensive system, for instance forcing MPs to abandon good office opportunities simply because they exceed a standard square footage limit by a small amount.

22. The amount allowed for office rent should be reviewed and should bear in mind the fact that many MPs encourage work experience students, interns and volunteering opportunities and need to provide space for these as well as for a small number of full-time professional staff.
23. Other office expenditure such as office equipment, furniture and stationery should vary far less by geography and a standard budget is quite appropriate. The nonsense of this expenditure being treated as a personal allowance should be stopped – I have never been taxed on my photocopier before!
24. As I have argued for occasional overspends against budgets to be permissible for staffing expenditure, so too should occasional exceptional spending on offices be allowed. Again a central contingency fund should allow this to be budgeted for by the House. An example would be an office refurbishment, either when an office is first established by a new MP or after a certain number of years – perhaps once in each Parliament.
25. The cost of converting offices to comply with the Disability Discrimination Act is another example of justifiable exceptional expenditure – I had to squeeze expenditure for converting our entrance and converting our toilet into a disabled toilet out of the same budget as I was using for paper clips. I still can't afford to provide proper access to this new disabled loo. I have therefore had to turn down disabled volunteers – an appalling state of affairs.

Communication

26. I voted against the separate and additional Communications budget and still regard this as a subsidy for incumbent MPs. An annual report that I have been able to produce as a result has nevertheless been very well-received but I have seen others that look for all the world like political

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leaflets. This is an almost impossible distinction to draw and the simplest response would surely be to rule out this kind of expenditure altogether.

27. The rules on the use of and expenditure on postage, stationery, prepaid envelopes and Portcullis-branded stationery are complicated, confusing and often seem to be contradictory. They should be simplified to allow proper communication by MPs with their constituents, including response to and limited follow up on the mass postcard and letter-writing campaigns which are an increasingly common form of lobbying today.

Leaving Parliament

28. I cannot see any justification for a routine resettlement grant of up to £64,766. MPs jobs are insecure but so are many other peoples who do not enjoy such generous benefits. There is an argument for some grants for re-training, outplacement services and even resettlement if a former member really has to leave their current home as a direct result of losing their parliamentary job. This is good practice in business. But this expenditure should be held in a central House budget and incurred on the basis of need and the judgement of HR managers. They should not be available to Members who make a planned retirement from politics, or to those who have already reached retirement age or to those found guilty of gross misconduct.

Food

29. Claims for subsistence on the submission of receipts are quite common in business especially in relation to business trips. Our current £25 per day flat rate payment for every night spent in London is poor as it is not based on actual expenditure or the production of receipts and assumes that these kind of subsistence costs are only incurred when you stay overnight in London rather than when you attend Parliament but manage to return home to your family each night. In business it is assumed you deserve a subsistence payment because you are forced to eat out or buy expensive food in transit, such as on trains. It seems odd to do this when well-paid MPs are also provided with pretty cheap canteens and cafeterias in Westminster and second homes near to Parliament where they could eat or prepare food if they wished. The logical way to avoid further public ridicule is to stop these food and subsistence payments altogether.

Receipts

30. I have argued that most of MPs expenditure should actually become budgets in the normal business sense of the term. Payments to third parties should therefore be made only on the production of invoices or receipts as is common business practice.

31. The proposed new audit and assurance regime is badly needed. But many of the worst abuses of the expenses system exposed by Freedom of Information requests and investigative journalism would be unthinkable in business not because of effective auditing – audits, after all, test systems

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not the justification for individual claims – but because finance departments would simply have rejected them as unreasonable. It is unthinkable that my former business or charity employers would have allowed tens of thousands of pounds in ‘phantom’ mortgage payments to have accumulated without ever having checked the paperwork behind them. So as well as more effective external and internal audit, a review of the Department of Resources is required to bring them more into line with normal business practice. This is not just for the public’s benefit, it is to protect MPs from ever again ruining their own reputations and that of the

House through simple avoidable errors and misjudgements that were very quickly spotted by journalists.

Enforcement

32. I will not make much comment on this except to warn against trial by either media or political party. I have been lucky enough to escape criticism during this whole episode so I hope I can be objective when I say that I think some colleagues have been very unfairly treated for minor infringements that would have merited only a corrective note in business or for obeying rules that now seem extravagant with hindsight but which would not seem out of place in many business. It is important to distinguish these cases from the smaller number of MPs who shamelessly exploited the system for personal or family gain or who seem to have obtained public funds by deception and should be prosecuted.
33. For those who are in the latter categories, the current system of enforcement is quite inadequate. Derek Conway MP was simply suspended for a few days for something which would have had him sacked for gross misconduct on the spot had it been discovered in any normal business. I think the public now expect similarly strong action by the Committees and Commissioners who are charged with upholding standards in public life.

Openness and transparency

34. The process of redaction is important. The personal details of staff, individual salaries of staff and home addresses which could be easily

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identified as empty at particular times of the week should not be publicly revealed. It is notable that despite all the scaremongering about this before details of expenses were revealed, the press have actually behaved very responsibly in not revealing such sensitive data even when they have had it.

35. The initial redaction has been carried out by the Department for Resources have been carried out under enormous pressure so it is perhaps understandable that it shows signs of having been done in something of a rush. Haphazard details like VAT numbers and supplier addresses have been redacted on some receipts and not others, while explanatory notes have often been redacted when they actually help to explain the contents of the document (I requested four corrections – all for material to be uncovered!). On some documents the redaction was so zealous that almost nothing was left. If this process is to command public confidence and be free from legal challenge, it needs to improve in its consistency and accuracy.

Again I would like to thank you for the opportunity to make a submission to this review and I very much hope that it can begin the long process of rehabilitating Parliament's broken reputation.

Yours sincerely

Martin Horwood MP
Member of Parliament for Cheltenham