



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1273
SESSION 2010–2012**

7 JULY 2011

Independent Parliamentary Standards Authority

The payment of MPs' expenses

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National Audit Office

Independent Parliamentary Standards Authority

The payment of MPs' expenses

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

5 July 2011

In this report, we examine the value for money that IPSA has achieved since its creation, both through the MPs' Expenses Scheme and in its other functions.

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This report can be found on the National Audit Office website at www.nao.org.uk/ipsa-2011

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Key facts

55%

Proportion of the public who feel the situation with MPs' expenses has improved in the last year.

£6.4m

Cost of running IPSA in 2010-11.

£205,000

Value of claims rejected by IPSA in 2010-11.

- 70 per cent** Proportion of MPs who agree that the previous expenses system required major change.
- £118 million** Amount of expenses and salaries paid to MPs and their staff in 2010-11.
- 134,696** Number of expenses claims processed by IPSA in 2010-11.
- £15.86** Our estimate of the cost to IPSA of dealing with each item claimed.
- 38 per cent** Proportion of claims MPs submit that are for less than IPSA's average processing costs for each item claimed.
- £14.5 million** Annualised reduction in expenses paid to MPs compared to the last scheme.
- £2.4 million** Estimated cost of the time MPs and their staff spend dealing with expenses, according to our survey of MPs.
- 91 per cent** Proportion of MPs who believe that under the new system, MPs have to subsidise their own work.

Summary

Background

1 The Independent Parliamentary Standards Authority (IPSA) came into being in October 2009, following the development of a profound crisis of public confidence in MPs' expenses earlier that year. As the report of the Committee on Standards in Public Life said at the time, this was brought about by "a major systemic failure in an area where the public was justified in expecting the highest standards".¹ The crisis has had a major impact on UK political life with four Members of Parliament receiving prison sentences and the House of Commons accounts being qualified by the Comptroller and Auditor General because of a lack of evidence for £13.9 million of spending on expenses.

2 Under the Parliamentary Standards Act, 2009, IPSA became responsible for creating a new system to pay MPs expenses, and is now responsible for running and regulating that system. There is also a Compliance Officer for IPSA who has the power to launch investigations into suspected wrongful claims.

3 IPSA's operating costs in 2010-11 were £6.4 million and it employed an average of 88 staff, although this has now reduced to around 60. Its new expenses scheme (the Scheme) began on 7 May 2010, the day after the General Election. Under it, MPs send in claim forms with a varying number of claim lines on each form. Between May 2010 and March 2011, IPSA processed 134,696 separate claim lines. In 2010-11, IPSA paid out some £118 million, comprising £43 million in salaries for MPs, £56 million in salaries for MPs' staff, and £19.5 million for other expenses (**Figure 1** overleaf). Of the 652 MPs who have held office since May 2010, 644 have claimed for expenses under the Scheme.

4 The Scheme exists to provide MPs with the resources to carry out their parliamentary functions. Understandably, in the circumstances, IPSA also set helping to restore public confidence as a key goal. The Scheme's fundamental principle, similar to that of other expenses systems in the public and private sectors, is that evidence must be produced to secure payment. MPs incur a broader range of expenses than people in most occupations because of the unusual nature of their jobs and their unusual employment status. MPs are not employees and, although the House of Commons provides for some of their working needs, such as their Westminster offices, they themselves are responsible for sourcing many others. MPs also routinely work in two places and often late at night when Parliament is sitting, thus incurring accommodation costs. Where it falls to MPs to pay costs upfront, they need either to be provided with the money to do so in advance or be reimbursed retrospectively.

¹ *MPs' expenses and allowances*, Twelfth Report of the Committee on Standards in Public Life, November 2009, Cm 7724.

Figure 1

IPSA's expenditure until March 2011

Expenditure by IPSA on set-up and running costs	Amount (£m)
The costs incurred to set-up IPSA in 2009-10 and 2010-11 (not including capital costs)	4.4
The costs incurred in running IPSA in 2010-11	6.4
Total	10.8
Expenditure by IPSA on expenses and MPs' salaries	
The cost of salaries for MPs, including employers' national insurance contributions	42.9
The cost of salaries for MPs' staff, including employers' national insurance and pension contributions	55.7
The cost of MPs' expenses	19.5
Total	118.1

NOTE

1 MP salary costs represent MPs' backbench salaries, the additional salaries paid to the Chairs of Committees and the Panel of Chairs, and the additional London Area Living Payments made to London Area MPs and non-London Area MPs not in receipt of accommodation expenses.

Source: IPSA

5 In this report, we examine the value for money that IPSA has achieved since its creation, both through the Scheme and in its other functions. Part One examines the set-up of IPSA and the terms of its Scheme and Part Two how the Scheme has operated to date. Part Three examines IPSA's other functions, and Part Four looks at how other organisations handle expenses and considers what IPSA could learn. We employed a range of methodologies (see Appendix One) including calculating IPSA's cost per claim, surveying MPs and researching comparators. We have not included in our consideration the merits of any other possible models for funding MPs, e.g. an allowances system, as it is for IPSA to determine the overall shape of the Scheme.

Key findings

Setting up IPSA

6 IPSA established itself as a functioning organisation in a very short time, spending £4.4 million in the process. It began providing services to MPs on time in May 2010; this was a major achievement by the Authority. It made use of competitive tendering and adapted pre-existing software for the claims system.

7 **IPSA faced some difficulties in set-up, primarily due to the short amount of time available.** IPSA's office accommodation is large for the number of staff it planned to employ in the long term. Additionally, IPSA's dependence on senior and agency staff for claims processing in early months was inefficient, but the right thing to do in the circumstances, and it was not able to pilot the expenses scheme, which contributed to early problems.

Improving public confidence

8 **There has been an increase in public confidence regarding MPs' expenses during the last year.** We commissioned a question in a recent Ipsos MORI General Public Omnibus Survey. Fifty-five per cent of people thought the situation with expenses had improved. Although other factors such as high-profile prosecutions will have played their part, we believe that IPSA has significantly contributed to this improvement, which has been achieved in an impressively short period.

Safeguarding public funds

9 **IPSA's new scheme safeguards and controls public funds more effectively than the predecessor scheme.** It achieves this by actively enforcing:

- the requirement for evidence for each claim;
- the stipulation that expenditure may only be incurred for parliamentary duties;
- the limits and rules for categories of expenditure, except where evidence of greater need is provided; and
- a high level of public transparency.

10 **IPSA has demonstrated convincingly that there is no systematic abuse of the new scheme by MPs to date, and the level and value of rejected claims are very low.** Though IPSA returns 8 to 10 per cent of claims to MPs for further clarification or evidence, ultimately since January it has rejected just 0.5 per cent of claims, representing 0.2 per cent of money paid out.

11 **IPSA's new scheme does not give sufficient importance to supporting MPs spending in a cost-effective way.** We have identified two key issues:

- Very little of MPs' spending is currently routed through centralised procurement systems, which have become common elsewhere in the public sector. IPSA did not design the Scheme in this way because it believes that MPs want a high degree of flexibility to procure goods and services from wherever they wish.
- IPSA has deliberately limited the amount of advice it offers to MPs about individual procurement decisions, primarily to avoid recreating the so-called 'John Lewis List' for office expenditure. While this is understandable, MPs will therefore not usually have access to any source of expert advice.

Operational effectiveness and efficiency

12 **IPSA has paid claims with a high degree of accuracy since the start, but initially other aspects of service delivery were below its own standards.** It is important to stress that, while this level of service was lower than it should have been, it was much better than the initial operating phases of other projects we have audited. Since September 2010 IPSA has been routinely meeting most key performance indicators and claims are now being paid on average after six working days.

13 **The new Scheme paid out some 15 per cent less in 2010-11 than was paid out in 2009-10.** While this represents a cash saving to the taxpayer, given MPs' view that they are subsidising their own work (explored further below in paragraph 19), we cannot conclude whether the reduction represents a genuine efficiency improvement.

14 **We estimate that IPSA's cost per item claimed has reduced from around £40 in August 2010 to around £16 in May 2011.** This decrease is mainly due to improving operational efficiency, including staged reductions in the amount of validation carried out once it became clear that rejection rates were low. IPSA's direct staff costs for the full claims process are very close to the average for other UK national legislatures. This is impressive by the end of its first year of operation, but IPSA is dealing with a much higher number of claims and should therefore be able to be the most efficient in the future.

15 **IPSA is not currently adopting a risk-based approach to validation as it does not consider that it has sufficient knowledge of the population from which it would be sampling; nor enough understanding of trends in MPs' expenditure, nor lastly enough evidence to support confidence in its own systems, particularly prior to the completion of its first full-year audit. It also places great weight on not jeopardising public confidence in the new expenses regime.** Given the low rate of rejections, the fact that there has been no systematic abuse, and the existence of other safeguarding factors (for instance, the publication of claims and the investigatory Compliance Officer role), we believe strongly that IPSA can now move more quickly to a risk-based approach.

16 **IPSA incurred costs of £307,000 on the Compliance Officer function in 2010-11, but did not appoint a Compliance Officer with full investigatory powers until the end of March 2011.** While the existence of the Compliance Officer is vital as a deterrent, at present, the Compliance Officer's workload is low; he is investigating only 38 cases worth a total value of £52,317.

MPs' experience of the Scheme

17 **A majority of MPs told us that they support many of the new Scheme's key principles.** Seventy per cent agreed that the previous expenses scheme needed major change, and three-quarters that evidence should be submitted for all reimbursements. More than half agreed that independent regulation of expenses was better than self-regulation, and that all claims should be published.

18 Eighty-five per cent of MPs said that the time now required to deal with expenses was such a burden that it hindered them from doing their jobs. While IPSA has taken some steps to make its processes more user-friendly and has plans for more, MPs still find the system hard to operate and the process for submitting claims laborious, and a majority complain that IPSA's published guidance, training and responses to written and telephone queries are not useful. Based on what MPs tell us, we estimate that the cost of their and their staff's time in dealing with expenses under the new scheme is in the region of £2.4 million per year, or around £13 per claimed item on average.

19 Even though very few MPs spent the full amount available to them in 2010-11, some nine out of ten believe that MPs are having to subsidise their work, and the same proportion state that they have not submitted claims for some expenses to which they believed they were entitled. The common reasons cited for not claiming were that the amount to be claimed was small, the claims process was complex, lack of clear advice about what was claimable, and concern about claims being published.

20 MPs are spending large amounts of their own money upfront on their Parliamentary functions and some told us they suffer cash flow difficulties as a result. IPSA has expanded the availability of advances, payment cards and direct payment methods since the Scheme's inception, but we calculate that in 2010-11 MPs who used the Scheme spent an average of around 50 per cent of their basic pay after deductions on expenses for which they had to await reimbursement. IPSA estimates that if MPs took full advantage of the facilities it offers now, not including advances, this figure could fall as low as 13 per cent.

21 IPSA issued a new version of the Scheme in April 2011, which made adjustments in part based on feedback from MPs. At the time of our survey these changes were still bedding in, but 61 per cent of MPs anticipated that they would not improve the Scheme very much, and 13 per cent not at all.

Conclusion on value for money

22 IPSA set itself up with commendable speed, and despite initial problems, has done well to create a functioning new expenses scheme which safeguards public money and has made a significant contribution to increasing public confidence. IPSA has paid attention to increasing its own efficiency and has reduced its average cost of dealing with claims significantly.

23 Any expenses system needs to manage the inherent tension between preventing misuse of money and enabling an organisation's core business to be done well. IPSA's scheme is clearly achieving the former. However, IPSA did not have sufficient regard to the impact its Scheme was having on the ability of MPs to fulfil their duties in its first year of operation, nor to the costs falling upon them. The scheme as a whole will offer better value for money if IPSA accelerates the streamlining of its own procedures and gives greater priority to minimising the costs necessarily falling on MPs.

IPSA's vision for the long term

24 IPSA's long-term vision is for there to be sustained public confidence in the way in which MPs are funded from the public purse. In realising this, it states that it will reach settlements on MPs' expenses, pay and pensions which support MPs in their parliamentary duties and serve the interests of the public.

Recommendations

25 In our view, safeguarding public funds efficiently, enabling MPs to do their jobs well and increasing public confidence need not be incompatible goals. We have noted during the course of this work, however, that an adversarial relationship appears to have developed between IPSA and many MPs, and is continuing, exemplified by the unenthusiastic reaction of the majority of MPs to the latest changes in the Scheme. While there are understandable reasons for this uneasy relationship, this is not a necessary feature of effective regulation and it is not conducive to the public good for this to persist. In order for the matter of MPs' expenses to move onto a business as usual footing, both sides need to make greater efforts to understand one another's legitimate perspectives and to find common ground. The recommendations below are intended to aid that process.

Recommendations to IPSA, MPs and the House of Commons

- a** Though IPSA is independent, its Scheme ultimately exists in order to enable MPs to do their job. **Working together with a representative cross-section of MPs and the House authorities, IPSA should, by December 2011, develop a strategy to address the following issues:**
- the amount of time MPs and their staff spend interacting with the Scheme;
 - the accessibility of comprehensive and consistent advice and guidance; and
 - the labour-intensive nature of certain elements of the claims process.
- Further detail of issues for consideration are set out in paragraph 4.9.
- b** IPSA places responsibility for achieving value for money in procurement on MPs and their staff and little use is made of centralised contracts. **IPSA, MPs and the House authorities should explore the options for getting more value out of MPs' bulk purchasing power, including through existing mechanisms, such as the House of Commons Travel Office, and, where necessary, new contracts.**
- c** The implementation of the existing scheme suffered due to the lack of time to pilot, though IPSA is now piloting a new approach to mileage claims (see paragraph 1.24). **Following the conclusion of discussions recommended above, IPSA, MPs and the House authorities should be prepared to pilot other new approaches in advance of implementing them.**

- d IPSA does not normally give advice to MPs on what would constitute best value from their expenses, beyond what is specified in its Scheme, and this advice is not available elsewhere. **IPSA, the House and MPs should discuss how this advice could be made available in future and should reach a determination by December 2011.**

Recommendations to IPSA

- e IPSA's current approach to validation is not risk-based. **IPSA should reduce its validation to a level that reflects the real risks present in the new Scheme, and, in doing so, should be guided by the principle that its procedures should be similar to those of other claims-based and expenses-paying organisations, except where this would be inappropriate.**
- f Some MPs report cash flow problems. **IPSA should:**
 - expedite its plans to expand the use of the payment card and direct payments further so that MPs are paying less of their own money out to do their jobs; and
 - should set a more challenging target for approving routine claims.
- g It is important that IPSA understands the impact it is having on its key stakeholders, the public and MPs. **IPSA should regularly survey the public and take steps to develop suitable questions from which to measure trends. It should also survey MPs regularly, using our questions as a baseline.**

Recommendations to MPs

- h A large majority of MPs told us they are currently subsidising their own constituency work. **MPs should submit claims for all expenditure they legitimately incur as part of their work, and should make contingency claims when the total value of their needs exceeds the budget available to them. Unless they do so, it will be difficult for IPSA to understand the real cost of supporting MPs to do their jobs well.**
- i Sixty-two per cent of MPs say that their face-to-face meetings with IPSA have been useful. **IPSA has assured us that it is happy to provide this service on an ongoing basis and MPs should avail themselves of it to ensure that office administration and interactions with the Scheme are as effective as possible.**

Part One

Setting up the new MPs' expenses scheme

Background

1.1 During the spring of 2009, there was a profound crisis of public confidence over the issue of MPs' expenses. As the report of the Committee on Standards in Public Life said later that year, this was brought about by 'a major systemic failure in an area where the public was justified in expecting the highest standards'.² The crisis revolved around two issues: the lack of transparency of the expenses scheme then in operation and, following a leak to a national newspaper, the scale, appropriateness and legality of some MPs' claims.

1.2 The crisis has had a major impact on UK political life. Many MPs decided to pay back some of the money they had received; around £1.5 million in total had been paid back by April 2011. In four cases, the Crown secured criminal convictions against Members, all of whom received prison sentences. The Comptroller and Auditor General qualified his opinion on the regularity of the House of Commons accounts for 2009-10 because of lack of evidence for £13.9 million of spending on expenses.

1.3 A consensus quickly emerged between Parliament, the Government and those leading independent inquiries into the issue that reform was essential. A key problem with the old system was said to be its self-regulating nature, and so, in July 2009, the Parliamentary Standards Act established a new independent body with responsibility for setting, running and regulating MPs' expenses in future. This report is about the value for money that body, the Independent Parliamentary Standards Authority (IPSA), has achieved to date in undertaking its duties.

1.4 In the rest of this Part, we examine how IPSA set itself up, why MPs need expenses and what the terms of the new expenses scheme (the Scheme) are. Part Two considers how well the Authority has run the Scheme during its first year and the impact on MPs, while in Part Three we look at IPSA's other functions. Part Four describes how other public and private bodies deal with expenses. Throughout, we draw on a range of methodologies (see Appendix One) including a survey of MPs. We received responses from half of all Members, and the responses constitute representative samples for both new and old Members, and Members from every region of the UK.

² *MPs' expenses and allowances*, Twelfth Report of the Committee on Standards in Public Life, November 2009, Cm 7724.

IPSA's structure and set-up

1.5 IPSA has a Board with a Chairman and four Board members, one of whom must be a former MP, one of whom must be a qualified auditor and one of whom must be a person who has held high judicial office, as specified by the Parliamentary Standards Act. A Chief Executive and Senior Leadership Team are responsible for the Authority's day-to-day running. IPSA currently has around 60 members of staff, not including the Board. It has spent £4.4 million, not including capital, on set-up costs since its inception, and in 2010-11 spent £6.4 million on running costs. It paid out £118 million to MPs in the form of salaries and expenses in 2010-11.

1.6 IPSA came into being in October 2009 and was expected to start delivering services under a new expenses regime immediately after the 2010 General Election, which had to be held by June 2010. It, therefore, had only a short and inflexible period of time in which to establish itself. **Figure 2** shows the key events in IPSA's set-up.

1.7 We assessed IPSA's set-up phase and found that, in most respects, it had achieved good value for money. In part, we took assurance from an independent review by the Office of Government Commerce in June 2010. This review was positive, finding that, against an 'extremely challenging' timetable, the Authority had 'consistently met its milestones' and worked with 'competence' and 'integrity'. We confirmed that the Authority had tendered competitively for all contracts. In line with good practice, IPSA also purchased commercially available software – expenses@work – for MPs to use in making claims. This reduced the risk that the new system would not be available on time.

Figure 2
Key events in IPSA's set-up

2009		2010	
July	Parliamentary Standards Act receives Royal Assent	January	IPSA launches consultation on the new MPs' expenses scheme
August	IPSA Implementation Board first meets	February	IPSA signs lease for its offices at Portland House, London
September	The Speaker appoints IPSA's Interim Chief Executive	March	IPSA lays its new scheme in the House of Commons
October	IPSA formally established Interim Chief Executive writes to all MPs	April	Constitutional Reform and Governance Act receives Royal Assent; Compliance Officer post created
November	Committee on Standards in Public Life publishes its report on MPs' expenses	May	IPSA's new scheme comes into force on 7 May, the day after the General Election
December	IPSA's Chairman and Board Members approved by Parliament		

Source: National Audit Office analysis of IPSA and other data

1.8 Only with respect to its London offices did we find that IPSA might have achieved better value for money had it had longer to set-up. IPSA pays annual rent, rates and service charges of £616,000 for Portland House. IPSA entered into a five-year lease there in January 2010, when its plans to find accommodation on the Government estate fell through due to circumstances beyond its control. At current steady state staffing levels, Portland House provides 15.7 square metres of floor space per staff member against the cross-government workspace standard of 10 square metres (57 per cent higher). IPSA's staff levels may rise in future depending on the resources it requires to fulfil additional duties, such as setting MPs' salaries. If at the end of the five-year lease it has fewer than around 90 employees, it should seek a more efficient location.

1.9 IPSA has faced one further important problem as a result of the short time and unique circumstances in which it was set-up. In implementing a new service delivery model, we would normally expect to see evidence of extensive piloting with and advance training of users. This was not possible for IPSA. Had it been, many problems faced by both it and MPs during the spring and summer of 2010 (see Part Two) might have been avoided.

The need for an MPs expenses scheme

1.10 It is a principle of modern workplaces, including Parliament, that people should not ultimately have to meet the costs of goods and services required for their work. While self-employed businesspeople sometimes choose to do so, it is normally seen as unacceptable for those working in the public sector or private companies. Instead, workers are provided with resources to do their jobs in different ways, through a combination of:

- a** direct provision of necessary equipment and facilities by employers;
- b** timely reimbursement of incurred expenses;
- c** cash advances for the purchase of necessary items; and
- d** allowances intended to reflect the likely cost of particular items or activities.

Most public sector workers receive the vast majority of resources they need through direct provision by their employers, but MPs are different, both because of the nature of their job and their unusual employment status.

1.11 Though paid their salaries by taxpayers, MPs are not public sector employees. Instead, they are independent. As the Committee on Standards in Public Life said in 2009, this independence is 'an important aspect of parliamentary privilege [and] a key tenet in our unwritten constitution'. MPs, therefore, are not able to rely on an employer to provide basic equipment and facilities to the same extent as other workers. So, while the House of Commons gives them an office in Westminster, they must rent their own constituency offices, hire staff and purchase administrative supplies.

1.12 At the same time, the nature of MPs' role means they must work regularly in two places: their constituencies and Parliament. Often they have to be in Parliament into the evening, and occasionally until late at night. Almost all MPs incur regular travel costs between their two workplaces, and many require second homes or occasional overnight accommodation and evening meals.

1.13 Where it falls to an MP to pay these costs up front, they need either to be provided with the money to do so in advance or to be reimbursed retrospectively. As discussed in Part Four, this is a common issue for legislators all over the world.

The new Scheme

The terms of the Scheme

1.14 The first edition of IPSA's new expenses scheme came into force on 7 May 2010. On 26 July, IPSA issued a second edition, which addressed some early problems users had faced. The terms of this second edition were applied retrospectively to all claims and remained in force until 31 March 2011. It is, therefore, this edition that we describe and assess here. **Figure 3** overleaf shows its principal terms.

Our assessment of the Scheme

1.15 At the start of its consultation process, IPSA set out a number of goals for its new Scheme; the main ones are shown in **Figure 4** on page 17. We assessed the extent to which these goals had been met.

Figure 3

The new MPs' expenses scheme, second edition

General terms

- The Scheme is claims-based and expenditure must be incurred prior to reimbursement, unless the use of a payment card or direct payment has been specifically permitted or a cash advance authorised.
- MPs must submit evidence for all expenditure and must certify that it was incurred because of their Parliamentary duties.
- MPs must live within the budget limits set for different types of expenditure (see below), unless they can justify incurring higher costs, in which case they can make a claim against the Contingency Fund.
- MPs must submit claims using the online IT system before sending in originals of all evidence.
- MPs must submit claims within 90 days of expenditure being incurred.
- IPSA will publish details of all claims, including those it rejects.

Accommodation – up to £19,900

MPs can only claim for one of either hotel accommodation or rental payments on one property either in London or their constituency along with associated bills. MPs who were already claiming mortgage interest can choose whether to continue to claim until August 2012. London Area MPs as defined by IPSA can only claim a London Area Living Payment.

Office rental – up to £12,751

Constituency Office Rental Expenditure may be claimed in order to maintain one or more offices, or to provide surgeries for the performance of Parliamentary functions relating to the MP's constituency. The office must be located within the constituency or less than 20 miles outside. Members can also claim energy and water bills, business rates, contents insurance, and rental and usage costs for telephone and internet access.

General administrative expenditure – up to £10,394

A claim for General Administrative Expenditure may be made in relation to expenditure incurred by the Member that is not claimable from other budgets under the Scheme. This may include office equipment, including initial installation and maintenance; transcription and translation services; and communication costs, including stationery.

Staffing – up to £109,548

Staffing expenditure may be claimed to meet the cost incurred in the provision of staff to assist with the performance of the MP's Parliamentary functions. This may be used to meet staff salaries, employers' contributions to national insurance and pensions schemes, payments to pooled staffing resources, overtime payments, childcare vouchers, and incidental expenses.

Travel – not capped

MPs who are eligible for Accommodation expenses can claim journeys between any point in the constituency and Westminster or a London Area home. For MPs who are not eligible for Accommodation expenses, journeys between their constituency office and Westminster are claimable. All MPs can also claim for travel within the constituency or within 20 miles of the constituency boundary and extended UK travel if specific justification is sent to IPSA to approve. In addition MPs can claim a maximum of three return journeys to the national Parliaments of Council of Europe member states, or institutions and agencies of the European Union.

Figure 3The new MPs' expenses scheme, second edition *continued***Subsistence – not capped**

MPs may claim Subsistence expenses for the cost of an overnight hotel where they have necessarily travelled in relation to their Parliamentary functions, and it is unreasonable to expect them to return to any residence either in the London Area or their constituency. MPs can claim for overnight hotel accommodation in London when the House of Commons sits beyond 1am and when it would not be reasonable for them to return to a residence.

Contingency – not capped

Where expenditure related to the performance of Parliamentary functions is not covered by any of the allowances set out in the Scheme or, if it is covered, exceeds any financial limit that is in place, the MP may apply to IPSA to be reimbursed on an exceptional basis.

Other legitimate claims

MPs can also claim for additional expenditure including Disability Assistance for both permanent or temporary disability, and Security Assistance where a specific security need has been identified. In addition, the winding up costs of a Member who leaves office can be claimed as expenses.

Source: National Audit Office analysis of IPSA's, The MPs' Expenses Scheme: second edition, July 2010.

Figure 4

IPSA's goals for the Scheme

The Scheme should:

- be open and transparent;
- have clear, effective and proportionate sanctions for breaches of the rules, which should be robustly enforced;
- treat MPs in the same manner as other citizens, with departures from this rule explicitly justified;
- reimburse only MPs' unavoidable costs;
- take account of diverse working patterns;
- be clear and understandable;
- provide value for money for the taxpayer, which should not necessarily be judged by financial cost alone; and
- give the public confidence.

Source: IPSA

1.16 We found that through its detailed rules, budget limits and evidence requirements the Scheme provides a strong basis for controlling public money and promotes regularity. As described in Part Two, we found that the interaction of the Scheme rules with IPSA's actual validation activities in the first year had enabled it to re-establish control over spending on MPs' expenses.

1.17 The Scheme achieves many of IPSA's other goals, as follows.

- a** **Where possible, MPs are treated in the same manner as other citizens.** With respect to Accommodation and Travel and Subsistence, we found evidence that IPSA had set rules and limits with reference to what is common practice elsewhere. For instance, the accommodation budget is sufficient to rent a one-bedroom flat in Westminster or any of the boroughs surrounding it, according to data from the Greater London Authority: this would be normal for an employee in the public or private sector working away from home long-term. The budget would not allow MPs to rent a second family home in Central London and new MPs cannot claim for mortgage interest. Where common practice elsewhere would not have been appropriate for MPs, IPSA carefully considered other options, including past practice. We found that, with the exception of hotel costs (see sub-paragraph b below), IPSA had a defensible rationale for all the limits and rules it set.
- b** **It takes account of diverse working patterns.** Under its terms, MPs have a high degree of flexibility to arrange their working lives as they see fit and where the rules under specific budgets do not permit a certain type or level of expenditure, MPs can submit a claim to the contingency fund. Only with regard to hotel costs did we find that the Scheme's second edition had not adequately considered how MPs work. The limit set for hotels in London of £130 per night, while easily sufficient to pay for three- or four-star accommodation booked in advance, was much more difficult to achieve at short notice as might be necessary after unexpectedly late sittings of Parliament. The third edition of the Scheme, announced in April 2011, has addressed this issue by raising the limit to £150.
- c** **There are clear sanctions for breaching the rules,** including fines of up to £1,000 and ultimately criminal proceedings.
- d** **It is open and transparent.** Since December 2010, IPSA has published the details of more than 106,000 paid claims and 508 rejected claims. It continues to do this every two months.
- e** **Public confidence has increased.** In May 2011, we commissioned a question in an Ipsos MORI General Public Omnibus Survey and asked the public whether they felt the situation with MPs' expenses had improved or deteriorated over the preceding year. In total, 55 per cent said they thought it had got better and only 14 per cent that it had got worse. While this result is likely to be partly due to recent prosecutions of former MPs, we believe it is reasonable to attribute significant credit to IPSA and its Scheme.

1.18 We consider, however, that there are some important problems with the terms of the Scheme.

a **Guidance on the terms of the Scheme is not sufficiently clear and accessible.**

The decision to retain a system of multiple categories of expenditure following the crisis, combined with the rules-based, reimbursement-based nature of the Scheme means that it is inherently complex. As complexity in regulation can be a source of errors and bureaucracy, it is important for guidance to be as clear and accessible as possible. IPSA's guidance is not currently consolidated in one place, or easily searchable.

b **It does not promote efficient procurement.** Although they work independently, MPs' needs are similar: for instance, almost all furnish an office when they start their career and incur regular travel costs. The Scheme does not provide MPs with access to centralised procurement contracts (common in the public sector) nor does it require MPs to use such facilities as already exist, for instance, the House of Commons Travel Office. Instead IPSA has decided to allow MPs considerable flexibility to procure goods and services from wherever they wish. Similarly, IPSA does not normally give advice to MPs about what would represent value for money in the purchase of specific items beyond what is written in the Scheme, even when MPs ask for this directly. Instead, MPs and their staff, who may well not have any training or experience in procurement, are expected to achieve value for money on their own.

c **The staffing budget could make it difficult in future years for MPs to retain good people.** IPSA's staffing budget is based on the historical precedent established by the Senior Salaries Review Body in 2007. In 2010-11, it provided MPs with £109,548, calculated to be sufficient to recruit 3.5 full-time equivalent staff at a range of grades. However, the allowance only envisages staff on average reaching the mid-point of the salary grade, which means in years to come career progression for MPs' staff may be limited. Although only 5 per cent of MPs exceeded the staffing budget in 2010-11, in our survey 45 per cent told us they had not been able to claim enough for staff. IPSA is currently undertaking work to obtain a better understanding of staffing and office issues, with evidence-gathering due to be completed in November 2011.

MPs' views on the terms of the Scheme

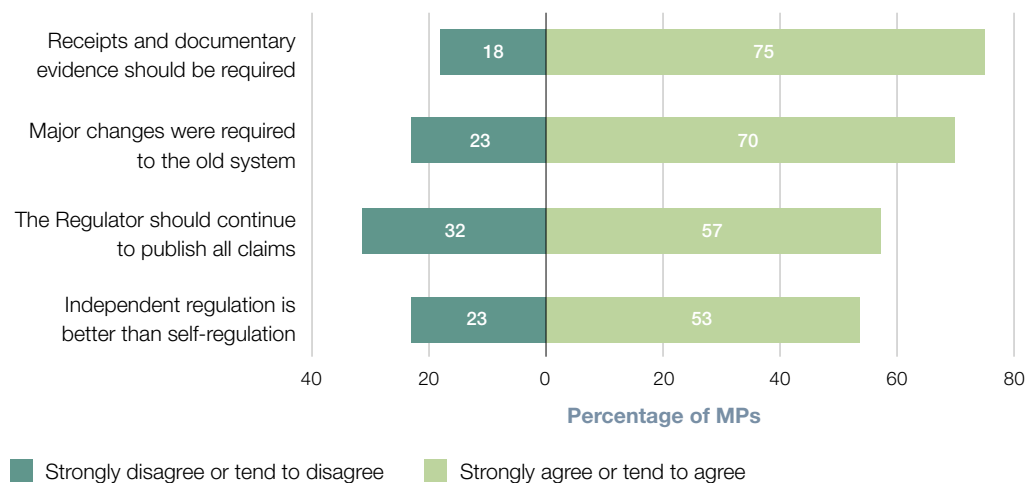
1.19 Among other questions in our survey, we asked MPs about their attitudes towards the terms of the Scheme. Most MPs support the broad principles behind it (**Figure 5**). Seventy-five per cent agree that they should be required to produce receipts and documentary evidence to be reimbursed, and 70 per cent that major changes had to be made to the old system. Smaller majorities, 57 per cent and 53 per cent respectively, agree all claims should be published and think that having an independent regulator is better than self-regulation.

1.20 Many MPs criticised those aspects of the Scheme where we identified problems. In particular, 61 per cent said they did not find IPSA's published guidance useful, and 27 per cent that they had avoided requesting reimbursement for items because of uncertainty over whether they were claimable.

1.21 As shown in **Figure 6**, however, MPs' dissatisfaction with the terms of the Scheme are much broader than just these issues. Overall:

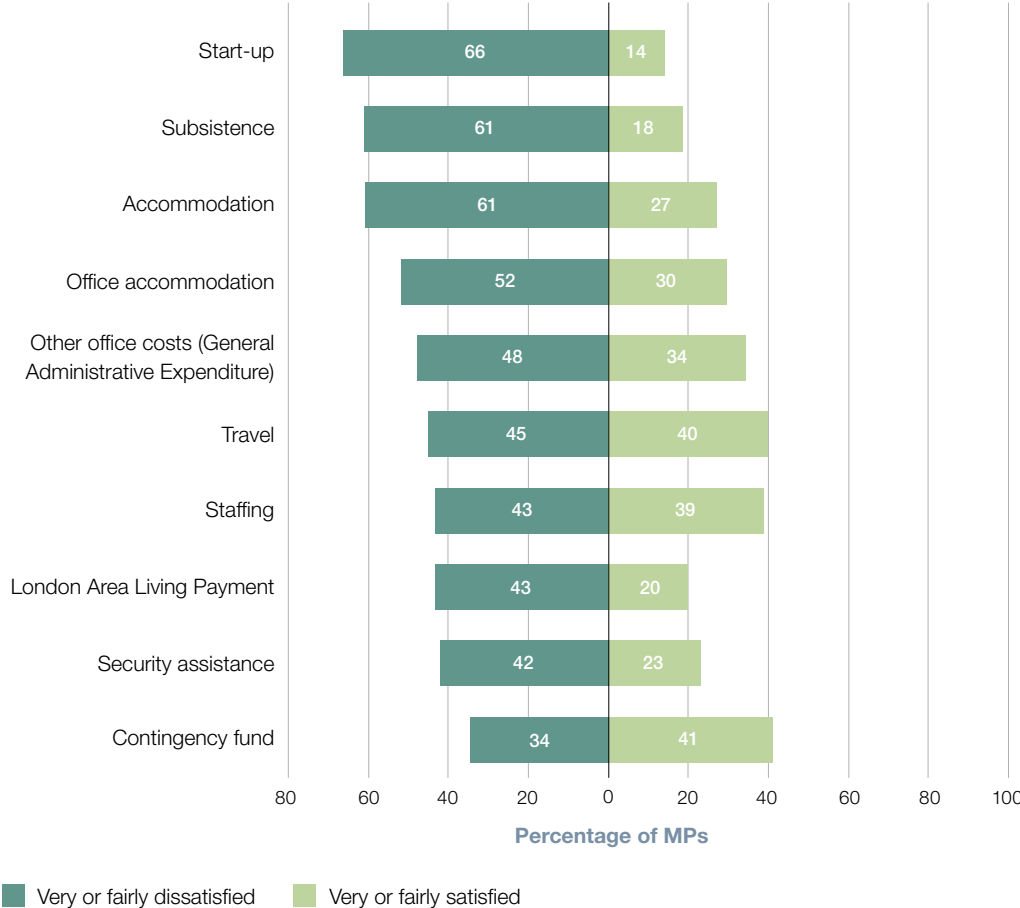
- a** 89 per cent told us they were dissatisfied with at least one aspect of the new Scheme;
- b** 91 per cent said that MPs currently have to subsidise their constituency work, and 90 per cent that they had personally not claimed for all the expenditure to which they were entitled; and
- c** 76 per cent reported that there had been occasions when they had not been able to claim enough because of the level at which one or more budgets was set.

Figure 5
MPs' views on the principles of IPSA's Scheme



Source: National Audit Office

Figure 6
MPs' satisfaction with how different aspects of the Scheme facilitate their work



Source: National Audit Office

1.22 The reasons for this dissatisfaction are complex and undoubtedly vary from MP to MP. Data from IPSA showing that most MPs have not claimed the full amount under most budgets in 2010-11 indicate that this is not the primary issue. Likewise, only 26 per cent of MPs have made claims on the contingency fund, which exists to meet legitimate needs incurred above budget levels, and in most cases these claims relate to only one of the six principal budgets. Instead, the factors likely to be behind MPs' views include:

- a** **dislike of change**, with returning MPs generally more negative about the Scheme than newly-elected ones. Specific issues may include the abolition of the Communications Budget, reductions in the amount available for subsistence and that fact that some MPs are having to sell houses in difficult market conditions in advance of IPSA's 2012 deadline for meeting the costs of mortgage interest;
- b** **reluctance to incur high levels of expenditure**, even with legitimate cause, for fear of public censure. Forty-one per cent said they had not claimed for things to which they were entitled because they were concerned about the claim being published; and
- c** **dislike of the claims process**, with 49 per cent saying they had not claimed for some items because the process was too complicated.

IPSA as a regulator

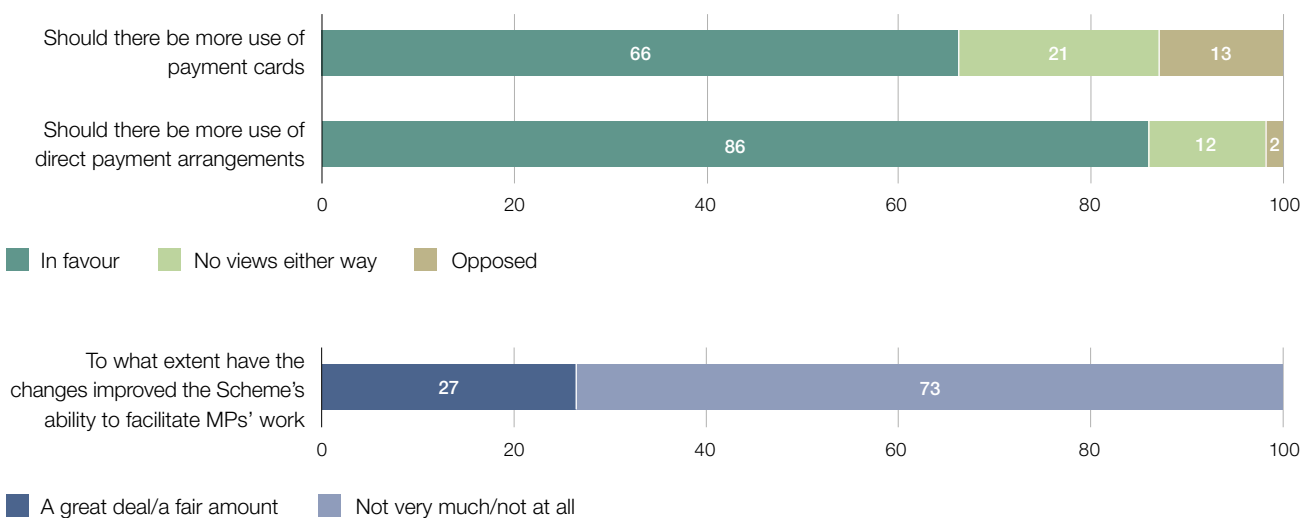
1.23 In January 2011, IPSA began the first of planned annual reviews of its Scheme. Following consultation, it issued a third edition, which came into force in April 2011. The main changes were intended to make it easier for MPs to use and included:

- a** allowing MPs to use payment cards and direct payments more often, thereby reducing cash flow problems, (see Part Two);
- b** merging the Office Rental and General Administrative Expenditure budgets to give MPs greater flexibility in managing their offices; and
- c** reducing the number of MPs designated as living too close to London to claim for additional accommodation costs, recognising the difficulties some faced in travelling home from the House of Commons late at night.

1.24 IPSA has clearly complied with the Parliamentary Standards Act rules governing its regulatory function. It has consulted more widely than it needs to both in the 2011 consultation and previously, and has reached its conclusions independently. In our view, its recent changes indicate a willingness to respond to the needs of MPs, though we note that MPs are still finding the Scheme complex and not user-friendly. At the time of our survey these changes were still bedding in; although MPs are positive about the expanded use of payment cards and direct payments, they are sceptical about how significant the improvements overall will be (**Figure 7**). IPSA plans to test significant changes to the Scheme in future before implementing them, and has begun to do this with a pilot of new ways to submit mileage claims.

Figure 7

MPs' views on the Scheme's third edition



Source: National Audit Office

Part Two

The operation of the Scheme so far

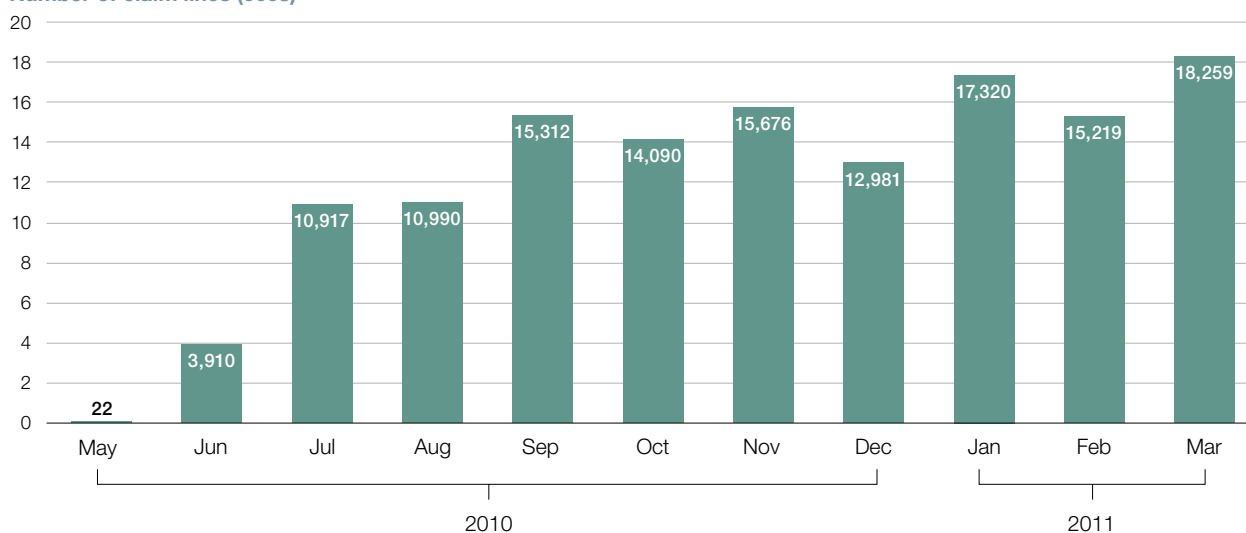
Introduction

2.1 Between 7 May 2010 and 31 March 2011, IPSA processed a total of 134,696 claim lines for 644 MPs (**Figure 8**) and paid the salaries of an average 2,500 members of MPs' staff. Over the same period, IPSA estimates that it handled more than 17,000 written queries from MPs and staff, and 18,500 telephone calls. Currently, IPSA receives some 15,500 claims every month.

Figure 8

Number of claim lines processed in 2010-11

Number of claim lines (000s)



Source: National Audit Office analysis of IPSA data

2.2 In total, between May 2010 and March 2011, IPSA paid £118 million to MPs. This included £43 million for MPs' own salaries, and £75 million for expenses, which comprised £56 million for staff salaries and £19.5 million in other expenses. During 2009-10, under the predecessor scheme, the total cost of expenses was £98 million. Taking into account the shorter period during which MPs could claim in 2010-11, £14.5 million less (15 per cent) has been paid compared to the prior year. IPSA sees this reduction as a saving for the taxpayer. However, £7.7 million of the reduction is in the staffing budget, of which we estimate £4.6 million may be due to delays in MPs appointing new staff. A further £4 million is due to the abolition of the communications budget. Since most MPs believe they routinely subsidise their work and do not claim what they are entitled to (see paragraph 1.21), we consider it impossible to say whether this reduction really represents an efficiency improvement.

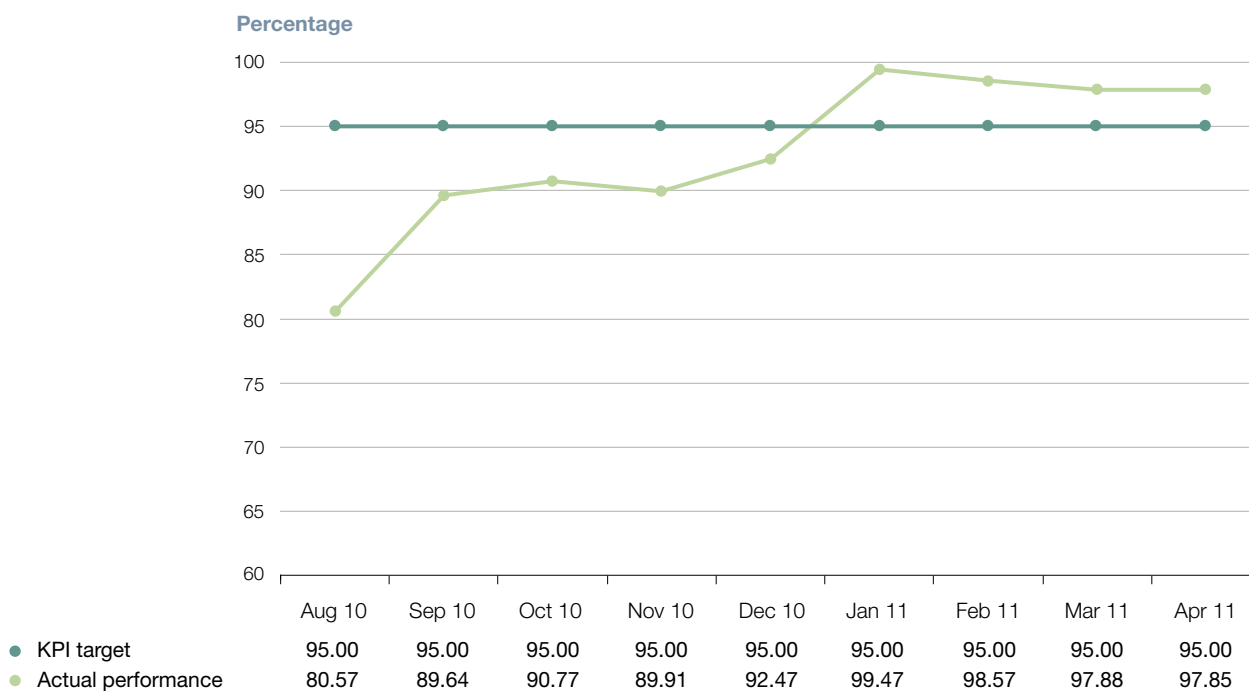
2.3 Of the claims received in 2010-11, IPSA rejected only 2,900 or 2 per cent. After being higher in early months, while MPs grew accustomed to the Scheme, the rejection rate has settled at just 0.5 per cent. By value, the rejected claims represented some £205,000, or 1.5 per cent of the total money paid out in 2010-11. Since January 2011, the value of rejected claims has amounted to just 0.2 per cent of the total money paid out.

IPSA's performance in processing claims

2.4 IPSA has processed 98.6 per cent of claims accurately since it started operations. However, between May and September 2010, its performance in other aspects of service delivery fell below its own service standards. Although the number of claims received during the first five months was much lower than the long-term average, IPSA struggled to process them in a timely way. Against a target to pay claims within 12 working days, IPSA was taking 13.5 working days (**Figure 9** overleaf). IPSA was also taking a long time to answer telephone queries and respond to letters and emails. It is important to stress that, while this level of service was lower than it should have been, it was much better than the initial operating phases of many other projects we have audited.³

³ Examples of projects where initial problems led to failure to deliver some payments on time or at all include the implementation of the Single Payment Scheme by the Rural Payments Agency, and the Student Loans Company's Customer First Programme. See Comptroller and Auditor General's Reports on *The delays in administering the 2005 Single Payment Scheme in England*, Session 2005-06, HC 1631, and *The Customer First Programme: Delivery of Student Finance*, Session 2009-10, HC 296.

Figure 9
Percentage of claims processed within 12 working days



Source: National Audit Office analysis of IPSA data

2.5 As previously described, one reason for the poor service in the early months was the fact that the Authority was not able to conduct adequate piloting. Specific problems which then emerged included that IPSA:

- a** underestimated how much support MPs and their staff would need and did not have an adequate call-handling system;
- b** underestimated how long it would take to register and verify key documents, including leases and birth certificates of MPs' family members;
- c** did not take enough account of how long new members of staff joining during July and August 2010 would need for training and familiarisation; and
- d** had to retrain all staff and deal with more queries from MPs when the terms of the Scheme changed in July 2010, even though this was a welcome move in other respects.

2.6 IPSA brought service levels up to planned standards by early autumn 2010 by temporarily reallocating most permanent staff, including senior staff, to operational roles, and by hiring agency staff at an additional cost of £1.3 million.⁴ While such actions are not ordinarily cost-effective, they were the right thing to do in the circumstances. IPSA could have reduced the validation work it was carrying out on each claim to speed up processing but decided not to. Given the overriding need to establish control in what was a brand new system, however, this was understandable.

2.7 Between October 2010 and March 2011, IPSA processed 96 per cent of claims within its 12 working day target. Its handling of enquiries improved from October onwards too, partly through the introduction of better call management technology and despite the level of enquiries remaining higher than originally anticipated. In March 2011, 68 per cent of calls regarding expenses, and 91 per cent relating to payroll were answered within 20 seconds. IPSA's speed of responding to written correspondence has remained variable. Further details of IPSA's performance against key indicators are given in Appendix Two.

MPs' experience of operating the Scheme

2.8 **Figure 10** overleaf shows the processes through which MPs submit claims to IPSA, and **Figure 11** on page 29 sample screenshots from the expenses@work IT system that MPs use for most claims.

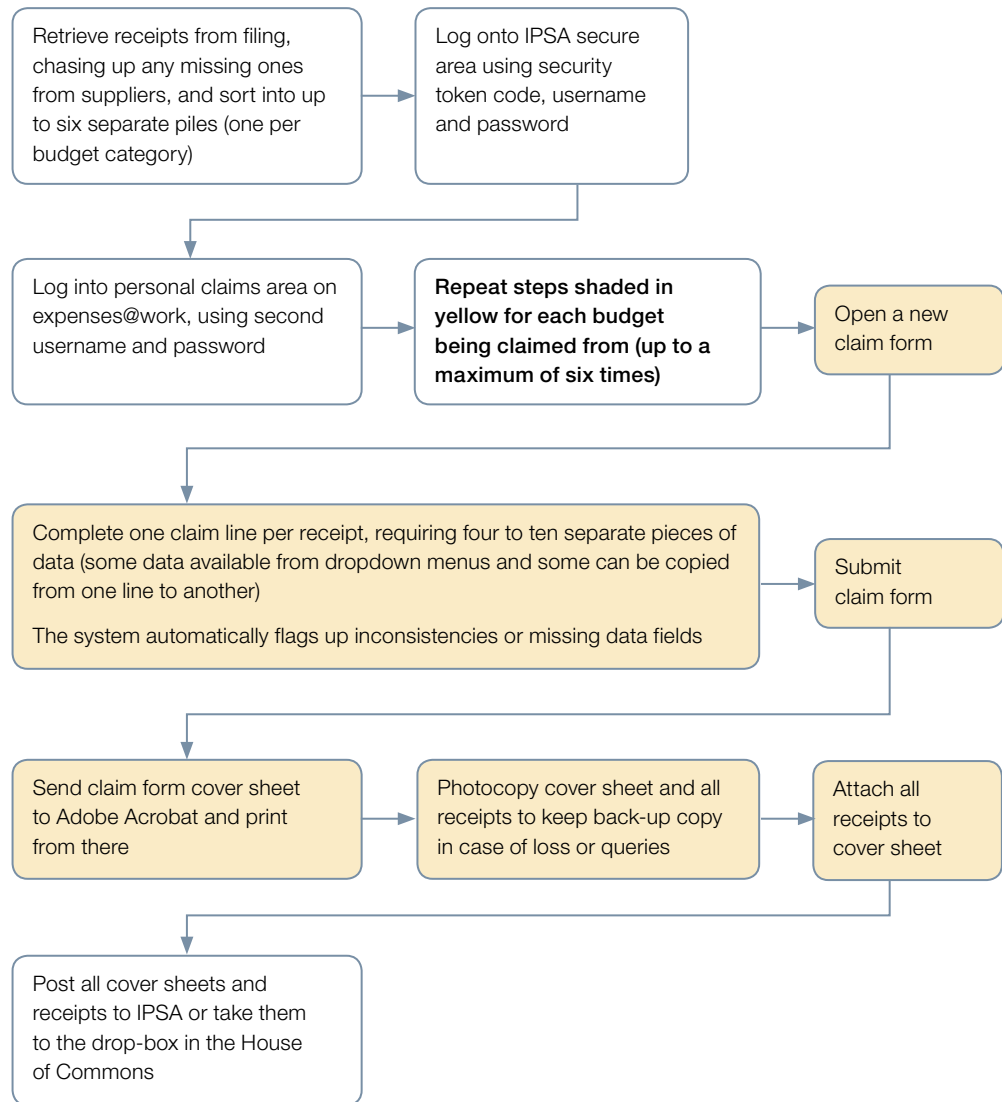
2.9 In any rules-based expenses system, users will spend time submitting claims. Often it takes longer to use a system when it is new and users are unfamiliar with it. We note that during its first year of operation IPSA made a number of improvements to the claims process to make it easier for MPs to use. Even allowing for these factors, however, we assess that IPSA's system is taking too long to operate. In our survey, many, though not most, MPs agreed that they are spending less time dealing with expenses now than immediately after the General Election. However, a large majority, 93 per cent, feel it is still taking them and their staff too long. Eighty-five per cent, including 77 per cent of new MPs, said that the time required was such a burden it was hindering them from doing their job.

2.10 Data held by IPSA shows that, on average, each MP and their staff spend four hours a month logged onto the expenses@work system, equivalent to some 13 minutes for each of the 19 claim lines they typically submit. In our survey, MPs estimated that, on average, they spend four hours a month dealing with expenses in general, and their staff a further 12 hours.

⁴ Total spending on agency staff was £2.2 million, but £900,000 of this was spent on set-up costs.

Figure 10

Processes for MPs submitting standard claims as at May 2011



NOTES

- 1 The process map omits one-off steps, such as registering a vehicle to claim mileage or registering a dependent.
- 2 The process by which MPs reconcile payment card bills is almost identical to this one, except that some information is pre-filled in the claim form and one form may be submitted to cover multiple budgets.
- 3 The process for regular direct payments does not involve MPs at all, once initial documents and payee details have been verified and registered.

Source: National Audit Office analysis

Figure 11
Screenshots from expenses@work



Source: IPSA

2.11 While further research is needed to understand the difference between these statistics, it was clear to us from walkthroughs we conducted with four MPs and their staff that there are indeed many aspects of dealing with expenses that do not involve being online. As well as normal office management, these include deciding which items to buy and paying for them, time spent dealing with queried claims, and the printing, photocopying and posting of associated documentation. On the basis of MPs' estimates, we calculate the cost of the time they and their staff currently spend on expenses to be some £2.4 million per year (**Figure 12**). On average, MPs consider that they should be spending two hours per month and their staff 4 hours per month on dealing with expenses.

2.12 MPs told us they find the Scheme time-consuming for two main reasons:

- a** **That the system is labour-intensive.** Although expenses@work is used in many workplaces, certain elements are particular to the MPs' scheme. First, the volume of claims is high: on average 226 separate lines per MP annually, 8 per cent of which are for items worth less than £5. Secondly, MPs complete separate forms for items claimed from different budgets, up to a maximum of six. Thirdly, MPs cannot forward e-receipts or scanned receipts to IPSA, but must provide hard copies of all evidence, along with a printed barcode. If they choose to keep a back-up copy, this requires more effort. IPSA has already made some changes to streamline the process and has more planned.
- b** **That IPSA's guidance and advice are not sufficiently helpful.** Eight out of ten MPs in our survey had been trained by IPSA, but 62 per cent of those receiving the training said this had not been useful. Similarly, at least half said IPSA's responses to written, e-mailed and telephone enquiries were not useful. Some commented that they had received contradictory advice and others that IPSA had failed to give them guidance on what would represent legitimate expenditure. IPSA says that its reluctance to give advice is in part because of its policy, under the new Scheme, that MPs must take responsibility for their spending decisions. Only in face-to-face meetings did a majority of MPs (62 per cent) find IPSA's advice to be useful. IPSA carries out quality assurance on the accuracy of its advice, finding that it is consistently of a high standard, but accuracy is not the same as usefulness.

2.13 Many MPs are also dissatisfied with IPSA querying their claims. Currently IPSA queries approximately 10 per cent of claims, sending them back to MPs for further evidence or clarification. After so many years when MPs' claims were seldom, if ever, questioned, it is understandable that Members with experience of the previous system might find the new regime challenging, although it is a principle of any well-run expenses scheme that claims may be queried. However, both new and old MPs felt dissatisfied by IPSA's handling of queries. Of those affected, 49 per cent said that none of IPSA's queries had been reasonable. Data from IPSA show that most queried claims are ultimately paid. Whether reasonable or not, the query process is clearly another call on MPs' time and that of their staff, demonstrating the importance of having clear processes and good administration by all parties.

Figure 12

MPs' estimate of time spent dealing with expenses

Time Estimate	Cost per hour (£)	Cost per year (£)	Cost for 650 MPs/staff (£)
MPs – 4 hours per month	33	1,600	1,000,000
MPs' staff – 12 hours per month	15	2,200	1,400,000
Total			2,400,000

NOTES

- 1 Calculations use the median average of results from our survey of MPs.
- 2 MPs' hourly costs are calculated on the basic rate of £65,738, an estimate of employers' pension contributions of 20 per cent, and a standard working week of 50 hours.
- 3 MPs' staff hourly costs are based on the average annual cost being £31,299 (the limit for staff divided by 3.5 staff members), and a working week of 40 hours.

Source: National Audit Office

IPSA's validation of claims

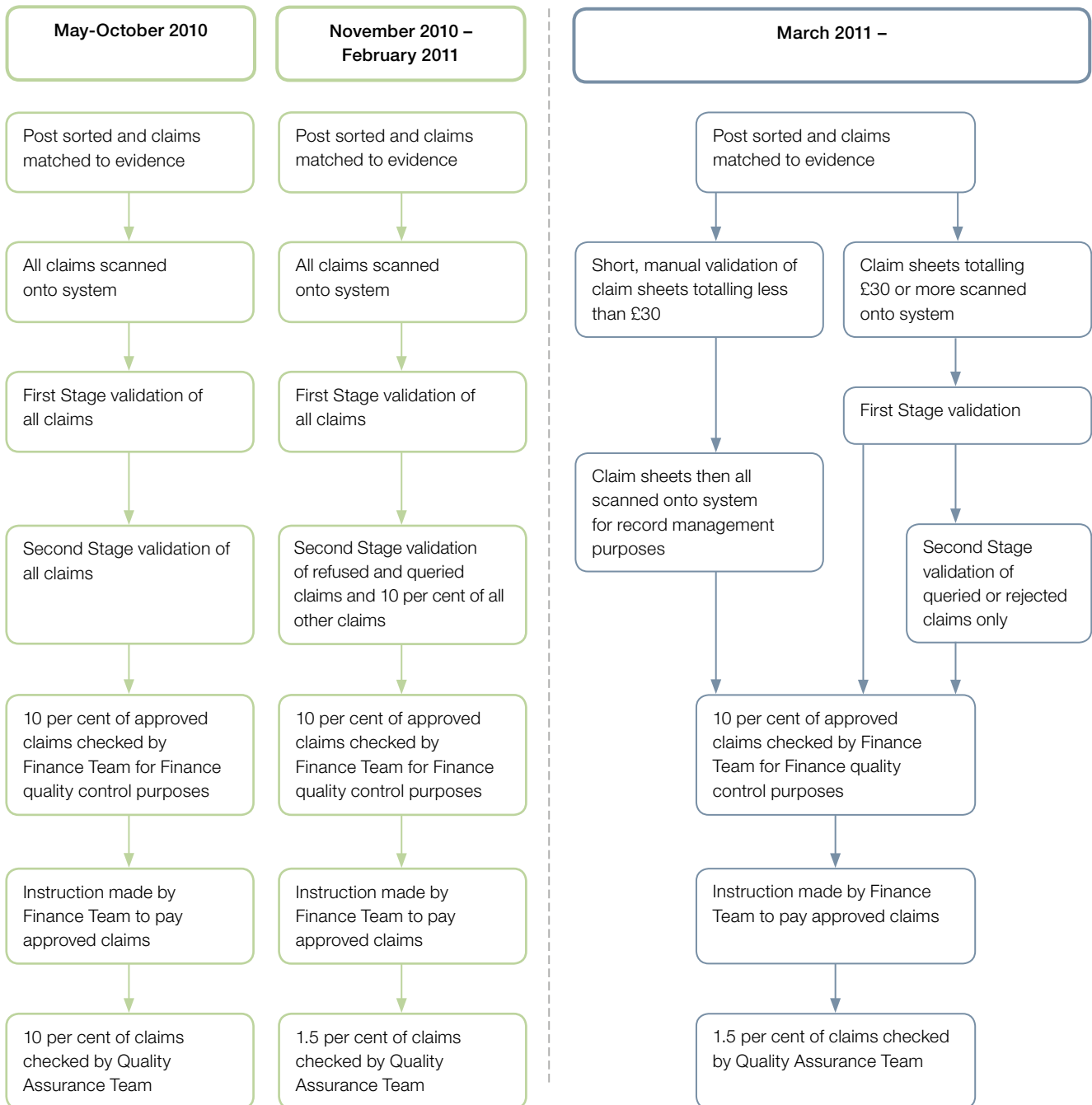
2.14 IPSA checks and validates claims before deciding whether to reimburse MPs. The claims process has evolved since May 2010. The main changes are shown in **Figure 13** overleaf.

2.15 IPSA has been able to reduce its validation effort because of streamlining and because it has confidence that MPs are not abusing its Scheme. In March 2011, the Chairman said that since the new Scheme came into force 'there have been no scandals'.⁵ The data described in paragraph 2.3 back this up, showing that the level of rejected claims for any reason, including simple errors, is very low.

2.16 However, all claims are still checked and a third are checked more than once before being paid. This is in addition to the fact that all claims are published, a Compliance Officer exists to launch investigations into suspect claims and the sanctions for wrongdoing are very severe, including potential imprisonment. We consider that IPSA can now reduce validation activities further, especially for low risk, low value, and routine items. As described in paragraph 2.20, many claims are for items worth less than the average processing cost.

5 IPSA Press notice, 25 March 2011: <http://www.parliamentarystandards.org.uk/NewsAndMedia/Pages/LatestNews2.aspx?ListNews=739f9c00-b7d4-4282-bffd-9ae51fd8d92d&NewsId=1>

Figure 13
How IPSA processes claims



Source: National Audit Office analysis of IPSA data

2.17 There are special challenges relating to the legislative requirements for IPSA and the lack of a managerial sign-off for MPs' claims, that make it difficult to replicate normal validation practices elsewhere (see Part Four). IPSA's Audit and Risk Committee defined its high-level risk appetite in late 2010, after having not been prepared to take any significant risks, other than unavoidable ones, during the initial operating period. The risk appetite statement indicates IPSA's willingness to accept moderate risks in operational delivery, especially where this can increase value for money, but in our view its processes are yet to be aligned with this aspiration.

2.18 Potential benefits from developing a risk-based approach include:

- a** direct savings from reducing the resource cost of validating every claim;
- b** improved value for money through not checking all claims that cost less than the average processing cost, and consequently a greater focus on potentially riskier areas; and
- c** scope to manage risk better between the different non-discretionary functions of IPSA, including the Compliance Officer, and, in low risk areas, to make MPs accountable primarily through publication.

The cost of processing claims

2.19 We undertook a costing exercise to understand how much of IPSA's expenditure goes on processing claims, and how the cost per claim line and per MP has changed during its first year of operations.

2.20 We estimate that in 2010-11 the average cost of IPSA dealing with each claim line was over £30, and the average cost per MP was around £5,900, including a fair apportionment of all the Authority's overheads. During August, when IPSA was employing a significant number of agency staff and using senior staff to help with validation, we calculate the cost was around £40 per claim. By May 2011, however, we calculate that the cost per claim line, including overheads, had fallen to £15.86, and the average cost per MP had fallen to £4,895 (**Figure 14** overleaf). At present, IPSA's average processing cost is higher than 38 per cent of the individual claims it deals with.

2.21 To understand IPSA's efficiency relative to similar organisations, we compared its costs with those of the expenses processing offices of the Scottish Parliament and the Welsh and Northern Ireland Assemblies. To make this analysis meaningful we compared only the direct costs the four institutions incur in processing claims. It is likely that, as an independent body, IPSA's overheads are higher than those of the other three. **Figure 15** on page 35 shows that, in terms of direct costs per claim, IPSA is almost identical to the average of the other UK legislatures (at just under one per cent more expensive), an impressive achievement at the end of its first year. Given the much greater number of claims it deals with, however, IPSA might reasonably aim to be the cheapest of the four in future.

Figure 14

National Audit Office estimate of IPSA's current annualised cost per claim line

Cost type	Annual cost (£)	Cost per claim line (£)
Receipt of claims, first checks and scanning	130,357	0.70
Validation checks	436,016	2.34
Dealing with MPs' enquiries and reviews	254,919	1.37
Extra support for complex and contingency claims	194,777	1.04
Other direct costs (finance, IT, etc.)	46,478	0.25
Publication costs	98,776	0.53
Quality assurance sample checking	68,540	0.37
Direct staff costs total		6.59
Directly attributable overhead costs	402,500	2.16
Share of staff overheads (governance functions, policy, back office, etc.)	673,973	3.61
Share of non-staff overheads (accommodation and IT functions)	653,238	3.50
Indirect costs total		9.27
Total cost per claim line		15.86

NOTES

- 1 Cost figures are based on an estimated annual number of claims of 186,612. This was calculated by extrapolating the number of claims received between August 2010 and March 2011 inclusive to a full year.
- 2 Figures based on analysis during May 2011.
- 3 Differences due to roundings.

Source: National Audit Office analysis

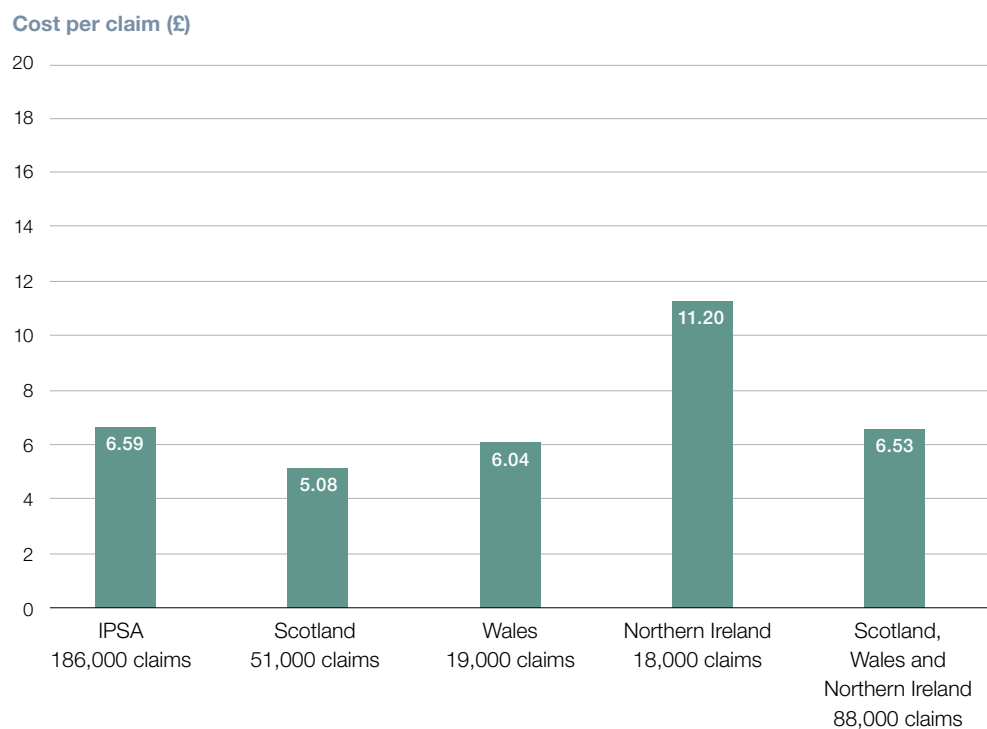
2.22 IPSA does not currently categorise claims as simple or complex, but our research indicates that when MPs or their staff make queries, or when more senior IPSA staff need to provide advice and support on a particular claim, costs are likely to be higher. Better information about this would help IPSA to understand its cost drivers.

2.23 IPSA told the Speaker's Committee in May 2011 that it plans to improve efficiency further in 2011-12, including by reducing the time MPs spend claiming expenses. IPSA has plans in place to deliver these efficiencies which will be introduced by January 2012.

MPs' cash flow problems

2.24 To reduce the likelihood of MPs incurring cash flow difficulties IPSA makes available a mechanism for direct payments to suppliers and payment cards. Since the Scheme's inception, IPSA has been expanding the availability of these and now calculates that up to 71 per cent of MPs' expenses could be covered through these means. IPSA also makes available advances on items over £200, and general advances of up to £4,000.

Figure 15
Comparable costs per claim for UK legislatures



NOTE

1 Costs per claim are based on comparable direct costs only for the four legislatures and on the best available analysis of claim volumes, given that each of the legislatures consider and categorise claims in slightly different ways.

Source: National Audit Office analysis

2.25 We calculate, however, that on average during the entirety of 2010-11, MPs spent £1,549 on expenses per month not using the mechanisms above. This would represent 50 per cent of an MP's basic monthly salary after deductions. In our survey a number of MPs reported that they had suffered cash flow problems. IPSA estimates that if MPs made full use of all the alternative payment mechanisms open to them now, they would on average only have to pay 13 per cent of their salaries up front, and even less if they were in receipt of advances.

2.26 IPSA has a 12 working-day target for processing claims once they have been scanned. Currently, claims are being processed on average in six working days. However, this is only part of the time that MPs can wait for reimbursement. It is for MPs to decide how frequently they submit claims, anywhere between daily and at 90-day intervals. Assuming they were to claim fortnightly, and taking into account the time between submission and reimbursement, claims may not be repaid for between two and three and a half weeks.

Part Three

IPSA's other responsibilities

Payroll and Human Resources

3.1 IPSA's payroll is unusual because it is responsible not only for the salaries of its own employees, but also for MPs and their teams: currently a total of some 3,400 salary payments a month, 2,700 of them to MPs' staff.

3.2 We judge that IPSA's payroll function is working effectively. MPs and their staff are almost always paid the right amount at the right time. This is being achieved in a challenging operational environment. Since many MPs have other sources of income, their tax codes require alteration more often than those of other workers. MPs' staff, especially interns, also change frequently. Additionally, around 12 per cent of staff are on zero-hours contracts, meaning that their pay varies monthly.

3.3 In part to mitigate these difficulties, IPSA provides a Human Resources (HR) advisory function to MPs. IPSA dealt with over 100 queries about MPs' staff contracts monthly between February and May 2011.

Compliance Officer

3.4 The post of Compliance Officer was established after IPSA's creation, in the Constitutional Reform and Governance Act, 2010. The holder is appointed for a fixed five-year term by IPSA's Board. He is responsible for adjudicating between MPs and IPSA about specific disputed claims, for investigating alleged abuses notified by members of the public and for launching his own inquiries into suspected wrongdoing. While accountable to the Board and reliant on it for resources, the Compliance Officer is functionally independent from the rest of IPSA because of his quasi-judicial role. The current Compliance Officer was appointed on 31 March 2011, some five months later than planned.

3.5 During 2010-11, the Compliance Officer function cost £307,000, including a fair apportionment of overheads. Between May and November 2010, an Interim Compliance Officer established a team and worked on protocols for his interactions with the rest of IPSA, MPs, police and others. This was necessary work, but when his interim powers lapsed, no successor was ready to take over because IPSA had failed to advertise the post. When it realised its oversight in December 2010, IPSA took swift action, but its decision to keep the Interim Compliance Officer in post for the rest of the financial year, even though he had no statutory powers, was not cost-effective.

3.6 No case was permanently impeded by this delay, and on 13 April 2011, the new Compliance Officer launched 38 preliminary investigations relating to £52,317 in expenses: an average of £1,376 per case. Two reviews are also under way. It will take time to assess the normal level of demand for the Officer's services. While the existence of the Compliance Officer function is vital both as a deterrent and as an adjudicator, if caseload remains this low and involves such small sums, it will be hard to justify employing 2.5 full-time equivalent staff.

Handling complaints and information requests

3.7 IPSA handled 180 Freedom of Information requests in 2010-11 and 180 Parliamentary Questions. IPSA estimates the cost of this to have been £28,350 and £15,750 respectively.

3.8 IPSA has also logged 36 formal complaints. We assessed IPSA's complaints handling procedures against the Parliamentary and Health Service Ombudsman guidelines.⁶ We found that it conformed in most respects, but that its specification that a complaint must be made in writing in order to be dealt with formally did not meet good practice as it might be unfair to disabled people.

3.9 IPSA only began to compile complaints data in September 2010. Most of the 36 formal complaints it has recorded since have been from MPs and are mostly about slowness in responding to queries and processing claims. To date, 33 have been resolved and one dropped. Between February and May 2011, complaints made up less than 0.5 per cent of all written enquiries. However, given MPs' dissatisfaction with IPSA and the early problems with service delivery, it is likely that total complaints are understated.

6 http://www.ombudsman.org.uk/__data/assets/pdf_file/0005/1040/Principles-of-Good-Complaint-Handling.pdf

Part Four

Other expenses systems

Introduction

4.1 IPSA designed its Scheme to address the lack of transparency and control weaknesses of the previous system as well as to reimburse MPs' legitimate expenses. In the Summary, we state that IPSA's approach will need to change if it is to deliver value for money in future. IPSA's Chairman has also said publicly that he intends to keep a full range of options open during future reviews of the Scheme. To understand other options and their potential impact on value for money, we examined other legislatures' and public and private organisations' arrangements.

4.2 We considered systems operating in ten legislatures, five UK public sector organisations, and two UK private sector organisations. In each case, we examined:

- the rules and controls governing what can be claimed for;
- transparency; and
- the process for submission and processing.

Other legislatures

4.3 Legislative expenses schemes, including IPSA's, share a number of common features:

- a** a central body is responsible for paying legislators' staff, even if it is not their direct employer;
- b** legislators are provided with accommodation or the means to rent accommodation in one of the two places in which they work;
- c** their travel costs are not capped, to reflect differences in the distance between their constituencies and the parliament; and
- d** receipts generally have to be provided for travel and subsistence expenditure.

4.4 Beyond this, legislative frameworks differ. We have identified two broad categories:

- a** Model 1 legislatures (Australia, Canada, New Zealand, Northern Ireland, Scotland and Wales), which:
- are similar to the Westminster system;
 - set detailed rules about what expenditure is permitted;
 - allow a high degree of independence for individual legislators to spend within those rules;
 - with the exception of Scotland, tend to have faced criticism in the wake of the 2009 Westminster crisis for lacking transparency and for their rules not being adequate or not being adequately enforced; and
 - again with the exception of Scotland, have typically been reformed or are undergoing reform, whilst remaining rules-based. This often leads to the introduction of independent regulation, similar to that offered by IPSA, and the publication of claims.
- b** Model 2 legislatures (the European Parliament, Norway, Sweden and the USA), which:
- set less complex rules;
 - offer legislators allowances or block grants to meet certain needs, sometimes with no requirement to provide receipts;
 - retain responsibility for some types of expenditure centrally, for instance the provision of accommodation near to parliament; and
 - tend not to be undergoing reform.

4.5 Procedures for submitting claims vary widely across the two models, but IPSA is unique in being the only independent regulator which also has responsibility for processing and validating claims. Even when a scheme's rules are now determined independently, as is the case in Northern Ireland and Wales, their administration remains the responsibility of parliamentary staff. This unique feature of the new Scheme may partially explain why relations between MPs and IPSA have been more difficult.

UK public and private sector organisations

4.6 Expenses systems in the UK public and private sector do not need to cover office costs in the same way that legislative systems do. However, all systems cover travel and accommodation expenses and all have the basic principle that expenditure should be regular, controlled and for business purposes. **Figure 16** overleaf shows the common and distinctive features of expenses systems in legislatures compared to the public and private sectors.

Figure 16
 Characteristics of legislative, public and sector expenses systems

Characteristics common across all systems

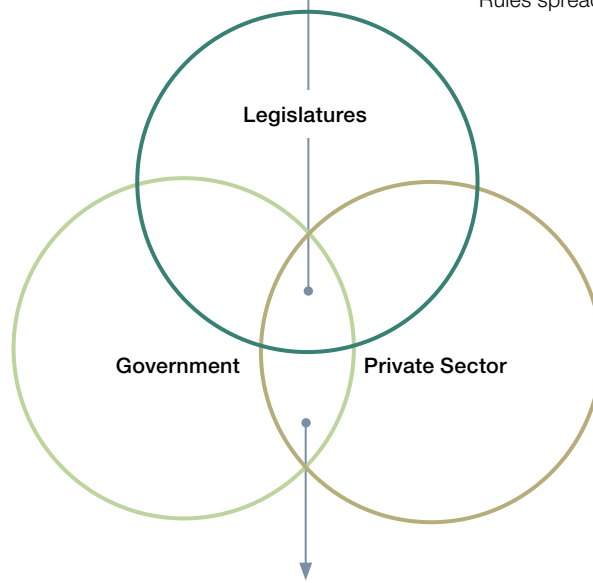
- All systems are rule-based and have controls in place in order to help enforce those rules
- Submission of supporting evidence required from claimants
- Internal and external audit of expenditure
- Use of payment cards to improve VFM in the system by reducing claim processing costs
- Time limits on claims

Characteristics of legislative systems

- Member remuneration and funds for carrying out Parliamentary activity fully disaggregated
- Independent oversight implemented
- Transparency implemented
- In some systems provision of accommodation and office costs are managed centrally, taking away the need for multiple individuals transactions
- Rules spread across a number of Acts of Parliament

Common characteristics within government

- Self-certification is common, teamed with post-payment checks by finance departments



Characteristics common within the private sector

- Systems are transparent to staff
- Risk-based approach and real-time analysis and investigation
- Ease of use in order to keep business costs down is a key consideration in the design of systems
- Staff expected to use preferred suppliers
- Advice provided to those using the system on how better VFM can be achieved from spending on areas such as travel and accommodation

Characteristics common across government and private sector

- Risk-based and proportionate controls used in order to reduce incidents of error
- Use of sampling in order to identify areas of risk
- Self-service computer-based systems
- Centralised procurement operations in order to reduce costs is increasingly common

4.7 We observed that expenses schemes in both public and private sector employers make overall cost-effectiveness their key aim, and include within this definition the degree to which they enable staff to do their jobs. In achieving this, they make use of one or more of the following features:

- **centralised procurement contracts**, particularly for travel. These are seen as a straightforward way to reduce cost both through bulk-purchasing and by reducing the amount of staff resources used in submitting and processing claims.
- **online submission of claims**, allowing real-time monitoring of claims and identification of common errors which are used to improve guidance, reduce error and reduce human controls.
- **sampling** of expense returns on a risk basis, rather than checking all claims, particularly where there are large numbers. This approach is usually accompanied by managerial sign-off that the expenses claimed are for business purposes, not something that can easily be translated into the legislative environment.

4.8 As was the case in our analysis of legislative systems, we did not find any public or private sector employer, which had chosen to have their expenses schemes administered independently.

Points for IPSA to consider

4.9 In developing its Scheme in the future, IPSA should consider the following points arising from this analysis.

- a Independent administration.** As it continues to run its Scheme, IPSA needs to consider how it can improve relations with MPs and reassure them that it is as committed to enabling their work as it would be if it were an in-house expenses administrator, without compromising its independent status.
- b Centralised procurement contracts.** In some systems (such as Sweden's) many office costs are managed centrally, and in the UK public and private sectors centralised travel procurement is the norm. IPSA needs to consider the contribution such contracts could make to achieving its goal of running a cost-effective scheme.
- c Risk-based validation and monitoring.** Typically, public and private sector systems take a sampling approach to monitoring and validating claims. This can offer savings and, when backed up by robust sanctions for wrongdoing and good transparency, need not necessarily reduce control or regularity.
- d More direct provision of business resources.** In some countries, for instance Sweden, state-owned accommodation is available for legislators, removing the need to claim for rent and the risk that spending is viewed as inappropriate.

Appendix One

Methodology

The main elements of our fieldwork took place in May and June 2011. The detailed methodology appendix is available on our website at www.nao.org.uk.

1 Review of key documents

To inform our understanding of the set-up of IPSA, the implementation of the Scheme, and its operation to date.

We looked at key documents produced by IPSA and reports by other bodies, such as the Committee for Standards in Public Life.

2 Review of systems controls

To assess the strength of the system and its ability to detect error.

We drew up process maps, assessed rules and limits, and reviewed controls in the system.

3 Calculating and comparing cost per claim

To calculate how much it costs IPSA to pay MPs' claims and how this compares (as far as can be determined) with costs incurred at other UK legislatures.

We analysed IPSA's full costs and derived a cost per claim line. We requested comparisons on a similar basis from the Scottish Parliament and Welsh and Northern Irish Assemblies.

4 Survey of MPs

To obtain MPs' views on the Scheme, including on the advice and guidance available, the experience of submitting claims, the use of payment cards and direct payments, the adequacy of rules and limits and wider perceptions.

We conducted the survey by post, sending questionnaires to all MPs. We received 325 responses, an overall response rate of 50 per cent. Questionnaires were completed between 16 May and 14 June 2011.

5 Poll of the general public

To understand how attitudes towards MPs' expenses have changed in the last year and specifically whether public confidence has changed.

We commissioned Ipsos MORI to ask one question in its General Public Omnibus Survey of 20-24 May 2011.

6 Analysis of the Authority's data

To understand the full breadth of IPSA's performance to date.

We analysed data on IPSA's Key Performance Indicators and other metrics and produced trends.

7 Transparency

To understand IPSA's approach to publishing MPs' claims.

We examined policy documents and reviewed IPSA's publication website.

8 High-level comparison of other expenses systems

To draw out useful comparisons with other systems and point out potential areas for future development for IPSA's consideration.

We looked at a range of other legislatures and private and public bodies to understand the different approaches open to those paying expenses, including in terms of system design, validation and transparency.

9 IPSA's other functions

To review IPSA's performance in its payroll, governance, regulatory and Compliance Officer functions.

We examined key documents, conducted interviews and analysed a range of data to reach conclusions on each function.

Appendix Two

IPSA's Key Performance Indicators

The table below shows IPSA's assessment of its performance against Key Performance Indicators from October 2010 to April 2011.

IPSA's performance against Key Performance Indicators, October 2010 to April 2011

KPI	Target (%)	Oct 10 (%)	Nov 10 (%)	Dec 10 (%)	Jan 11 (%)	Feb 11 (%)	Mar 11 (%)	Apr 11 (%)
KPI 1	95.00	90.77	89.91	92.47	99.47	98.57	97.88	97.85
KPI 2	<2.00	0.00	2.34	1.27	2.50	5.00	4.50	1.00
KPI 3	<1.00	0.26	0.11	0.14	0.07	0.05	0.06	0.08
KPI 4	<0.50	0.50	0.09	0.15	0.18	0.15	0.12	0.12
KPI 5	98.00	97.30	98.65	98.65	100.00	100.00	99.99	100.00
KPI 6	90.00	82.00	87.53	89.98	95.40	90.69	85.08	89.74
KPI 7	100.00	100.00	100.00	93.33	75.00	100.00	100.00	100.00

NOTES

KPI number

- 1 Percentage of reimbursable claims processed within the twelve working day target.
- 2 Percentage of claims approved for payment subsequently identified as errors during regular assurance and review programme activities.
- 3 Percentage of total claim determinations overturned following review requests.
- 4 Number of payroll adjustments resulting from errors by IPSA as a percentage against total salaries paid.
- 5 Expense@Work system up-time.
- 6 Percentage of correspondence items resolved within five working days.
- 7 Percentage of Freedom of Information requests on IPSA's operations and performance answered within the 20 working day deadline.

Source: IPSA website, available at: <http://www.parliamentarystandards.org.uk/transparency/Pages/default.aspx>



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