

Assurance Review

Connected Parties, May 2010 – March 2015



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Independent Parliamentary Standards Authority

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Key Facts



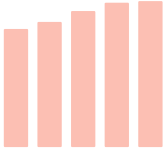
1 in 4
 proportion of MPs who employed a connected party at some point between 2010-11 and 2014-15



203
 total number of different connected parties employed at some point between 2010-11 and 2014-15



£21 million
 expenditure on connected parties from May 2010 to March 2015



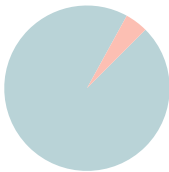
24%
 increase in annual cost of connected parties between 2010-11 and 2014-15



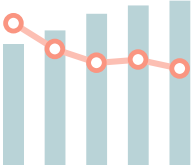
£31,350
 average FTE salary for connected parties in 2014-15



£5,600
 difference in average FTE salary for connected parties and other staff in 2014-15



4.4% - 4.5%
 proportion of MPs' Business Costs and Expenses that relate to connected parties



9%
 fall in connected parties as proportion of staff costs from 2010-11 to 2014-15

Summary

1. This report summarises and reviews the evidence about the employment of connected parties (typically family members) by MPs between 2010-11 and 2014-15.
2. It seeks to establish:
 - the levels and trends of expenditure on connected parties;
 - whether connected parties receive preferential pay compared to their colleagues; and
 - the level of compliance risks resulting from IPSA's current rules and their operation.

Background

The situation prior to May 2010:

3. MPs' employment of family members using taxpayers' funds was a contentious issue under the previous House of Commons arrangements. Under that system, there were no restrictions on their employment.
4. In its November 2009 report, the Committee on Standards in Public Life (CSPL) recommended that MPs should not be allowed to employ family members using taxpayers' funds, and those currently employing family members should only be able to do so until the end of the next Parliament (or five years).¹ The CSPL stated: 'We have heard much evidence commending the dedication and hard work of many family members, and about the advantages the arrangement may bring to constituents and to the family life of MPs. But, it is not consistent with modern employment practice designed to ensure fairness in recruitment, management of staff and remuneration; and it will always carry with it a suspicion of abuse'.²
5. The CSPL were concerned about the risk of increasing an MP's household income at taxpayers' expense. In its principles of public life, the CSPL set out that holders of public office should not act in order to gain financial or other material benefits for themselves, their family, or their friends.

¹ Such a recommendation may not have been possible in practice under existing employment law without requiring legislative changes.

² Committee on Standards in Public Life, November 2009, *MPs' expenses and allowances: Supporting Parliament, safeguarding the taxpayer*, p 10 (<https://www.gov.uk/government/publications/twelfth-report-of-the-committee-on-standards-in-public-life-november-2009>)

The development of IPSA's rules:

6. In January 2010, IPSA conducted a public consultation on the new rules for MPs' expenses. At this stage, it was assumed that we would stop the employment of family members.
7. At the time, we stated that it was important that any system avoided actual conflicts of interest as well as perceived abuse, citing the importance of public confidence. However, we also emphasised that any changes to the system should be both necessary and proportionate, given that it appeared that most family members performed their roles appropriately and were hard working and trustworthy.
8. Following consultation, the Board discussed this issue at great length. It examined the arrangements in other professions and legislatures. It considered the relevant principles; the scale of any actual or potential abuse; whether safeguards could be sufficient protection; the role that employed family members played in MPs' working life; and value for money.
9. In the end, the Board was persuaded by the arguments it heard in favour of MPs employing family members. It decided to allow the practice to continue, on the basis that there would be number of safeguards to reduce any risk of actual or perceived abuse.
10. There was a mixed response to IPSA's decision not to ban the employment of connected parties. In particular, the CSPL continued to voice its opposition to the practice and repeatedly pressed IPSA to impose a ban. In January 2012, in its response to IPSA's review of the Scheme, the CSPL stated: 'We continue to be concerned about the potential for abuse – perceived or otherwise – which this creates.'

IPSA's current rules on connected parties:

11. Paragraph 3.15 of the *Scheme* defines a connected party as:
 - a spouse, civil partner or cohabiting partner of the member;
 - parent, child, grandparent, grandchild, sibling, uncle, aunt, nephew or niece of the member or of a spouse, civil partner or cohabiting partner of the member; or
 - a body corporate, a firm or a trust with which the MP is connected as defined in section 252 of the Companies Act 2006.³
12. The following safeguards were introduced surrounding the employment of connected parties.
 - MPs may only employ one connected party at any time, unless they employed more than one on 7 May 2010.
 - Connected parties may not receive reward and recognition payments.

³ *Companies Act 2006*, s 252 (<http://www.legislation.gov.uk/ukpga/2006/46/section/252>)

- We publish annually the name, job title and salary range (expressed in bands of £5,000) for each connected party employed using public funds. The nature of the relationship between the MP and connected party is not recorded.
 - As with all other employees, those employed after 8 May 2010 must be on IPSA contracts and paid within our pay ranges.
13. These rules were included in the First Edition of the Scheme, which came into effect on 8 May 2010.

Scope

14. All costs paid by MPs to connected parties employed through IPSA were considered within the scope of this review including salaries and travel expenses incurred in undertaking work for the MP.⁴
- They do not include other types of business costs that may relate to the connected party but are not for costs incurred personally by them or staff costs that are not allocated to the individual staff member. These include costs for IT equipment, office or desk space, training, etc.
15. Other information of relevance to the employment of connected parties was also included within the scope of the review, including contractual terms such as job titles and working hours.
16. Costs and staffing information relating to employees who are not connected parties were subject to review for the purpose of comparison.
17. This review covers the above costs for the period 7 May 2010 to 31 March 2015.
- To aid annual comparisons and due to the exceptional nature of the dissolution period the review covers the period to the end of the 2014-15 financial year, not to the end of the Parliament.
 - The review does include all costs from the beginning of the Parliament, although caution is advised when considering aggregate costs in the 2010-11 financial year. These figures do not constitute a full financial year and some costs (payroll for MPs' staff already on the House of Commons payroll) started from 1 June 2010.
18. Assessment of the suitability and effectiveness of the current rules governing employment of connected parties, and recommendations for change were not considered to be within the scope of this review.

⁴ This covers all costs claimed for a connected party under paragraph 9.19-9.21 and 9.36-9.38 of the *MPs' Scheme of Business Costs and Expenses*,

Key Findings

Findings on the overall cost to the taxpayer of MPs' connected parties:

19. **The total cost of connected parties between May 2010 and March 2015 was £21 million.** Of this, 83.0% was spent on their salaries, 7.9% on employer National Insurance contributions, 7.9% on employer pension contributions, and 1.2% on travel and subsistence expenses.
20. **Connected party costs account for 4.5% of the total cost of MPs' Business Costs and Expenses.** This has remained broadly consistent across the past five years. If connected party expenditure were its own budget heading it would be the fourth largest category of MPs' expenditure.
21. **Expenditure on connected parties has increased year-on-year but the pace has slowed in the last three years.** The annual increase has fallen from a peak of 9.0% between 2011-12 and 2012-13, to only 1.1% between 2013-14 and 2014-15. In real terms the total cost actually decreased for the first time between 2013-14 and 2014-15, falling by 0.6%.
22. **As a proportion of all staffing expenditure, the cost of connected parties has reduced from 6.3% in 2010-11 to 5.7% in 2014-15.** This has been driven primarily by the growth in the total cost of staffing in each year, which has outpaced the increase in connected party costs.

Findings on pay and conditions for connected parties:

23. **Connected parties do not generally receive better salaries than other staff with the same job description and roles.** However, connected parties who have started employment for an MP within the last 10 years are, on average, better paid than their colleagues in similar roles, who started at a similar time.
24. **Average salaries for connected parties have increased at twice the rate of average salaries for other staff, year-on-year.** A variety of factors have contributed to this trend and these include, in some instances, connected parties receiving better increases in pay than their colleagues; however the evidence does not suggest that preferential treatment is widespread.

Findings on compliance risks:

25. **The controls on the registration of connected parties are limited and have not always operated as effectively as they might.** The quality of our data records and the absence of controls to prevent false declarations of connected party status means that there is a high risk that any instance of an undeclared or inaccurate status will not be identified.
26. **There are no controls to prevent misconduct in the employment of connected parties.** The potential for personal or familial gain, and the absence of any normal staff management framework over payroll and expenses submissions, presents a potential risk of incorrect claiming. IPSA operates no routine measures to identify or prevent this. Similar risks also apply to the employment of all other staff.

27. **Overall, we identified no compliance concerns for the majority of connected parties.** Neither this review, nor previous assessments by the Compliance Officer for the IPSA, have identified any substantive evidence of misconduct in the employment of connected parties. A small number of issues warranting further investigation were identified, but this is not necessarily evidence of any wrongdoing by MPs.

Conclusions

28. The prevalence of employing connected parties has not declined since 2010 although there are approximately 20% fewer connected parties than there were before IPSA was established.
29. The trend in annual expenditure on connected parties largely mirrors changes in the number of connected parties, and plateauing as the number has stabilised.
30. While, in some individual circumstances, a particular connected party may receive better pay and conditions than their peers, there is no evidence that this is systemic. There remains a potential conflict of interest, but we have no quantitative evidence that this has materialised.
31. There is nonetheless a risk that MPs could breach the restrictions on connected parties, or even act fraudulently, without detection. The controls that IPSA has in place cannot currently prevent or identify such behaviour, and we have no proportionate means for assessing the likelihood of this risk or proving non-compliance. We consider the risk is low that an MP is inadvertently or deliberately breaking these rules. But, because it is difficult for IPSA to discover whether non-compliance is happening, a risk to the reputation of IPSA and Parliament remains in individual cases.
32. **The issues raised in this Assurance Review will be considered in the consultation to be published in May 2016.**

Connected Party Costs

33. MPs who employ connected parties may have the following costs met by IPSA:
 - the connected party's salary and related payroll costs;
 - travel and subsistence expenses under paragraphs 9.18-9.20 and 9.34-9.36 of the *Scheme*.
34. These costs will only be met for one connected party (unless the MP employed more than one connected party on 7 May 2010) and no costs may be claimed relating to the purchase of goods or services, where a connected party is the provider of the goods or services in question.
35. Connected parties are also not eligible for modest reward and recognition payments, which other staff are.
36. The following section surveys this expenditure in the last five financial years.

Aggregate Expenditure

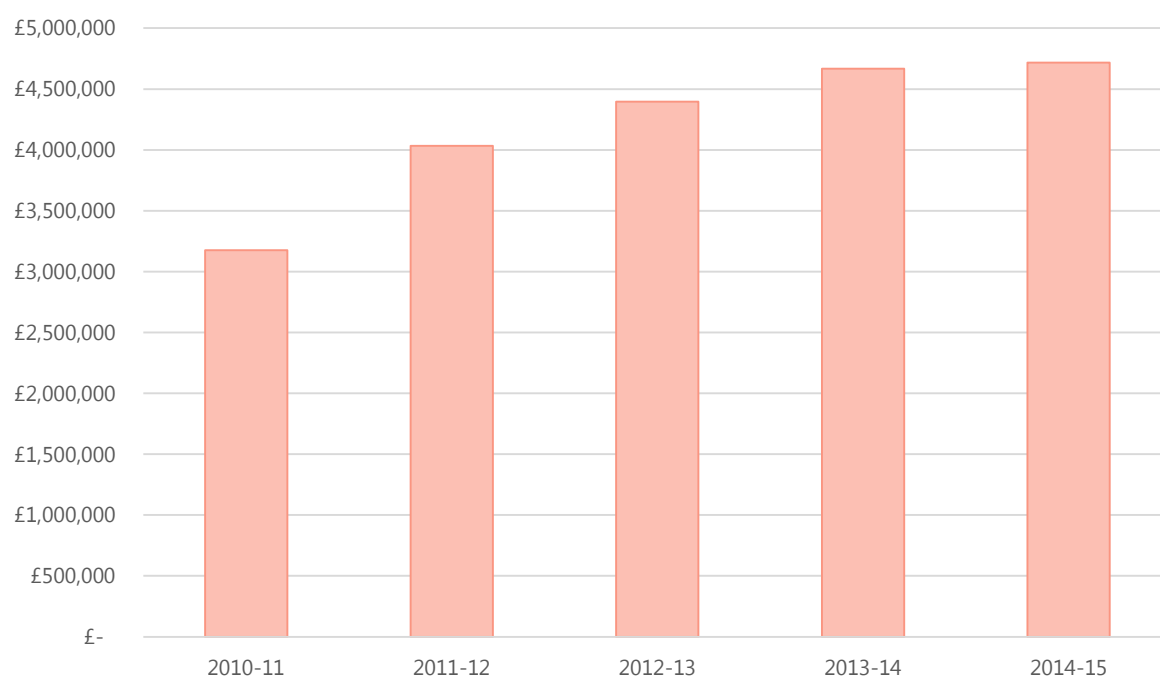
37. 191 MPs employed connected parties at some point between May 2010 and March 2015.
 - 203 different connected parties were employed at some point during this period.
 - 10 MPs employed more than one connected party, although not necessarily concurrently.
38. The total cost of connected parties across this period was £21 million.
 - **Figure 1** – shows the total annual cost of connected parties, the total and annualised number of connected parties and the cost per connected party for each of the last five financial years.
 - **Figure 2** – shows the total expenditure in each year.
39. An average of 165 different connected parties received payments in each financial year; however, due to the level of turnover, the number of concurrently employed connected parties is lower.
 - The mean number of connected parties employed at any one time was 151.
 - This gives the cost per connected party over the last five years as £140,000; an average of £28,000 per year.

Figure 1 – total annual cost and number of connected parties

Financial Year	Connected Party Costs	Connected Parties (Total)	Connected Parties (Annualised†)	Cost per Connected Party
2010-11*	£3,176,000	150	135	£23,500
2011-12	£4,033,000	162	147	£27,400
2012-13	£4,397,000	165	155	£28,400
2013-14	£4,666,000	176	161	£29,000
2014-15	£4,716,000	171	158	£29,900

* 2010-11 costs do not represent a full year in this table. IPSA began operating the payroll for new staff from 7 May 2010 and for staff transferring from the House of Commons' payroll on 1 June 2010.

†Mean number of connected parties employed in each month to account for turnover throughout year.

Figure 2 – total annual expenditure on connected parties

* 2010-11 costs do not represent a full year in this chart. IPSA began operating the payroll for new staff from 7 May 2010 and for staff transferring from the House of Commons' payroll on 1 June 2010.

Breakdown of costs:

40. Connected party costs can be broken down into four categories:
- gross salaries;
 - employer National Insurance Contributions (NICs);
 - employer pension contributions; and
 - travel and subsistence expenses.
41. **Figure 3** shows the breakdown of costs by financial year.
42. Salaries make up the main body of expenditure, accounting for between 82.7% and 83.1% of all connect party spending.
43. As a proportion of connected party costs, employer NICs and employer pension contributions are tied to salary costs and so the relative proportions have remained essentially unchanged across the past five years.
- Employer NICs and employer pension contributions accounted for between 7.8% and 8.0% of connected party costs each across the last five financial years.
44. Expenses have fluctuated year-on-year to a small degree. In each year they have accounted for between 1.1% and 1.4% of the total expenditure on connected parties.
- There is no consistent pattern to this variation in spend and relative to the total cost of connected parties the differences are marginal.

Figure 3 – connected party expenditure by type of cost

Financial Year	Gross Salaries	Employer NICs	Employer Pension Contributions	Expenses
2010-11*	£2,627,300	£255,200	£253,900	£39,600
2011-12	£3,348,200	£322,600	£315,200	£47,000
2012-13	£3,656,600	£349,400	£343,500	£47,700
2013-14	£3,869,700	£367,900	£365,900	£62,800
2014-15	£3,925,000	£368,200	£370,000	£53,100

* 2010-11 costs do not represent a full year in this table. IPSA began operating the payroll for new staff from 7 May 2010 and for staff transferring from the House of Commons' payroll on 1 June 2010.

Changes in annual expenditure:

45. The annual cost of connected parties has increased year-on-year since 2010. This peaked at an increase of 9.0% between 2011-12 and 2012-13, which corresponds with the largest uplift in the annual staffing budget and the introduction of the increased staffing budget for London Area MPs. It has since reduced to an increase of only 1.1% between 2013-14 and 2014-15. Overall the annual cost has increased 23.7% since 2010-11.
46. **Figure 4** shows the breakdown of nominal and inflation adjusted costs. This shows that in the 2014-15 financial year the cost of connected parties rose below the rate of inflation for the first time; a fall of 0.6% in real-terms.
- Costs were adjusted for inflation using the government GDP Deflator from the March 2015 Budget update.⁵
47. **Figure 5** shows the trend in the annual change in the total nominal and inflation adjusted expenditure. This clearly shows that the change in the annual cost of connected parties has slowed and in real-terms has begun to decline.
48. While the changes in expenditure are partly accounted for by increases in salary, as well as other changes to circumstances such as changes to hours or job titles, the main driving factor has been changes to the number of connected parties.
- It can be seen in **Figure 6** that peaks and troughs in the cost of connected parties in a financial quarter track closely the number of connected parties employed.
 - This would suggest that increases in expenditure are not indicative of changes in individual claiming behaviour or a rapidly rising cost per connected party. **Figure 1** above shows that the cost per connected party has risen at a much slower rate.
 - This suggests that not all MPs who decided to employ a connected party chose to do so immediately, leading to a rise in the number of connected parties throughout the first three years of the parliament. By 2013-14 the number had levelled out.
49. The CSPL's report from 2009 states that the number of family members employed by MPs at this time was 213 or approximately 8% of all staff.⁶ This compares to the annualised figure of 158 connected parties for the 2014-15 financial year or approximately 5% of all staff, meaning that the number of connected parties is lower now than it was before 2010 nominally and relatively.
- Although precise figures are not available, this is a strong indication that the cost of connected parties is below the level that it was before 2010, although any reduction in the cost of connected parties is likely to be mitigated by a corresponding increase in the cost of other staff.

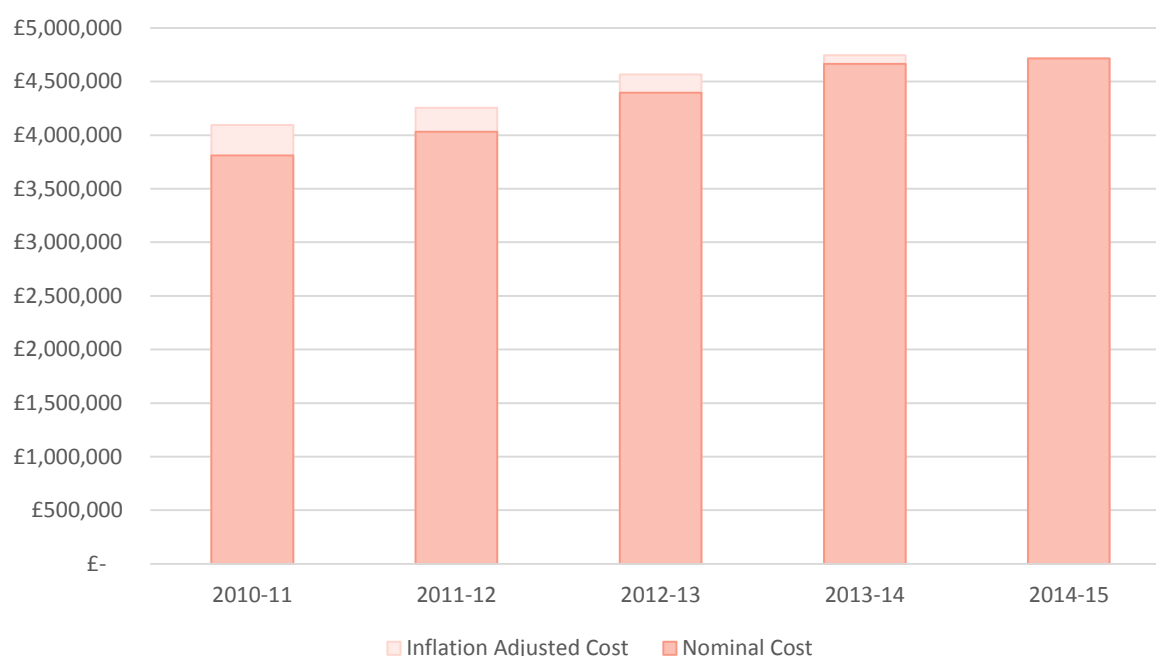
⁵ HM Treasury, March 2015, *GDP deflators at market prices, and money GDP* (<https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-march-2015-budget-2015>)

⁶ *MPs' expenses and allowances: Supporting Parliament, safeguarding the taxpayer*, p56

Figure 4 – nominal and inflation adjusted connected costs

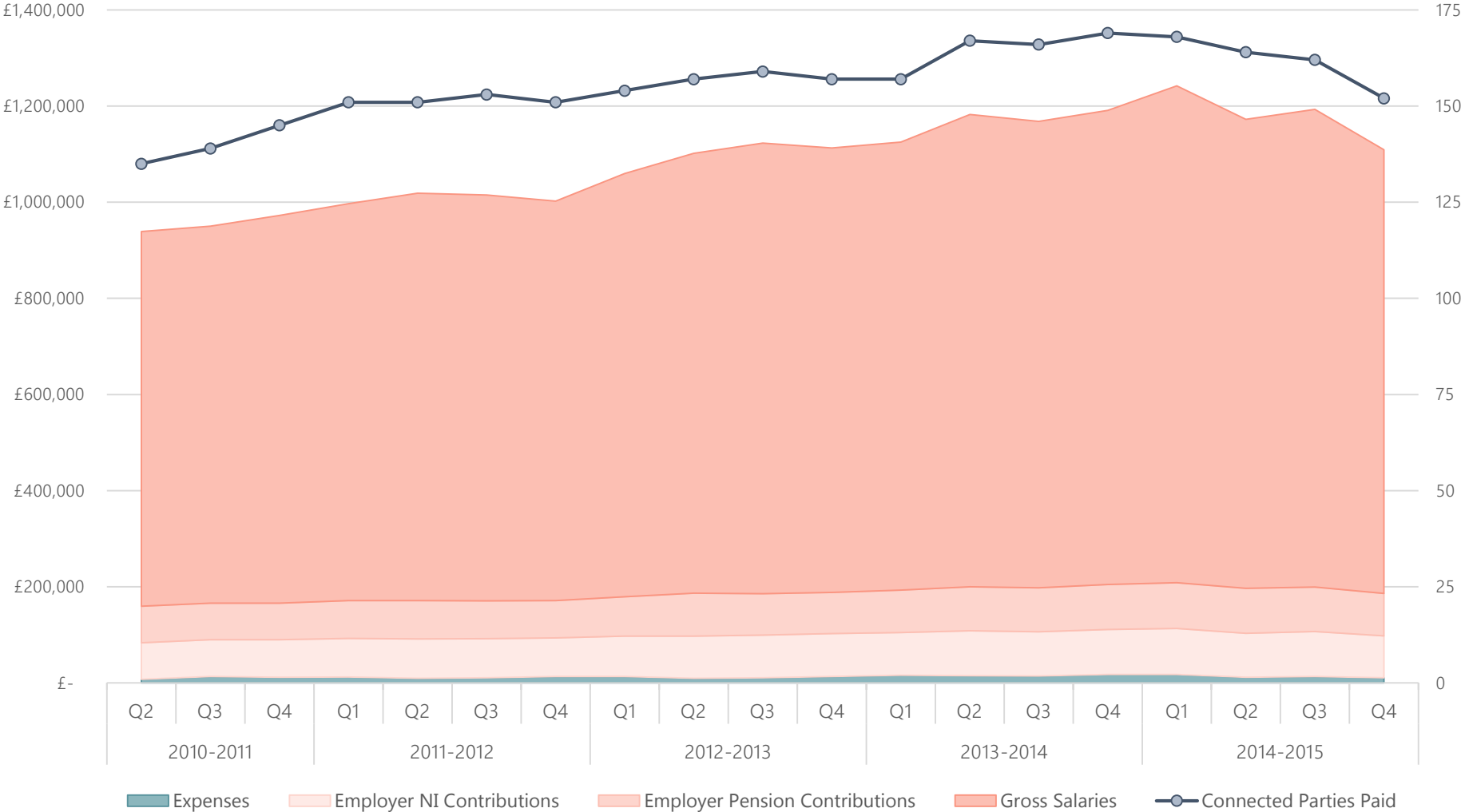
Financial Year	Total Cost (Nominal)	Change (Nominal)	Total Cost (Inflation Adjusted)	% Change (Real-Terms)
2010-11*	£3,811,200	-	£4,094,200	-
2011-12	£4,033,000	+5.8%	£4,256,200	+4.0%
2012-13	£4,397,200	+9.0%	£4,566,900	+7.3%
2013-14	£4,666,300	+6.1%	£4,745,600	+3.9%
2014-15	£4,716,300	+1.1%	£4,716,300	-0.6%

* 2010-11 has been annualised to accurately show the change in annual expenditure. IPSA began operating the payroll for new staff from 7 May 2010 and for staff transferring from the House of Commons' payroll on 1 June 2010.

Figure 5 – annual change in nominal and inflation adjusted connected parties costs

* 2010-11 has been annualised to accurately show the change in annual expenditure. IPSA began operating the payroll for new staff from 7 May 2010 and for staff transferring from the House of Commons' payroll on 1 June 2010.

Figure 6 – breakdown of connected and number of connected parties paid, July 2010 – March 2015



Relative Expenditure

- 50. Staffing is the largest budget, with salary costs accounting for the majority of all MPs’ expenditure. Given that connected party expenditure is predominantly made up of salaries and related costs, they consequently represent a significant proportion of all business costs and expenses.
- 51. Connected party costs have consistently accounted for between 4.4% and 4.5% of the total expenditure on business costs and expenses in each of the past five financial years.
 - This means that, in 2014-15, if connected party costs were a budget heading in their own right, they would be the fourth largest category of expenditure, after Staffing, Office Costs and Accommodation and before Travel.
 - This can be seen in **Figure 7** below.
- 52. As a proportion of the overall staffing budget connected party costs have actually fallen over the past five years, from 6.3% in 2010-11 to 5.7% in 2014-15.
 - This amounts to a reduction of 9.0% in relative terms.
 - **Figure 8** demonstrates this trend and shows that it is principally the result of fluctuation in total expenditure on staffing.
 - Since the overall cost of staffing has risen at a faster pace than the cost of connected parties, connected party expenditure has fallen in relative terms.

Figure 7 – comparison of expenditure against budgets, 2014-15

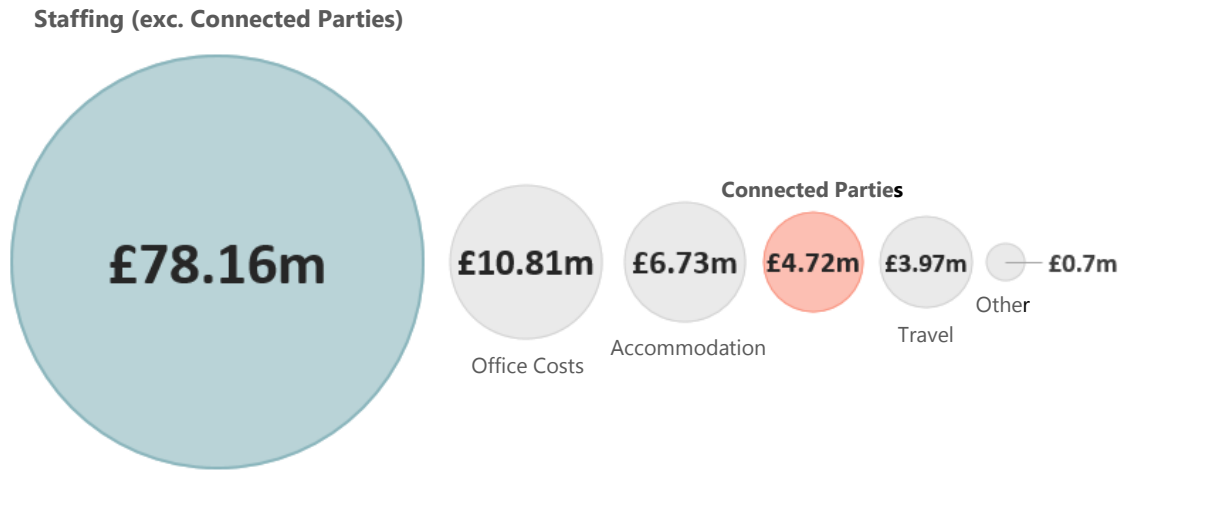
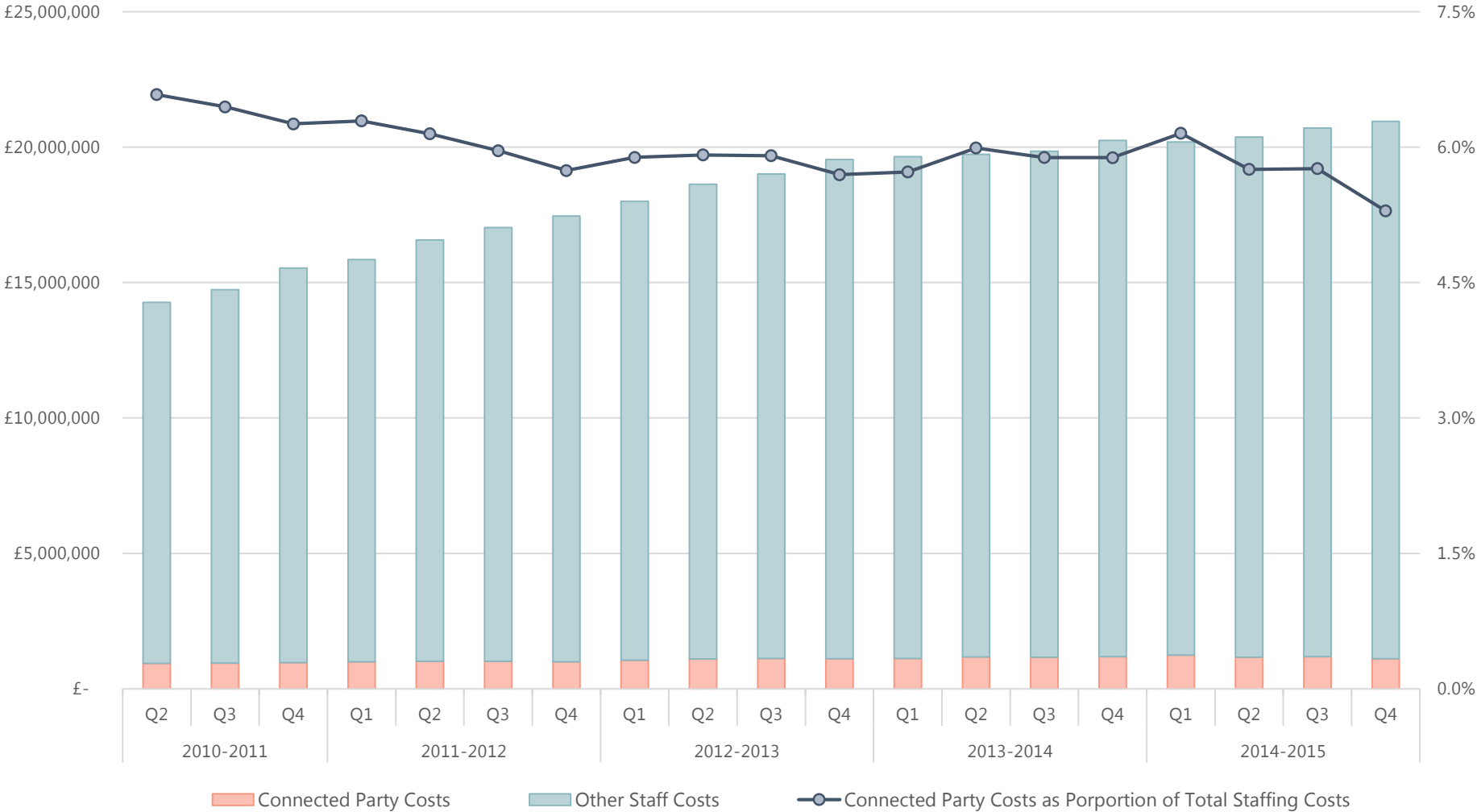


Figure 8 – breakdown of staffing costs and trend of proportion relating to connected parties, July 2011 – March 2015



Pay and Conditions

53. The following section examines the terms of employment for connected parties, and how these compare to other staff employed by MPs.
- Given the association that they have with the MP there is a greater perceived risk that an MP may confer on them an undue financial benefit and that the MP themselves might benefit directly or indirectly from the arrangement.
 - The principal risk is one of financial benefit and IPSA's remit is over MPs' expenditure, therefore the focus below is given to pay. There are other working conditions where connected parties may be treated in a better manner than their colleagues; however these do not fall under the regulatory mandate of IPSA and we do not hold the data to consider the wider treatment of staff by MPs.
54. In order to provide accurate and equitable analysis and comparison the figures given are all full-time equivalent salaries and are not indicative of net pay. Many staff employed by MPs are on part-time or casual contracts and so their actual take-home pay will be lower than the figures quoted.
- Some inconsistencies and absences are present in the record of contracted hours resulting in a small number of discrepancies in FTE salaries. Where necessary reasonable assumptions have been made to account for inaccuracies in the underlying data.

Average Salaries

55. The median annual gross salary for a connected party in 2014-15 was £31,350.
- This salary is £5,600 (21.7%) higher than the average salary for other staff employed by MPs.
56. The Annual Survey of Hours and Earnings 2014, published by the ONS, lists the median annual earnings for full-time employees in 2013-14 as £27,200.⁷
- Comparing this to the figures for MPs' staff in the same year shows that the median salary for connected parties was more than the national average at £30,450, while the median for other staff was less at £25,250.

⁷ Office for National Statistics, November 2014, *Annual survey of hours and earnings: 2014 provisional results*, p 1 (<https://www.gov.uk/government/statistics/annual-survey-of-hours-and-earnings-2014-provisional-results>)

Contributing factors:

57. While connected party status may correlate with higher salaries there are a number of different factors that can determine an individual's salary which may also correlate with connected party status. These include factors such as job title, length of service, and location.
- In order to identify whether the connected party status itself was the cause of the higher average salary for connected parties, analysis was conducted to take these contributing factors into account.
 - This analysis focussed on factors for which we hold the data. There are others, such as prior working history, for which we have no information.
58. Connected parties are more likely to be listed as working outside London than other staff employed by MPs. The ratio of connected parties listed as employed outside London to those listed as employed in London is approximately 2:1, compared with approximately 1:1 for other staff.
- While this ratio is influenced by other factors, such as lower turnover amongst connected parties and constituency staff, this means connected parties are nonetheless far more likely to fall within the non-London salary range for their job.
 - We would typically expect this to lower their median salary, assuming a similar distribution within the pay band. As shown below, this trend is not evident and consequently this indicates that connected parties are typically paid higher than others within their respective pay band.
59. Average salaries vary significantly by job title as a result of pay banding. There are seven principle job families with their own pay band, excluding interns and apprentices who are not banded but are subject to the relevant minimum wage legislation. Since connected parties are more likely to have job titles with higher pay banding than other staff, this has the effect of raising their median salary.
- **Figure 9** shows the median salaries for connected parties and other staff in 2014-15 alongside the bandings for each of the job titles.
 - In most cases the median for connected parties falls towards the middle of the London pay band and the upper-half the non-London band while the median for other staff fall nearer the lower-half of the London pay band or the middle of the non-London band.

Figure 9 – median salaries and salary ranges by job title, 2014-15

Job Title	Connected Party Median Salary	Other Staff Median Salary	London Salary Range	Non-London Salary Range
Office Manager	£35,000	£33,650	£30,000 - £40,804	£26,000 - £37,744
Senior Parliamentary Assistant	£36,500	£36,000	£33,000 - £42,844	£30,000 - £39,784
Parliamentary Assistant	£30,000	£26,000	£23,000 - £33,663	£20,000 - £30,603
Senior Secretary	£25,950	£25,000	£21,000 - £30,603	£18,000 - £27,543
Secretary	£22,350	£18,500	£17,000 - £24,482	£15,000 - £22,442
Senior Caseworker	£27,500	£26,500	£23,000 - £31,623	£19,000 - £28,563
Caseworker	£20,500	£21,200	£19,000 - £28,563	£16,000 - £25,503

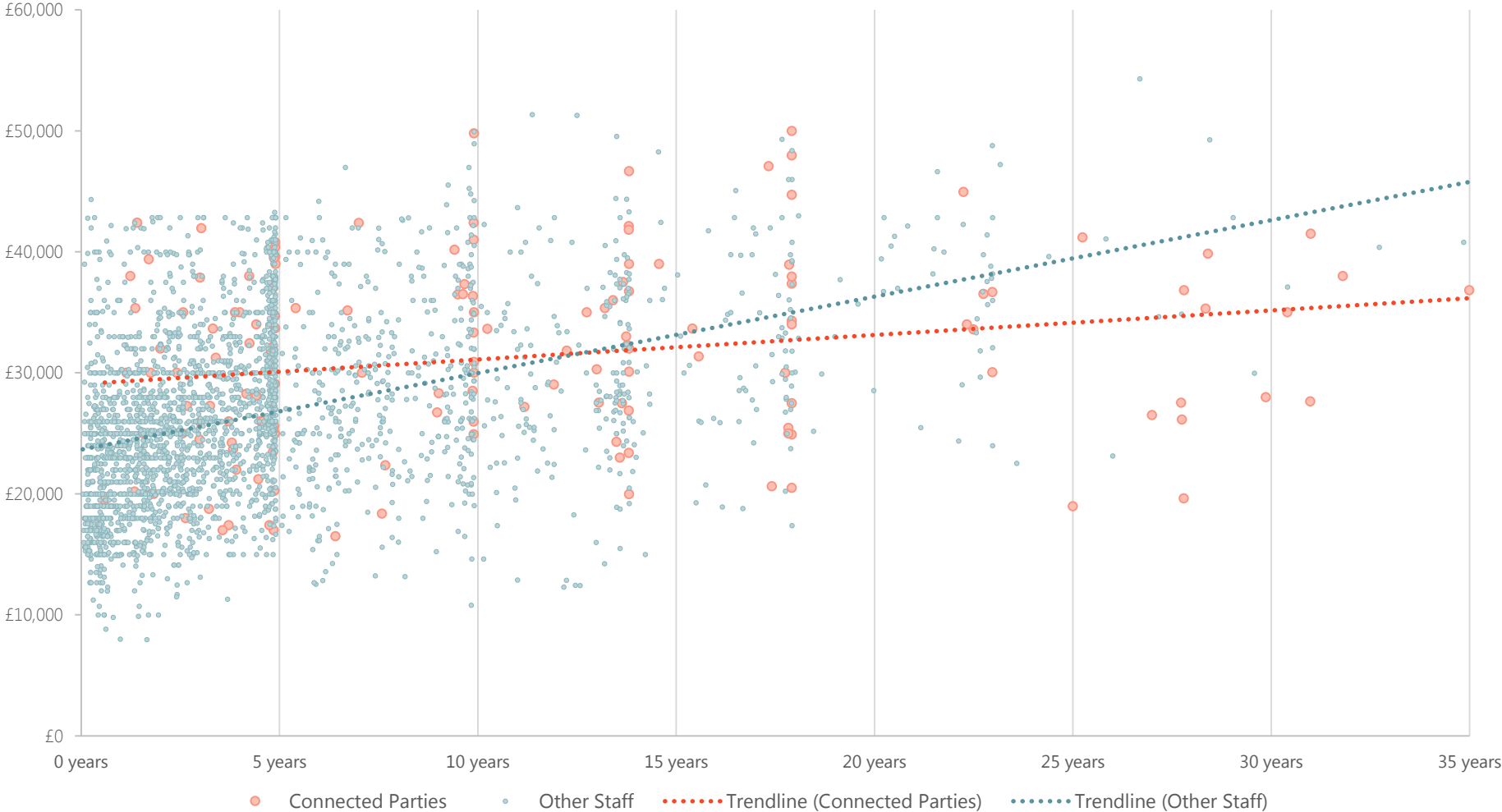
60. Length of service does not correlate with average pay in the manner that we might expect. While staff who are not connected parties are typically paid more as a result of longer periods of employment, this trend does not hold for connected parties.
- **Figure 11** shows salaries for connected parties and other staff against their length of service. This shows moderate correlation between salary and length of service for other staff but only very weak correlation for connected parties.
 - This contributes to a trend by which connected parties with longer lengths of service might actually be typically worse off than other staff with a similar length of service, while those who started more recently are comparatively better off than other staff who started at the same time.
61. Taking all of these factors into account creates a mixed picture. **Figure 10** is a heat-map showing the difference between the average salary for connected parties with those for other staff for each combination of job and length of service.
- This confirms that connected parties with fewer than 10 years' service are typically paid more than other staff almost irrespective of job title. Only caseworkers and senior caseworkers deviate from this trend with connected parties being paid less than their colleagues on average.

- Once length of service exceeds 10 years this becomes more varied, with salaries for secretaries strongly favouring connected parties but almost all other jobs favouring employees who are not connected parties.
 - There are a small number of particularly high disparities, e.g, Senior Caseworkers with 16-20 years' service. These are due to a number of factors, which include the small number of individuals that fall within the specific category and the less consistent application of junior and senior job titles and pay bands prior to IPSA's administration of the payroll.
62. Claims that connected parties receive better salaries for the same work as their colleagues are not, therefore, accurate.
- While there is strong evidence that some groups of connected parties receive higher salaries than their peers and the differences in circumstances for connected parties contribute to a higher median salary across the board, there is significant variation in the pay they receive.
 - Connected parties with fewer than 10 years' service or who are secretaries are typically better paid than their colleagues, while those with more than 10 years' service or who are caseworkers are typically paid less.
 - This mixed picture is reflective of the broad variation in the conditions that different MPs offer their staff. It is not indicative of widespread preferential treatment.

Figure 10 – differences between average salary for connected parties and other staff, March 2015

	Office Manager	Senior Parliamentary Assistant	Parliamentary Assistant	Senior Secretary	Secretary	Senior Caseworker	Caseworker
0-5 years	+5.6%	+1.7%	+10.5%	+3.8%	+2.2%	-1.0%	-1.9%
6-10 years	+4.7%	+3.4%	+44.4%	+3.0%	+19.6%	-1.7%	-6.3%
11-15 years	-1.0%	-0.8%	+9.0%	-11.8%	-2.4%	-1.4%	n/a
16-20 years	+6.7%	-9.3%	n/a	-16.4%	+27.6%	+79.9%	+26.1%
21-25 years	-10.3%	-12.8%	+39.0%	n/a	+30.8%	n/a	-51.0%
26-30 years	-1.2%	-14.1%	n/a	n/a	-25.7%	n/a	n/a
30-35 years	-6.4%	n/a	n/a	n/a	n/a	n/a	n/a

Figure 11 - correlation between salaries and length of service, March 2015

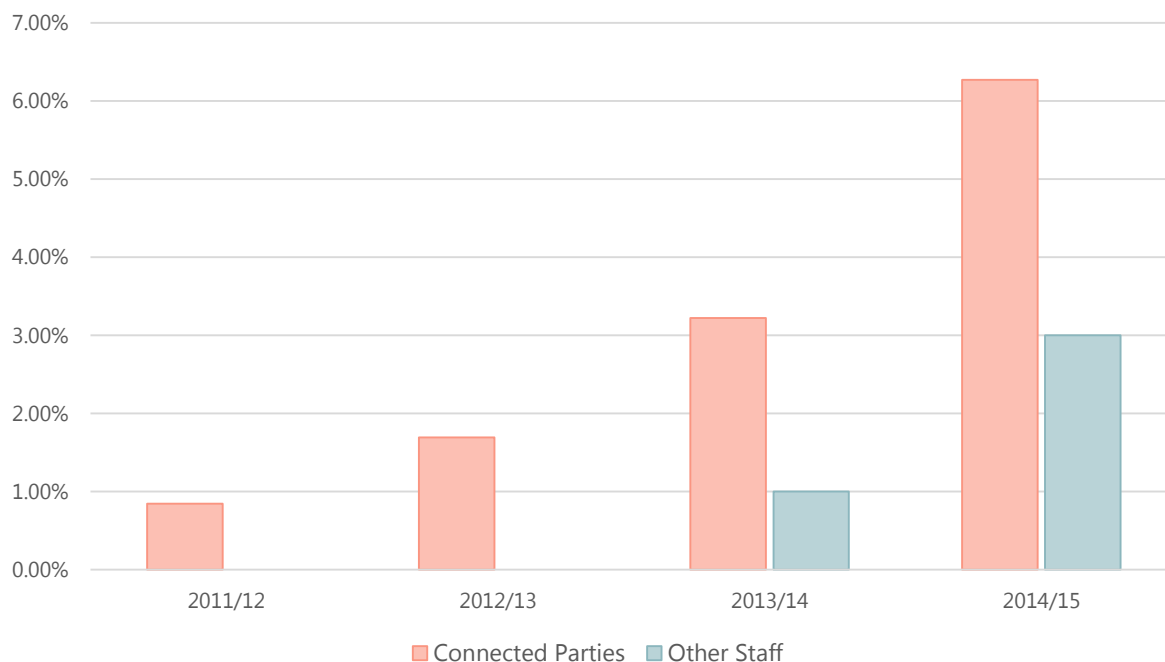


Changes in Salary

63. The average connected party salary has increased annually since 2010-11, with an overall increase of 6.57% between 2010-11 and 2014-15.
64. This increase is at twice the rate of that for other staff as shown in **Figure 12**. This disparity has had a noticeable effect on the difference between the average salaries for the two groups.
- **Figure 13** shows the cumulative change in average salary between 2010-11 and 2014-15, which demonstrates how the gap has widened. The effect has been to increase the difference in average salary from 18.0% in 2010-11 to 21.7% in 2014-15.
65. However, this should be considered in the context of the other contributing factors outlined above. The findings on the variation median salaries above suggest this trend is likely to be driven by new connected parties who have been employed within the last five years on higher salaries than their colleagues.
- Turnover amongst, since new employees may start lower in the pay band than the staff they have replaced, may mitigate the effect of payrises for those with continued employment, keeping median salaries broadly the same.
 - Lower turnover amongst connected parties would reduce this effect and increase, in relative terms, annual changes in median salary.
66. This may be indicative of connected parties receiving, on average, a better pay deal than other staff and the wider public sector pay policy; however the findings above on length of service would suggest this is only the case for staff with fewer than 10 years' service.

Figure 12 – changes in average salary for connected parties and other staff

Financial Year	Connected Parties		Other Staff		Difference
2010-11	£29,500	-	£25,000	-	18.0%
2011-12	£29,750	(+0.8%)	£25,000	(+0.0%)	19.0%
2012-13	£30,000	(+0.8%)	£25,000	(+0.0%)	20.0%
2013-14	£30,450	(+1.5%)	£25,250	(+1.0%)	20.6%
2014-15	£31,350	(+3.0%)	£25,750	(+2.0%)	21.7%

Figure 13 – cumulative change in average salary for connected parties and other staff

Sample testing of pay rises:

67. In order to assess whether this disparity is evidence of connected parties receiving better terms than their colleagues, a sample of offices were reviewed to determine whether changes in pay for the connected party were consistent with those for other staff.

- Five offices where a connected party was employed were selected at random and the changes to salaries of those employed in the office compared.
- Only changes to base salaries, whether through a pay rise or a promotion, were considered. Changes resulting from changes in hours were not included in comparisons between staff.

68. The findings are as follows:

- Two of the five connected parties received no uplifts in base salary between May 2010 and March 2015. In both cases changes in pay for other staff were not routine and appear to have been approved by the MP on a case-by-case basis.
- Two of the five connected parties received increases to their base salary that were consistent with the other staff in the office. However, in both cases the connected party also received a promotion at some point during the period, giving them a higher overall increase in pay.

- The other connected party received no uplifts in base salary and changes in pay for other staff were not routine; however, the connected party did receive two increases in hours, taking their working hours above their full-time contracted hours. This gave them two *de facto* salary increases, although their base salary remained the same. The connected party is on a pre-IPSA contract and there is nothing to indicate they do not work the hours they are being paid for. This does, however, present a potential mechanism for paying a salary in excess of IPSA pay bands (although this staff member is not bound by them due to their contract) and for a connected party to receive take-home pay in excess of their published salary.
- It was also noted that in each case the connected party was the highest paid staff member in their respective office by a margin of between 8% and 95%.

69. This suggests that, as with pay overall, there is variation between offices. In both cases where connected parties received larger pay increases overall compared to their colleagues they did so as the result of increased responsibilities. It does not demonstrate a consistent pattern of preferential treatment for connected parties with regard to pay awards.

Other Considerations

70. There are also some other aspects to connected parties' remuneration that should be taken into consideration.

Pension arrangements:

71. Since MPs do not determine the terms of their staff members' pension schemes, it is not possible for an MP to offer better pension terms to a connected party.

Reward and recognition payments:

72. The CSPL report found that connected parties on average received higher bonuses than other staff.⁸

73. MPs are permitted under the *Scheme* to grant modest reward and recognition payments to their staff; however, these may not be paid to connected parties and so this is no longer a means for MPs to treat connected parties more favourably than other staff.

Expenses claims:

74. Connected parties on average incur higher expenses than other staff. On average the expenses per capita per month for connected parties is double that of other staff although this fluctuates significantly each month.

⁸ MPs' expenses and allowances: Supporting Parliament, safeguarding the taxpayer, p56

- Across the last five years the average expenses claimed for each connected party receiving expenses was £2,085, compared to only £849 for other staff receiving expenses.
- The median amounts claimed were £933 for connected parties and £275 for other staff.
- Differences in administrative responsibilities, seniority in the office, and likelihood of travel between the constituency and London are all factors that contribute to this trend.

75. Individual claiming patterns are considered in more detail in the following section.

Overtime and additional hours:

76. Payments for overtime or additional hours worked by connected parties account for 0.06% of their salary costs compared to 0.10% for other staff.
- The proportion of staff and connected parties who have claimed overtime or additional hours are almost the same at 11.96% and 11.88% respectively.
 - On average, connected parties who have been paid overtime or additional hours received more in total over the past five years than other staff; however, this is the result of higher average salaries, resulting in a higher hourly rate for overtime.

Redundancy and PILON:

77. Connected parties who have received Pay in Lieu of Notice (PILON) when leaving employment with an MP received 56.07% more on average than other staff who received PILON (£4,020 compared to £2,580).
78. Connected parties who were made redundant and were entitled to redundancy pay received 46.19% more on average than other staff who received redundancy pay (£4,640 compared to £2,720).

Unpaid work by connected parties:

79. It is important to note that comparisons made between the pay conditions for connected parties and other staff do not take into account the level of work carried out by connected parties that is not remunerated.
- Due to the nature of the relationship, connected parties are more likely to work unpaid overtime, particularly during antisocial hours, than other staff.
 - There are also many connected parties who act as the proxy for the MP or assist with the MP's work in other ways but are not an employee and receive no salary.

Compliance Risks

80. In addition to the risk of preferential treatment of connected parties compared to other staff members discussed in the previous section, there are a number of areas of potential non-compliance which are especially relevant to connected parties.
81. This section will consider the level of risk relating to the following:
- non-declaration or false declaration of connected parties;
 - payroll fraud (false employment or wage claims); and
 - expenses claiming behaviour.

Declaration of Connected Parties

82. Regulation of the rules governing the employment of connected parties is entirely dependent on connected parties being registered and easily identifiable. If an MP is able to employ an undeclared connected party, the restrictions on the number of connected parties they may employ and on reward and recognition payments would be unenforceable. This would also give rise to a transparency issue; the details of the employment would not be able to be published in the manner required by our publication policy.

Controls on declaration of connected parties:

83. Only one set of controls is in place at present to ensure declaration of connected parties. Upon registering a new employee for payment through the IPSA payroll, an MP is required to confirm whether or not the employee is a connected party. The employee should not be added to the payroll unless this declaration is completed.
- This combines a *directive control* (requirement to provide a declaration) with a *preventive control* (authorisation by a payroll officer).
 - The correct operation of this control would ensure that all employees have a declared connected party status; however, it does not seek to ensure the accuracy of the declared status.
84. There are no *detective controls* to identify missing or inaccurate declarations, or to monitor the operation of the controls described above.
- Identifying inaccurate declarations is not straightforward. The nature of the relationships that define connected party status are such that information will often not be openly available. In the absence of any clear indicators, there would rarely be occasion to question a declaration.

- Annual publication is often treated as a *detective control* for staff incorrectly recorded as being connected parties when they are not. MPs are provided the data prior to publication to ensure it is correct and are able to identify these inaccuracies. This places reliance on the MP to thoroughly check the data they are given and does not mitigate any risk that they could have provided a false declaration that an employee is not a connected party.
85. There are no *corrective controls* in place to ensure that underlying data is amended if it is identified as inaccurate. One consequence of this is the inconsistency between internally held payroll data and published data discussed in more detail below.
 86. Although the occurrence is less common, there is also no specific requirement or means for an MP to inform IPSA if an employee who was not a connected party becomes one. The individual would be undeclared and should a breach of the rules result, this would not be identifiable.
 87. The overall governance is weak. While the controls in place should ensure that declarations are received, the absence of any controls on the accuracy of determinations means that false declaration will not be detected. Should an MP have an intent to circumvent the restrictions on connected parties, current processes would do nothing to prevent this from occurring.
 88. Independently from IPSA, MPs are required to register employment of family members with the Parliamentary Standards Commissioner for entry on the Register of Members' Interests. An additional control might be to routinely reconcile details we hold with those on the Register.

Data quality:

89. There are significant issues with the underlying data relating to connected parties and to MPs staff in total.
90. 5% of staff employed at some point between May 2010 and March 2015 have no connected party status recorded in the payroll database, including 68 staff members who are currently employed by MPs.
 - This does not include staff employed since March 2015, some of whom have no connected party status.
 - This issue is not exclusive to connected party data. For instance 4% of the same group have no location recorded, despite this determining their pay band.
 - There is also inconsistency in how some data is recorded, leading to inaccuracies in how information is reported and creating false comparisons where different types of data are recorded as being the same (e.g. full-time and actual working hours).
91. Additionally there is inconsistency in how staffing information is recorded across different databases which required a level of manual intervention, and risk of error, to match expenses claims for connected parties to their payroll histories.
92. Problems with data quality increase the risks involved with enforcing restrictions on connected parties particular where these are reliant on a comprehensive record of connected party status.

Connected party declaration testing:

93. A sample test was conducted of employees with no connected party status recorded in the payroll database. The records of 20 employees were checked to confirm whether:
- a connected party declaration was received with their new starter documentation.
94. A second sample check was conducted of employees recorded as not being connected parties in the payroll system. The records of 20 employees were checked to confirm whether:
- a connected party declaration was received with their new starter documentation; and
 - the connected party status in the payroll system matched the declaration received with their new starter documentation.
95. In both cases the samples were chosen from staff employed at some point within the preceding six months to ensure availability of their payroll records.
96. The findings from the first test were as follows:
- 6 of the 20 staff without a recorded connected party status (30%) had no connected party declaration on file.
 - Out of the 14 who did have a declaration, 1 was a connected party. Due to the absence of a status the connected party (employed since before 2010 and declared on the register of members' interests) has been omitted from all previous publications). This has now been corrected.
97. The findings from the second test were as follows:
- 2 of the 20 staff recorded as not being connected parties did not have a valid declaration on file.
 - The remaining 18 all had statuses matching the declarations held on file.
98. The testing shows that the operation of the control is weak. This reinforces a lack of confidence in the quality of the underlying data and indicates that there is a risk of unreported connected parties.
99. It is recommended that an exercise to confirm the status of all staff with a null status in the database is necessary.
- Given other absences in the data record there would be significant value in covering all required categories of information within the same exercise.
 - This should include, but not be limited to:
 - i. FTE and actual working hours;
 - ii. working location; and
 - iii. HoC or IPSA contract.

Payroll Fraud

100. The 2013 Annual Fraud Indicator from the National Fraud Authority (NFA) estimated that payroll fraud costs the public sector £335 million annually⁹. Two categories of payroll fraud present a particular risk in relation to the employment of connected parties:

- false employment (sometimes referred to as 'ghost employment'), where an employee is entered onto the payroll for a company they do not work for; and
- false wage claims, where an employee is paid more than they should be, for instance through claiming to have worked more hours than they have.

101. In a typical organisation, a range of controls and structures exist that would mitigate these factors. For instance:

- a new employee could not be added to the payroll without the appropriate authorisations and proof of identity;
- an employee would not be able to authorise changes to their own payroll record; and
- working hours and overtime would be subject to approval and monitoring through line management frameworks.

102. However, given the unique arrangement for the operation of the MP staff payroll by which the MP has sole responsibility as employer and manager of their staff, and IPSA acts only in the capacity of the payroll agent, many of these factors are not in place for any MPs' staff. The MP has authority to approve payment to the connected party or any other staff member through the IPSA payroll but we have no means to confirm or monitor the actual work undertaken or hours worked.

- Given the nature of connected party status this presents a possible opportunity for an MP to supplement their household income or confer undue benefit on a close relative.
- The NFA uses a 0.2% loss percentage rate to estimate public sector payroll fraud.¹⁰ Using this rate for connected party payroll costs (salary costs only) would give a potential cost of £7,000 per year, although this assumes similar governance controls. Given the absence of usual governance mechanisms we could expect this rate be higher.
- It should be noted that this risk is also present for other staff and that there is no substantive evidence to suggest that the likelihood is higher because of the relationship between an MP and a connected party. Applying the same loss rate to the whole staff payroll would give an estimate loss of £150,000 per year over the past five years.

⁹ National Fraud Authority, June 2013, *Annual Fraud Indicator*, p 45 (<https://www.gov.uk/government/publications/annual-fraud-indicator--2>)

¹⁰ *Annual Fraud Indicator*, p 46

103. Possible payroll fraud by an MP and a connected party has been the subject of complaints made to the Compliance Officer for IPSA by members of the public; however no allegations of this nature have been upheld.
- A statement by the Compliance Officer is included at **Appendix B**, which sets out his consideration of the risk of payroll fraud by connected parties and the complexities of assessing this type of complaint.
104. A number of indicators have been considered to assess the potential level of risk. Given the types of information available this assessment is broad and its findings are indicative but not conclusive.
- The indicators have been selected to identify both evidence of connected parties performing the work they are contracted for and signs of other employments or commitments that might suggest they do not do the work they are contracted for.
 - A complete audit of connected party working arrangements to identify potential fraud would be more resource intensive and more intrusive to MPs' offices than is proportionate given the level of risk. It would also be likely to have a severely damaging effect on our relationship with those MPs who employ connected parties in accordance with the rules.

Review of interaction with IPSA:

105. Evidence of connected parties' interactions with IPSA were reviewed and considered as evidence of working practices.
106. Approximately 50% of connected parties routinely interact with IPSA, through email or telephone, regarding business costs and expenses or the running of the MPs' offices. This provides some level of assurance that they are in fact carrying out the work for the MP for which they are paid.
107. More than 40% of connected parties are the proxy for the MP they work for. They have delegated responsibilities for submitting claims and dealing with IPSA regarding business costs and expenses. This provides evidence of work in line with their contracted duties.
- 60% of Office Managers or Senior Secretaries are proxies which is in line with what we would expect from a typical MP's office and reflects their administrative duties.
 - In many cases they are solely responsible for their MP's financial, and often also staffing, arrangements.
108. The information held in this regard provides some indication of connected parties carrying out their contracted work in the same manner as other staff.

Review of publically listed information:

109. Publically available information from a number of sources was reviewed to determine whether this produced any conflicting information or identified irregular patterns of employment.
110. The information available suggested that up to 20% of connected parties have some other form of employment or work. In almost all cases those who appear to have other employments only work part-time for the MP.
- In two cases the alternative employment is with other MPs.
 - Several were identified as being local councillors. This arrangement is not uncommon with non-connected parties as well. Many also have roles within local or national party organisations. In no cases was there any indication that their parliamentary and political roles overlap.
 - A further few also had unpaid work (e.g. school governor, chair of charity trustees, etc.) that do not present a conflict with their employment with the MP.
111. The review did identify several issues which may warrant further investigation.
- One connected party, who began part-time employment with the MP in September 2014, was also standing for election in the General Election in May 2015. She was on a fixed-term contract ending on 7 May. Given the timing and circumstances this arrangement appears to be irregular.
 - Two connected parties, both on full-time contracts, are listed as managing their own companies. In both cases their LinkedIn profiles list the running of their company as their employment and makes no mention of their full-time employment for the MP. The cases are separate but the circumstances are the same in both instances.

Employment patterns:

112. A review of overall employment patterns was also conducted to identify any potential concerns.
113. A trend was noted for a number of long serving MPs who only began employing a connected party within the last two or three years. While this in itself does not indicate any sort of misconduct it does not tally with the typical arguments that employing family members helps preserve family relationships and they can work longer or less sociable hours, since this arrangement had not been necessary for the majority of these MPs' careers.
114. One area of concern was identified. An MP, having been deselected by their constituency party for the 2015 General Election, immediately began to employ their spouse.
- This may present a means to supplement the MP's loss of any resettlement payment and impending loss of earnings and warrants further investigation.

115. A review of overtime and additional hours claimed did not reveal any irregular patterns of claiming; however, one connected party was found to be employed for more than their contracted full-time hours.
- The connected party's contract states full-time hours as 37.5 hours per week. The actual working hours were increased to 40 in November 2010 and again to 45 in June 2012. This results in their gross pay being 20% higher than their gross salary.
 - Between June 2012 and March 2015 the connected party was paid for 1072.5 extra hours.
116. No other patterns of employment provided an indication of atypical activity.

Expenses Claiming Behaviour

117. Expenses claimed by MPs' staff are subject to scrutiny through routine validation measures, both pre-payment and post-payment validation of expense claims, as well as through planned assurance reviews, such as the review of staff mileage in 2014.
118. As stated above, the particular circumstances of employing a connected party present a higher level of risk. A separate review of expenses claiming patterns by connected parties, was therefore conducted.
119. The findings are as follows:
- 5 connected parties fell within the top 1% of all staff for total expenses claimed;
 - 14 connected parties fell more than 2 standard deviations above the mean expenses claimed by all staff;
 - 1 connected party claimed a significantly higher level of mileage compared to other connected parties; and
 - no other connected parties had claiming patterns that raised particular concerns.
120. The connected party with higher than typical mileage claims was reviewed in more detail.
- All of the claims related to journeys between the constituency and London.
 - The MP does not claim for London accommodation; however, the majority of outbound and return journeys were not on the same day.
 - The claims amounted to 301 single journeys across the five years, in addition to 355 single journeys claimed by the MP. On some days separate claims for travel have been made by both the MP and the connected party.
 - While the claims are within the 96 journeys per year limit for staff claims, they appear to indicate that the connected party routinely works from London. It is also unclear why both the MP and the connected party would need to drive separately for the same journey.
121. The overall level of risk does not appear higher than for other staff expenses claims. The same level of control exists as for other types of expenses, although additional scrutiny of all staff travel claims would be worth consideration.

Appendix A

Changes since the General Election

- A1. A number of changes to the overall landscape of employment of connected parties have occurred since the General Election in May.
- The total number of connected parties at March 2016 is 139, down from 150 in March 2015.
- A2. 21 connected parties employed before May 2015 worked for MPs who stood down at the election and a further 19 for MPs who did not retain their seats and were consequently made redundant. The total redundancy and PILON costs for connected parties as a result of the General Election was £543,000.
- 3 of those working for standing down MPs received £9,600 in PILON and 19 received £296,900 in redundancy payments.
 - 14 working for defeated MPs received £47,700 in PILON and 18 received £188,900 in redundancy payments.
- A3. A further two connected parties employed by MPs who retained their seats ceased their employment with the MP following the General Election. One received £6,000 in PILON and the other received £4,100 in PILON and £17,000 in redundancy.
- A4. As at September 2015, 38 new connected parties have been employed by MPs.
- 25 MPs first elected in May 2015 have begun to employ connected parties.
 - 13 MPs first elected before May 2015 have also hired connected parties, including some who had been employed previously but had had a break in service.
- A5. The trend in the last parliament showed that many MPs who employed connected parties did not begin to do so immediately and it is therefore likely that the number will rise.
- A6. **Table B1** below compares the number of connected parties and expenditure on their salaries in the final month of each financial year as an indicator of annual change.

Figure B1 – annual comparison of connected party numbers and salary costs

	March 2011	March 2012	March 2013	March 2014	March 2015	March 2016
Number of Connected Parties	126	144	149	158	150	139
Salary Costs	£296,800	£329,600	£360,600	£382,000	£372,200	£348,300

Appendix B

Statement by the Compliance Officer for IPSA

- B1. A detailed examination of all complaints and requests for investigation show that there has been only three cases relating to connected parties. The allegations focussed on the following issues¹¹:
- The ability of the connected party to complete her contracted hours due to business and local council commitments;
 - Due to an alleged relationship between the MP and a member of his staff, whether she had become a connected party; and
 - The connected party does not actually work for the MP and would not have the skills to do so.
- B2. As can be seen from the above, connected parties is not a regular topic of complainants' concern; complaints regarding party-political activity taking place in constituency offices are much more prevalent.
- B3. Where an allegation is received regarding a connected party, it would be incumbent upon the complainant to provide evidence in support of the allegation. Even if this was forthcoming, the Compliance Officer would need to obtain further corroboration in order to reach a standard of proof necessary to make a finding against the MP.
- B4. Previous experience has shown that complainants are frequently motivated by a perception that they have been unfairly treated by the MP and as a result their evidence lacks objectivity and credibility.
- B5. As Compliance Officer, I have previously visited constituency offices during assessments and have interviewed staff, including connected parties, without ever having received a disclosure. If the MP and his/her staff maintain a stance that there has been no impropriety then the necessary corroborative evidence is difficult to obtain without substantive powers and abundant resources.
- B6. The employment of connected parties is a contentious and emotive issue but I can provide very little evidence to suggest there is widespread abuse of the provision.

¹¹ During the 2013 investigation into accommodation and mileage claims made by Nadine Dorries, the media focused on the employment by the MP of two of her daughters within her Parliamentary & constituency office, alleging they had neither the time nor experience to carry out their roles.