

# From The Office of Linda Gilroy MP

**Sir Christopher Kelly**

Review of MP's Expenses

The Committee on Standards in Public Life

35 Great Smith Street

London SW1P 3BQ

3<sup>rd</sup> June 2009

Dear Sir Christopher

Members Expenses

## **PAAE and capital gain**

As you set out in para 1.3 bullet point 3 of the introduction to your issues and questions paper there is a need "*... to assure the public that MP's are not able to gain personal financial advantage from expenses claims designed purely to help them carry out their parliamentary duties.*"

I also agree with the point set out in para 1.7 of your document that as far as any radical simplification of pay is concerned "*... the case against doing that is at first sight very strong, particularly in present circumstances*".

However there are good reasons for Members to be supported in looking for a second home that may only be available on the open market. Mostly these relate to family responsibilities for children or other family members.

The attached paper sets out a proposal which I hope may make a constructive contribution to your committee's thinking. It shows one way in which members could have the flexibility of seeking accommodation through the open market, wholly or partly supported by public funding, in a way that is not associated with making a capital gain.

Yours sincerely

Linda Gilroy MP  
Plymouth Sutton

**PAAE claims for mortgage interest payments**  
**A note prepared by Linda Gilroy MP June 2009**  
**- with associated commentary from a Housing Professional**

Constituents do not expect us to make profits from expenses or allowances.

There should be no question of any level of capital gain being supported by the use of the PAAE. “Taking risks” and “paying capital gains tax” are inadequate responses.

Although the PAAE only supports mortgage interest costs, if the value of the property is increasing the PAAE is still supporting a gain. Apart from this being unacceptable it is also unfair as between members in two ways ie the opportunity is not the same for all MP's

- through geography - especially now larger numbers of London MP's are not eligible
- through timing and length of service eg those elected in 2005 on a falling house price market a

I believe the average length of service of an MP is about 8.5 years –those in ‘safe’ seats have (thus far) been guaranteed much longer, and therefore it is inequitable in this respect too.

I can understand members wishing or needing to buy a property either in their constituency - if they do not have one when selected - or perhaps in a specific area of London for family reasons (eg access to a school or care of a relative). This applies to men as well as women who have dependent children – or indeed sometimes a dependent adult(s).

It has been suggested that people should pay any capital gain back.

It may not always be easy to assess this gain especially if a member wishes to purchase a family home which exceeds the value of a property which can be supported by the PAAE allowance – or extends the home in some way over the period of their office to accommodate family dependents at either end of the age scale. Other people in the household may also reasonably wish to or be expected to make a contribution to the costs.

An alternative may be to vest the property being purchased in a housing trust or cooperative overseen by the House authorities – or even independent of them. Just like HomeBuy products promoted by the government for our constituents offer an equity share, so a similar mechanism (perhaps operated by a housing association) could support an equity share by members in a property ranging from 100% down to a much smaller element.

The rules of any such model could be constructed in a way that ensured equity gain could not arise from whatever the capped amount of allowance for mortgage interest is set at. The cap could be flexed to adjust to changing interest rates. The rules could

allow for routine maintenance and upkeep - if for instance an integral part of the property – an ancient or inefficient boiler - had to be replaced.

It might even be possible to construct a model to protect members who come in during a falling market as at present.

When a member's term of office ended the property would be sold with any capital gain from the property reverting to the trust/association – or with the member having an opportunity for outright purchase at current value of the PAAE allowance supported equity.

With interest rates at their present levels it probably also represents value to the public purse to be able to look at such an option. For more information on this see also the note on value for money in the view which I sought from a housing professional which may be of interest. (Below)

I am happy to provide the contact details for this person if that should prove of interest.

***3<sup>rd</sup> June 2009***

***Comments from a housing professional on the above proposal***

Your principal concern is to avoid MP's making what are in effect windfall capital gains on property funded by the taxpayer through second home allowances where interest on the mortgage taken to purchase the property (either in Westminster or the MP's constituency) is paid through the PAAE but, at the same time, allowing any person of whatever means to stand for election to Parliament and have decent accommodation to enable them to fulfil their duties as an elected representative. My observations on your proposals are as follows:

- Your proposal that, where a Member chooses to purchase a property with interest assistance through the PAAE, the asset be held either by a co-operative or a charitable housing trust, is a workable one and your analogy with HomeBuy is also valid. This could be readily achieved by using an equity mortgage arrangement. When a member purchases a second home that is adequate to meet their household's needs, the Member's accommodation allowance for the second home, at whatever level Sir Christopher Kelly or a committee independent of Member's may set as appropriate, could be paid to the co-operative or charitable housing trust to service the mortgage used to purchase it. *(Indeed this may be more cost effective for the taxpayer because corporate loans on a larger portfolio of property are generally available at lower rates than personal mortgage loans).* The Member could then be granted a lease or tenancy of the house. If they wished to enhance the type of property they live in from their own resources, the lease they held from the co-operative or housing trust could be a shared equity lease where the element bought by the mortgage funded by the PAAE could be paid to the co-op or trust as, in effect, a payment to service an equity loan held by the trust.
- It may help if I give some more detail about how I think this might work. If the mortgage taken out by the trust to service the property and met by the PAAE was 100% of the second home purchase price, the Member would be granted a simple assured tenancy for a nominal rental value (the rental rising to market value if the

Member ceased to be an MP – possibly also with a right for the outgoing Member to purchase the property at an independent open market valuation if they chose to do so). If a Member was able and willing to do so they could also, from their own capital or other financial resources, buy a property costing more than a reasonable PAAE allowance would support. In this case the Member could be granted a shared equity lease with the split in equity held by the housing trust or co-op being the percentage of the property value paid for by the mortgage held by the housing trust and serviced out of the PAAE. Such an equity lease could also give an outgoing Member the right to purchase the % of equity held by the charitable trust at an independent open market valuation at the end of their Parliamentary career if they chose to do so. This equity lease arrangement would ensure that a Member received no capital gain from proportion of the ownership of a second home funded by the taxpayer because any capital gain on the % portion of value funded by the PAAE would revert to the charitable housing trust. Any capital gain funded by the Member out of their own capital resources or income would, rightfully belong to the Member and would be subject to normal capital gains tax if and when the property was sold.

- There are some complexities about maintenance and management that would need to be built in to a new PAAE structure to allow your proposal to work. If the Member had no equity interest in the value of the property and held a simple assured tenancy from the housing trust, the trust as landlord would be responsible for all management and maintenance costs. These costs would need to be paid through the PAAE in addition to the allowance to cover the mortgage cost. (The allowance for the mortgage cost and management and maintenance could be claimable directly by the housing trust on application to the fees office). If the property was purchased with additional personal financial resources from the Member and they held a shared equity lease, the Member would, under the provisions of the shared equity lease and the Landlord and Tenant Act 1985, be responsible for reasonable management and maintenance costs. These would also need to be allowed for in the PAAE, but could also be claimable directly from the fees office by the housing trust up to agreed and reasonable limits.
- I also think, perhaps, there should be a straightforward allowance for renting a property at an appropriate private sector open market rent and that, as long as the rent was reasonable and within a maximum limit, this should also be payable through the PAAE.
- Ownership of housing equity funded by the taxpayer by a charitable housing trust might be more tax efficient than a co-op in this situation.

I trust these observations are helpful.