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Sir Christopher Kelly KCB
The Committee on Standards in Public Life
35 Great Smith Street
London
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Dear Sir Christopher

**PA Consulting Group's submission to The Committee on Standards in Public Life –
regarding MP's expenses**

Background

The nature of Parliament and the MP's dual role (constituency and Parliamentary) means that MPs need two bases of work and residence and, to ensure that Parliamentarians remain of a high calibre and come from a broad variety of social backgrounds, an expenses regime must be in place to facilitate the effective pursuance of an MP's duties.

However, recent events, particularly the public dismay and uproar following the Daily Telegraph's publication of the expenses claimed by a number of MPs have illustrated that this expenses regime is no longer "fit for purpose", having lost both public support and professional credibility. Successful reform of the expenses regime is crucial for the reputation of Parliament and Parliamentarians. Reform of expenses will be high profile and open to intense public and Parliamentary scrutiny. Failure is not an option.

In this submission, PA Consulting Group, a global consultancy firm of 3000+ employees and a leading provider of strategy, implementation and delivery advice to the UK public sector, sets out their views about how the expenses regime might be successfully reformed and the key principles that should underpin reform. This is supported by PA's considerable experience of developing effective financial management structures for a variety of bodies in both the public and private sectors.

The Need For An Effective Expenses Regime

A smoothly running expenses regime is essential for MPs to effectively fulfill their Parliamentary duties. The dual role of MPs as: i) Parliamentary representative for a constituency and ii) active representatives within the constituency means that an expenses regime must be designed around an MP having two bases - London for the majority of the working week and the constituency for weekends and Parliamentary recess. Any expenses regime must take into account the following elements of an MP's role:

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1. Office expenses - to allow a MP to effectively carry out his/ her Parliamentary duties, often including the employment of a caseworker(s) and Parliamentary researcher(s);
2. Travel between London and the constituency;
3. Accommodation in London;
4. Accommodation in the constituency;
5. General living expenses while in London;
6. Other expenses incurred “wholly and absolutely” in pursuance of Parliamentary duties.

The first two elements listed above are generally uncontroversial. The latter four have been the cause of the greatest controversy and perceived abuse in recent months.

Key Elements Of An Effective Expenses Regime

The Parliamentary expenses regime, although in many ways unique, has many similarities with a variety of expenses regimes in the private sector, notably in consultancies and other professions that require extensive travel. Reform of MP’s expenses must draw upon examples of private sector good practice, both in expenses and beyond, to create a “best of breed” model that is able to stand up to public tests and scrutiny and withstand potential criticism. The essential elements of such a model are compelled to include:

1. Transparency;
2. Efficiency and effectiveness; and
3. Value for money

These elements are explored in greater detail below:

Transparency

The major criticism leveled at the existing expenses regime is that both its rules and its workings lack sufficient transparency. The existing system is seen as operating behind closed doors – spending public money with little indication to the public of how their money is being spent. A lack of transparency has allowed a climate of suspicion to develop, which can only be eradicated by ensuring that MP’s expenses operate within a culture of openness. In many ways, this will only bring MP’s expenses into line with what is expected of other public sector organizations. A lack of transparency is one of the biggest flaws in the system that must be rectified with any reform. Transparency can be achieved in a number of ways:

- **Clarity** – The first aim of any new regime should be to set out exactly what falls within and what falls without of the expenses “net”. Rules must be explicit and clear. There must be a complete regard to public and professional perceptions of what is necessary for MPs to carry out their Parliamentary duties including a moral view on what is acceptable and what is not. Whilst existing rules are hazy, with multiple examples of lack of clarity creating an environment where controversial and dubious claims were regarded as falling within the rules. This must be replaced with clarity and certitude.
- **Openness** – To restore public confidence in MP’s expenses, genuine openness is required, in terms of both the expenses that have been claimed and, within reason, discussions between MPs and the Fees Office. Both expenses rules and expense claims must be clear and open for any members of the public to view and understand. Emphasis must be placed on the fact that a new regime is fully open, with Parliamentarians and officials having “nothing to hide”.
- **Real time information.** There is a genuine demand and desire for MP’s expenses

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claims to be published electronically and in real time. This will both incentivise and ensure effective operation of the expenses mechanism and progressively assuage public doubts about the veracity of MP's expenses. This demands innovative use of available technology, drawing lessons from the growing use of real time information in recent years. PA as a company has developed a number of such real-time information systems and our learning from such successful schemes in the past is to design the architecture at the beginning but to build the software in short time releases ensuring that users and others can develop their capability alongside the software.

Efficient and effective

An effective, transparent expenses regime requires an efficient, effective organisation behind it. This necessitates the Fees Office becoming a world class organisation, with first rate technology and processes, which is the equal or the better of private sector examples. Such an organisation should be based upon the following hallmarks:

- **Clear definition of purpose.** Lessons from all sectors show that bodies are unlikely to succeed without a clear definition of their role and purpose, which is communicated throughout the organisation. Clearly articulated goals can flow from this definition. A common theme of the media reporting about the "expenses scandal" has been that the Department of Finance and Administration, Fees Office and associated organisations do not have a clear definition of purpose and there is confusion over the exact nature of their role. We know from our own public sector experience in helping a number of bodies, who have been subject to intense public criticism, that it is best to return to first principles and define overall purpose and underlying goals. Then, and only then, have organisations managed to successfully transform their operations.
- **Elimination of process inefficiencies.** Anecdotal evidence has suggested that a number of process inefficiencies lie at the heart of the mechanism that oversees MP's expenses. These range from a lack of clarity about the exact role of the Fees Office (does it have an advisory role or is it purely an implementation body); through concerns about workload backlog and duplication; the efficacy of maintaining reporting lines between the Fees Office and the Speaker, rather than other bodies; and issues about effective training of Fees Office employees to deal with difficult, potentially controversial claims. A 1999 Report cited deficiencies in the Department of Finance and Administration, "in terms of quality and speed."¹ Media reports and anecdotal evidence make clear that those concerns remain and a number of process inefficiencies urgently need to be addressed.

Again, from our international experience where we have rectified process inefficiencies (in both the public and private sector) it is imperative that full measures are used. An organisation must unpick existing process based, firstly, on the renewed goals of the organisation and, secondly, views of how existing focusing processes succeed in delivering these goals.

- **Management Information standards.** Rigorous management information standards lie at the heart of any successful organisation, both in the public and private sectors. Without such standards it is somewhere between difficult and impossible to judge how

¹ Review of Management and Services: Report To The House Of Commons Commission, 1999, <http://www.publications.parliament.uk/pa/cm199899/cmselect/cmhccom/745/part06.htm#6h>

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effectively an organisation is performing. There is little evidence that such standards are utilised when considering MP's expenses. Rigorous management information needs to underpin any reform of the infrastructure that supports reform of the expenses regime.

- **Effective use of technology.** Successful reform necessitates the effective use of technology. Using the available technology well will probably be the difference between a very public, and essential, success and a very public failure. Technology and information systems needs to be used in a number of ways:
 - The electronic submission of expenses, with electronic guidance about an expenses likely validity prior to submission;
 - Electronic storage of expenses claims;
 - Use of technology to allow openness and real-time information;
 - Electronic accounting mechanisms – ensuring both quick and efficient payment and a full “audit trail. A quick turnaround and easy to use electronic interfaces will be crucial to delivering the support of MP's and Member's staff for a new expenses regime.

Such an undertaking calls for a powerful and potentially complex technology solution which must however deliver simplicity to the user and allow for appropriate interrogation and reporting. Such a solution must clearly separate function from data and remove the burden of complex technology to ensure compliant usage.

- **Early warning systems.** The expenses system has appeared to be devoid of any real warning signals to the extent that, ultimately, a full blown crisis, questioning the validity of the entire system, became unavoidable. A number of the claims that have dominated the headlines in recent weeks could have been avoided if an early warning mechanism was built into the system, combining a number of factors including clear rules; highly trained staff and use of available technologies. Given the profile of the expenses scandal, an effective early warning mechanism is essential if a new regime is to maintain credibility and the House of Commons is to redeem its public reputation.
- **Secure.** For all participants to have confidence in an expenses regime it is necessary to ensure that all personal information handled by Fees Office does not reach the public domain.
- **Highly trained staff.** The recent high profile expenses cases have highlighted the need for high quality, intensive and largely uniform training for all staff involved in the expenses regime, at all levels. Empowering staff through training will be crucial to the effectiveness of a new regime and at its most effective when applied as a regular means of staff development, rather than a short term, and potentially quickly forgotten, burst of activity. Such training might involve a mixture of classroom based learning; good practice seminars; web-learning courses; “live” case studies and role-plays; as well as ensuring that all staff are thoroughly aware of the rules and how they should be applied before they handle expenses.
- **Culture change.** Changing the culture of an organisation facing difficulties is essential if that organisation's performance is to be improved. Nowhere is that more important than in the relationship between the Fees Office and Parliamentarians. A culture that has seen alleged “bullying” of staff by MPs has to be replaced by a culture in which the decision of the Fees Office is final and based upon a set of clear and non negotiable criteria. Nor will it be publicly acceptable for the Fees Office to be seen as existing for

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the benefit of MPs, rather than as a body that ensures the shrewd and sensible spending of public money. The fact that MPs will be following rules created by an independent panel, allied with high quality training and the recruitment of more senior staff might go some way to achieving change in culture. However, PA's experience in changing the culture of various bodies has illustrated that culture change must be a primary goal if improvement is going to be realised. At the heart of any expenses culture change programme, it is vitally important that those claiming reimbursement not only observe rules and protocols, but also and even more importantly apply – at all times – the red face test.

- **Independent.** In order to gain public response and restore its own credibility any new expenses regime must be seen as absolutely independent from Members of Parliament. In the professional services industry, it is accepted that those who make decisions that might financially advantage stakeholders must be as independent as possible from these stakeholders. This principle needs to be expanded to the workings of the new expenses regime. This independence could take a number of guises – including the Fees Office taking on reporting lines independent of the Speaker and other Parliamentary authorities; rules about expenses being decided not by MPs but by an independent body; and by individuals making decisions about MPs expenses being entirely independent of those individuals set to gain from their decisions.

Value For Money

The public demand, and have a right to demand, value for money from the MP's expenses regime. Inevitably, one of the key metrics that any reform will be judged against is its ability to deliver value to the taxpayer. Every decision made about reform of the expenses regime should be based on achieving a high quality service at maximum value for money. Once again, this concept is too vague in description and PA would propose a four dimensions to this for MP expenses that links value to the user (i.e. MPs), to that of the citizen, the public sector itself and finally the infrastructure that already exists.

We would be pleased to provide further written or oral evidence if such was required. I would wish you to note that as a company we have developed expenses systems and introduced the necessary culture change in both public and private bodies, including our own.

Best regards

Andrew Hooke
Chief Operating Officer & Head of Government Consulting