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Committee on
Standards and Privileges

Mr George Osborne

Sixth Report of Session 2009–10

Report and Appendices, together with formal minutes

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The Committee on Standards and Privileges

The Committee on Standards and Privileges is appointed by the House of Commons to oversee the work of the Parliamentary Commissioner for Standards; to examine the arrangements proposed by the Commissioner for the compilation, maintenance and accessibility of the Register of Members' Interests and any other registers of interest established by the House; to review from time to time the form and content of those registers; to consider any specific complaints made in relation to the registering or declaring of interests referred to it by the Commissioner; to consider any matter relating to the conduct of Members, including specific complaints in relation to alleged breaches in the Code of Conduct which have been drawn to the Committee's attention by the Commissioner; and to recommend any modifications to the Code of Conduct as may from time to time appear to be necessary.

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The current staff of the Committee are Mr Steve Priestley (Clerk), Miss Rhiannon Hollis (Second Clerk) and Ms Jane Cooper (Committee Assistant).

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Mr George Osborne

Introduction

1. The Parliamentary Commissioner for Standards has sent us a memorandum, reporting on the outcome of his investigation of a complaint against Mr George Osborne, the Member for Tatton. Both the Commissioner's memorandum and a letter we subsequently received from Mr Osborne are appended to this Report.

2. The complaint against Mr Osborne was made by the Chairman of Tatton Labour Party, Mr Laurie Burton.¹ Mr Burton raised a number of questions concerning Mr Osborne's designation of his main home and Mr Osborne's claims against Additional Costs Allowance (ACA) in respect of his second home.² The Commissioner has summarised these in his memorandum, as follows:

the essence of the complaint was that between 2001 and 2003 [Mr Osborne] had wrongly identified his main home for the purposes of his claims against the ACA and that from 2003 he had claimed for mortgage payments that were not necessarily incurred, contrary to the rules of the House.³

The relevant rules of the House are set out at paragraphs 7 to 15 of the Commissioner's memorandum.

3. Where, as in this case, part of a complaint relates to events going back more than seven years, the Commissioner seeks our agreement to an investigation which includes those events. We were satisfied that in this case it was necessary that the Commissioner's investigation should go back more than seven years and we accordingly gave our assent to this on 30 June 2009.

The Commissioner's findings

4. In the following sections, we summarise the Commissioner's findings of fact and conclusions. We then note Mr Osborne's statement, before reporting our own conclusions and recommendation.

Mr Osborne's designation of his main home from 2001 to 2003

5. Mr Osborne was first elected to the House in June 2001. At the time, he already had two homes: one in London; and one in Cheshire, just outside the Tatton constituency.⁴ He had raised a loan to buy the Cheshire property in 2000 by increasing the mortgage on his

¹ Appendix 1, paragraph 3; WE6

² Appendix 1, WE1 and WE4

³ Appendix 1, paragraph 16

⁴ Appendix 1, paragraph 94

London home. As a Member, Mr Osborne claimed ACA for the mortgage interest payments relating to the Cheshire property. As we noted in a recent Report, there was nothing in the rules at the time to prevent a Member claiming for the cost of buying a second home in order to perform their Parliamentary duties and funding it by raising a mortgage on another property.⁵

6. The rules at the time also allowed Members to designate their main home, without further guidance. It appears that soon after being elected Mr Osborne nonetheless sought guidance from the Fees Office and that he was advised that he could designate either property as his main home. The Fees Office were content that Mr Osborne should claim ACA for some of the interest payments on the mortgage secured on his London home, even though he made it clear that the payments for which he intended to claim related to the Cheshire property.⁶ Mr Osborne followed the advice he was given and from the time of his election until 21 July 2003 designated his Cheshire home as his main home for allowance purposes.⁷ During this period, he claimed against the ACA for interest payments on that part of the mortgage secured on the London property that related to the purchase costs of the Cheshire property. The Commissioner finds that:

Mr Osborne's decision to nominate his property in Cheshire as his main home was against the rules because, in fact, his claims on his London property were solely to meet the mortgage interest costs of his Cheshire property, and he was not allowed to claim those costs because he had identified that property as his main home.⁸

7. However, the Commissioner also accepts that Mr Osborne was clear about his intentions when he sought advice from the Fees Office and that he was advised to nominate the Cheshire property as his main home and to claim ACA against the mortgage on his London home.⁹ The Commissioner agrees with the Department of Resources that the original advice was "flawed".¹⁰ He also points out that there is no evidence that Mr Osborne personally benefited from the arrangement. He concludes that it would be unfair to see this as a serious breach of the rules.¹¹

The 2003 mortgage

8. The Commissioner notes that in November 2003, Mr Osborne raised a mortgage loan of £450,000 secured on the Cheshire property, rather than continuing to secure his borrowing for the purchase of that property on his home in London.¹² At the same time, Mr Osborne also designated the London property as his main home. In the Commissioner's judgment,

⁵ Eleventh Report, Session 2008–09, HC1101, paragraphs 9 and 10

⁶ Appendix 1, paragraph 101

⁷ Appendix 1, paragraph 94

⁸ Appendix 1, paragraph 107

⁹ Appendix 1, paragraph 108

¹⁰ Appendix 1, paragraph 109

¹¹ Appendix 1, paragraphs 111 and 121

¹² Appendix 1, paragraph 112

this change was not only within the rules as they were at the time, but it was “a sensible decision, since it had the prospect of making more simple and more direct his mortgage arrangements.”¹³ It was also “entirely acceptable” for Mr Osborne to continue to claim the cost of buying his Cheshire property by charging to Parliamentary allowances the interest costs of the new mortgage.

9. In his original complaint, Mr Burton suggested that, because Mr Osborne owned the Cheshire property outright before he was elected to Parliament, he should not have claimed from Parliamentary allowances in 2003 and subsequently for the cost of interest payments on the loan he had raised for its purchase.¹⁴ The Commissioner concludes that “the Cheshire property was undoubtedly being used for the purpose of performing Mr Osborne’s parliamentary duties, and thus the interest on the mortgage used to purchase it was properly chargeable against the ACA.”¹⁵ He rejects this part of the complaint.¹⁶

10. The 2003 loan was for a sum £5,000 greater than the purchase price of the property three years earlier.¹⁷ We return to this point below.

The 2005 mortgage

11. During the course of the investigation of this complaint, Mr Osborne drew the Commissioner’s attention to additional borrowing by him in December 2005, in the form of an increased mortgage on his Cheshire property. This was to meet £10,000 of the cost of some repairs to the property and to cover costs of £25,000 associated with the original purchase.¹⁸ Claiming for interest payments in relation to the costs associated with the original purchase was impermissible under the rules, although Mr Osborne was apparently not aware of this.¹⁹ The Commissioner also notes that, at the time, adding repair costs to a mortgage (rather than claiming for the costs directly) was specifically prohibited by the rules. However, it appears that, once again, Mr Osborne was acting in accordance with flawed advice given by the House authorities when he added these costs to his borrowing.²⁰

12. The Commissioner has pointed out that the sums wrongly claimed in respect of the repairs are modest and that the rules changed very shortly afterwards to permit repair costs to be added to mortgages.²¹ In the Commissioner’s view, it would be “unduly harsh to criticise Mr Osborne for the action he took” in adding the repair costs to his mortgage.²²

¹³ Appendix 1, paragraph 113

¹⁴ Appendix 1, WE1

¹⁵ Appendix 1, paragraph 114

¹⁶ Appendix 1, paragraph 115

¹⁷ Appendix 1, paragraph 97

¹⁸ Appendix 1, paragraphs 98 and 119

¹⁹ Appendix 1, paragraphs 116 and 118

²⁰ Appendix 1, paragraphs 102, 103 and 119

²¹ Appendix 1, paragraphs 119 and 120; WE26

²² Appendix 1, paragraph 119

Mr Osborne's mortgage interest claims

13. The Commissioner notes that Mr Osborne's original loan in respect of the Cheshire property, secured on the London property, covered the purchase price, transaction costs and the initial repairs.²³ As noted above, later loans—in 2003 and in 2005—were also for sums greater than the original purchase price. Members could not claim against the ACA for costs incurred before they were elected to the House; they could, however, claim for the continuing mortgage interest payments relating to the purchase price only. The documentary evidence submitted by Mr Osborne suggests that the mortgage interest he claimed in five of the seven years covered by the complaint did not exceed the interest on that part of the loan which was permitted by the House at the time (ie, the interest on £445,000, subject to the overall limit on claims in any given year). However, the Commissioner has found that “the interest claimed exceeded those costs in both 2005–06 and 2006–07 by a total of £785 and £1,151 respectively.”²⁴

14. The Commissioner concludes that “Mr Osborne was, therefore, in breach of the rules in 2005–06 and 2006–07, but not in any other year, in the claims he made for mortgage interest on his additional property in Cheshire.”²⁵ He has therefore upheld this part of the complaint. The Commissioner does not consider this a serious breach of the rules: “the sums were not particularly large and the mistake was not intended.” He notes that Mr Osborne has offered to repay the sums involved (£1,936, of which he has already paid £270).

The Commissioner's overall conclusion

15. The Commissioner concludes:

Taken overall, I do not regard as particularly serious the breaches of the rules which I have identified. Mr Osborne has been consistent in pointing out that he took advice at all times from the House authorities and acted on that advice. The breaches were not major ones, were not intentional and did not provide Mr Osborne with any significant financial benefit. He has offered to pay back the excess sums he claimed for and received in 2005–06 and 2006–07. These amount to £1,936, less the sums he has already repaid.²⁶

Mr Osborne's statement

16. Having received a copy of the Commissioner's memorandum, Mr Osborne has written to our Chairman in the following terms:

²³ Appendix 1, paragraph 116

²⁴ Appendix 1, paragraph 117. For the full figures, see table at Appendix 1, paragraph 100.

²⁵ Appendix 1, paragraph 118

²⁶ Appendix 1, paragraph 124

I am happy to accept the Commissioner's conclusions. I note his overall conclusion that "The breaches were not major ones, were not intentional and did not provide Mr Osborne with any significant financial benefit". I repeat to the Committee the offer I made to the Commissioner to repay £1,666 in order to ensure my claims are entirely beyond reproach.

Conclusions

Mr Osborne's designation of his main home from 2001 to 2003

17. We agree with the Commissioner that Mr Osborne's decision to nominate his property in Cheshire as his main home from 2001 to 2003 and at the same time to claim ACA in respect of mortgage interest payments relating to that property was against the rules. Mr Osborne has accepted this conclusion.

18. The Commissioner's view is that it would be unfair to see this as a serious breach of the rules. It appears not to have been intentional, in that Mr Osborne took advice from the Fees Office and believed the arrangement to be within the rules. Mr Osborne would also have had every right to make the claims that he did make during this period, had he received and followed the correct advice and designated his London home as his main home. There was thus no loss to public funds. We therefore agree with the Commissioner's conclusion. We are nonetheless surprised that even under the relatively relaxed allowances regime of 2001, the Fees Office should have considered it acceptable for a Member to claim ACA on that part of a mortgage which, while it was secured on a second home (at the time, Mr Osborne's house in London), related to the purchase of a designated main home (at the time, Mr Osborne's house in Cheshire).

The 2003 mortgage

19. Although we agree with the Commissioner that Mr Osborne's decision to transfer the security for his mortgage on his Cheshire home in 2003 was sensible, we take the view that the House authorities were wrong to regard the additional £5,000 over the purchase price as *de minimis*. While it was perfectly acceptable for Mr Osborne to borrow the extra sum, it would not in our view have been acceptable for him to claim his interest payments on it, however small such claims might have been. In fact, as the table in the Commissioner's memorandum demonstrates, Mr Osborne did not claim ACA in respect of the extra £5,000.²⁷ We therefore agree with the Commissioner's decision not to uphold this part of the complaint.

The 2005 mortgage

20. We accept the Commissioner's view, that it would be "unduly harsh to criticise Mr Osborne" for adding to his mortgage in 2005 £10,000 for the cost of necessary repairs to his

²⁷ Appendix 1, paragraph 100

Cheshire home. We are more concerned that Mr Osborne at the same time added £25,000 to his mortgage in respect of costs over and above the original purchase price of the property and that he claimed for the interest payments on some of these costs. Although, as with the 2003 mortgage, Mr Osborne was free to borrow such sums as he saw fit, he was not permitted to claim for the interest payments on borrowings that related to costs incurred before his election, other than the purchase price of the property. In this case, it appears that Mr Osborne did claim for such sums because, on Mr Osborne's own evidence, of the £1,936 he claimed over and above the payments that related to the mortgage on the property, only £1,512 related to the cost of the repairs.²⁸

21. Mr Osborne was, in our view, mistaken when he suggested to the Commissioner that instead of adding the cost of the repairs to his Cheshire home to his mortgage, he "could have claimed over £10,000 from public funds for repairs on the ACA."²⁹ In 2005–06, Mr Osborne claimed just £101 less than the ACA ceiling of £21,634. There was, as the Commissioner states, insufficient 'headroom' for a claim of £10,000. We agree with the Commissioner that it is difficult to see how the 2005 mortgage arrangement represented a significant saving to taxpayers, although it is evident that a later remortgage (in 2008) has resulted in savings.³⁰

22. In our view, the Commissioner is clearly right to conclude that Mr Osborne broke the rules in 2005–06 and 2006–07, by claiming for mortgage interest payments in relation to costs he incurred before he became a Member and in relation to the cost of repairs. Mr Osborne has accepted that he broke the rules, but we agree with the Commissioner that the sums were not particularly large and the mistake was not intended.

Mr Osborne's mortgage interest claims

23. Mr Osborne also suggested to the Commissioner that he claimed almost £10,000 of mortgage interest from his ACA less than he could have claimed over the period 2001 to 2008.³¹ Of course, as with the repairs, Mr Osborne could only have claimed this amount if there had been sufficient 'headroom' beneath the annual ceiling for the ACA. It is quite clear from the table in the Commissioner's memorandum that there was insufficient 'headroom' to accommodate a claim for such a sum.³²

24. The question arises of whether Mr Osborne's point would have carried greater force if there had been sufficient 'headroom' in his allowance. In our view, it is reasonable for us and anyone else who judges Members' conduct to have regard to the extent to which a Member has not claimed sums to which he or she might have been entitled. We do not believe, however, that it would be right to seek to offset in a formal way 'underclaims'

²⁸ Appendix 1, WE26

²⁹ Appendix 1, WE20

³⁰ Appendix 1, paragraph 119 and WE6

³¹ Appendix 1, paragraph 87

³² Appendix 1, paragraph 100

against ‘overclaims’, as a way of balancing the books. This is a principle we have sought to establish in a previous Report and it is one we intend to maintain.³³

Overall conclusion

25. Like the Commissioner, we consider that the breaches of the rules identified in his memorandum on Mr Osborne were not major breaches and were not intentional. We entirely accept that Mr Osborne derived no significant financial benefit from them. Mr Osborne has emphasised that he has sought at all times to minimise the cost of his claims, for example by seeking the best value mortgage deals. It was of course in Mr Osborne’s own interest to do this, but we appreciate that his actions also helped to make his claims lower than they might otherwise have been. This is no more or less than we would expect from any Member.

Recommendation

26. Mr Osborne has accepted that he breached the rules. In our view, these breaches were unintended and relatively minor. Mr Osborne has already repaid £270, to which he has added interest. We recommend that Mr Osborne repay £1,666; this is the remainder of the £1,936 which we have concluded he should not have claimed.

³³ Sixth Report, Session 2008–09, HC 316, paragraph 22

Appendix 1: Memorandum from the Parliamentary Commissioner for Standards

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Complaint against Mr George Osborne MP

Introduction

1. This memorandum reports on my inquiry into a complaint that between 2001 and 2003 Mr George Osborne, the Member for Tatton, wrongly identified his Cheshire home as his main home for the purposes of his claims against the Additional Costs Allowance (ACA) and that from 2003 he claimed unnecessarily for mortgage interest payments on his Cheshire home.

2. The first part of the complaint relates in large measure to events of more than seven years ago. In such cases, I am required to consult the Committee on Standards and Privileges before accepting the complaint for investigation.¹ I consulted the Committee on 30 June and it agreed to me initiating an inquiry into this part of the complaint.

Background

3. Mr Laurie Burton, of Knutsford, wrote to me on 17 June 2009, asking me to investigate two matters relating to the mortgage claims made by Mr Osborne.² The first was whether it was necessary to his parliamentary duties for Mr Osborne to have taken out a mortgage on his Cheshire home in 2003 that Mr Burton believed, on the basis of Land Registry documents and a *Daily Mail* article of 11 June³, was worth more than Mr Osborne had paid for the house. The second was that, despite owning the Cheshire property outright and reportedly making clear that it was his second home, Mr Osborne claimed for two years on the mortgage for his London main residence. Mr Burton argued that two questions arose: whether it was necessary for Mr Osborne to claim for staying away from his main home when he owned the second home outright, and what happened to the money which Mr Osborne had claimed against his London main residence.

4. I replied to Mr Burton on 19 June⁴, summarising my understanding of the allegations he had made, including those in the *Daily Mail* article of 11 June. I also asked him if he wished to make a formal complaint against Mr Osborne and, if so, what the actions of Mr Osborne were that Mr Burton believed were in contravention of the rules of the House.

The Complaint

5. Mr Burton wrote to me on 21 June.⁵ He confirmed that he did wish to make a formal complaint against Mr Osborne on the basis of my summary of his allegations as set out in my letter of 17 June, together with “*some modifications resulting from the details of*

¹ *The Guide to the Rules relating to the conduct of Members, February 2009*, HC (2008-09) 735, para 104.

² WE 1

³ WE 2

⁴ WE 3

⁵ WE 4

Members' expenses subsequently published". Mr Burton alleged that, according to Land Registry records, Mr Osborne had purchased a Cheshire property in September 2000 for £445,000 cash. He commented, "This had nothing to do with parliamentary duties, as at that time he was not, and had never been, a Member of Parliament. It was obviously a second (holiday?) home. At that time his main residence was in London, where he had lived with his family since 1998." Mr Burton said that, following Mr Osborne's election to the House in June 2001, he had designated his London home, which was mortgaged, as his second home in order to claim against the ACA for the mortgage payments. Mr Burton also alleged that published expense details showed that Mr Osborne had taken out a mortgage on the Cheshire house in 2003 for an amount £5,000 in excess of the purchase price. He had then redesignated the property as his second home and claimed against the ACA for the new mortgage payments.

6. Mr Burton also suggested that Mr Osborne had avoided paying capital gains tax when he sold his London home in 2006 because this tax would have been payable if it had still been his designated second home.

Relevant Provisions of the Code of Conduct

7. The Code of Conduct for Members of Parliament provides in paragraph 14 as follows:

"Members shall at all times ensure that their use of expenses, allowances, facilities and services provided from the public purse is strictly in accordance with the rules laid down on these matters, and that they observe any limits placed by the House on the use of such expenses, allowances, facilities and services."

8. The Green Book on Parliamentary Salaries, Allowances and Pensions published in February 2001 is the edition which is relevant to the first part of the complaint. Section 3 provides the rules in respect of the ACA. Paragraph 3.1.2 states:

"The Additional Costs Allowance (ACA) reimburses Members of Parliament for expenses incurred when staying overnight away from their main home whilst performing their parliamentary duties. This can be in either London or the constituency."

9. Paragraph 3.2.1 of the Green Book deals with eligibility:

"...If you represent constituencies outside London you can claim ACA expenses in either London OR your constituency. If you have a home both in the constituency and in London, you should tell the Fees Office which one is your main home. ..."

10. Paragraph 3.3.1 includes the following definition of additional costs:

"These include any additional costs necessarily incurred in staying overnight for performing parliamentary duties, but does not include any expenses that have been incurred for purely personal or political purposes..."

If there is any doubt about whether an expense may be met from the allowance or if a receipt is required, please contact the help line numbers for advice.”

11. The Green Book published in June 2003 is the edition which is relevant to the second part of the complaint. In the Speaker’s introduction, he said:

“Members themselves are responsible for ensuring that their use of allowances is above reproach. They should seek advice in cases of doubt and read the Green Book with care.”

12. Section 3.1.1 of the Green Book sets out the scope of the ACA as follows:

*“The Additional Costs Allowance (ACA) reimburses Members of Parliament for expenses wholly, exclusively and necessarily incurred when staying overnight away from their main residence (referred to below as their main home) for the purpose of performing Parliamentary duties. **This excludes expenses that have been incurred for purely personal or political purposes.**”*

13. Section 3.2.1 sets out eligibility criteria in the following terms:

“You can claim ACA if:

a You have stayed overnight away from your only or main home, and

b This was for the purpose of performing your Parliamentary duties, and

c You have necessarily incurred additional costs in so doing, and

d You represent a constituency in outer London or outside London”

...

14. Section 3.9.1 defines “main home” as follows:

“For [Members other than Ministers or office holders], the location of your main home will normally be a matter of fact. If you have more than one home, your main home will normally be the one where you spend more nights than any other. If there is any doubt about which is your main home, please consult the Department of Finance and Administration.”

15. Similar paragraphs have been included in successive Green Books in force between June 2003 and March 2009 (when the ACA was replaced by Personal Additional Accommodation Expenditure (PAAE)).

My Inquiries

16. I wrote to Mr Osborne on 30 June, inviting his comments on the complaint.⁶ I noted that the essence of the complaint was that between 2001 and 2003 he had wrongly identified his main home for the purposes of his claims against the ACA and that from 2003 he had claimed for mortgage payments that were not necessarily incurred, contrary to the rules of the House. I also said that I would not be inquiring into any liability Mr Osborne may have had for capital gains tax on the sale of his London property in 2006 since that was a matter for Her Majesty's Revenue and Customs. I asked what were the circumstances in which Mr Osborne came to acquire his Cheshire residence and his successive London residences with dates, finance arrangements and a brief description of the accommodation each provided; whether, and if so when between 2001 and 2003, he had designated his Cheshire residence as his main home; the reasons why he considered his Cheshire residence to be his main home during this period; whether, and if so when in 2003, he designated his London residence as his main home; the reasons why he considered his successive London residences to have been his main home from 2003 and what were the circumstances that led him to make the change from his Cheshire designation.

17. I also asked Mr Osborne whether, and if so why, he raised a mortgage on his Cheshire home in 2003, the size of the mortgage and its relationship to the value of the property at the time; what claims for mortgage interest on his Cheshire home he had made against the ACA in 2003-04 and in each successive financial year; whether, and for what reason, he considered that those costs were necessarily incurred for the purpose of performing his parliamentary duties, given that he apparently owned the home outright before 2003; to what use he had put the capital thus released, and whether any of it was used in support of the costs of his London residence; what the circumstances were and what arrangements were made for the change in his London house in 2006, and what advice, if any, Mr Osborne had taken from the House authorities about any of these arrangements.

18. Mr Osborne replied on 15 July.⁷ He said that he believed that he had, at all times, followed the rules set out in the Green Books published in February 2001 and June 2003. He said that all the allowances he had claimed had been incurred for the purpose of allowing him to stay overnight in pursuit of his parliamentary duties since his election in June 2001 to the seat of Tatton, some 180 miles from London. He only owned a property in Cheshire in order to fulfil his duties as a constituency Member there, and had never sought to exploit the allowances for personal gain. He had consulted the Department of Finance and Administration (the Fees Office) in advance of designating his homes for the purposes of claiming parliamentary allowances, both in 2001 and 2003. He also consulted the Fees Office in advance of the mortgages he took out against his house in Cheshire in 2003 and 2005. He commented, "*Both at their request and on occasions unsolicited, I also submitted copies of all the relevant paperwork, including mortgage statements, letters from the mortgage*

⁶ WE 5

⁷ WE 6

companies and mortgage arrangement documents. At no point has anyone from the Fees Office contacted me in person or in writing to express any concern about my arrangements. All my claims for mortgage interest were accepted by the Fees Office and paid out in full.

19. Mr Osborne said that, in accordance with the requirements of the Green Book, he had borne in mind the need to obtain value for money. He commented, *“Indeed, I apply that principle both to the expenses which are allowable against parliamentary expenses and those expenses I incur personally. That explains the regular re-mortgaging of both the houses in Cheshire and London, every two or three years and usually with different mortgage providers, in order to obtain the best mortgage deals and to avoid paying the more costly Standard Variable Rate (SVR).”*

20. In response to the specific points I had raised, Mr Osborne said that he had purchased a London property in April 1998 jointly with his wife. It had been bought for £710,000, secured against a joint interest-only mortgage of £150,000. In 1999, he had been selected as the prospective Conservative candidate for Tatton. Initially, he and his wife had rented a small cottage in the constituency. In October 2000, *“in the reasonable anticipation that I would be elected at the forthcoming election and that we would start a family”* he and his wife had purchased the Cheshire property. He noted that the property was located six miles from the constituency border, and a 12 minute drive from a station which had an hourly direct service to London, the service he and his family usually used to travel to the constituency. Mr Osborne commented, *“Only in the last year has a frequent direct train service been provided to a station within the constituency. I would not have bought the house if I had not hoped and anticipated that I would become shortly thereafter the MP for Tatton and therefore [it] is exclusively connected with my parliamentary duties.”*

21. Mr Osborne said that the purchase price of the Cheshire property was £445,000. When the cost of legal fees, mortgage arrangement fees and moving fees were added to the purchase price, and also the cost of some essential repairs and basic decoration, he had calculated that he would need at least £470,000 to buy and move into the house. As the sellers wanted a quick sale and the mortgage company had said that increasing the existing mortgage would be far easier and quicker than taking out a new one against a new property, Mr Osborne and his wife had raised £470,000 by increasing the interest-only mortgage of £150,000 on their London home to £620,000. He commented, *“This, I understand, is common practice when people purchase second properties.”* In 2003, he had replaced that single mortgage with two separate mortgages—one secured against the Cheshire property and the other against the London property. In July 2006 he and his wife had moved house in London. Mr Osborne said, *“I have never claimed any parliamentary allowances against [the new London property] or ever designated it as anything other than my main residence for parliamentary purposes.”*

22. Mr Osborne said that, between June 2001 and July 2003, he had designated his Cheshire residence as his main home for parliamentary purposes, on the advice of the Fees

Office. On 21 July 2003, he had completed an ACA 1 form, a copy of which he enclosed with his letter⁸, which identified his London property as his main residence and his Cheshire property as “*my second residence*”.

23. Mr Osborne said that, following his election to the House, he met with a representative of the Fees Office to discuss his arrangements for claiming the Additional Costs Allowance. He believed that this type of meeting was offered to all new Members. Although he had no notes of the meeting, he had a clear recollection of its contents as he had been considering what was the appropriate designation of his two homes and had wanted advice. He had explained that he had purchased the Cheshire property in the anticipation that he would be elected there, and had met the costs of the purchase, and the costs associated with moving in and doing some essential repairs and basic redecoration, by securing an additional £470,000 of mortgage against his London home. He had also explained that, at the time, he was, with his family, dividing his time equally between London and Cheshire, but expected that his child would eventually go to school in London “*and so therefore I saw that in the long term as my main home*”. He said that the Fees Office representative advised that “*in my family circumstances the rules would allow me to designate either property as my ‘main home’ but that it would be sensible to designate Cheshire as my ‘main home’ and claim ACA against the London home as that was the property against which the mortgage used to purchase the house in Cheshire had been secured.*”

24. Mr Osborne said that the Fees Office representative had also advised that he could always reconsider the issue when the terms of his mortgage allowed him to re-mortgage, which was not until 2003. Mr Osborne said that he had pressed on whether this would conflict with the designation for the purposes of capital gains tax, and the representative had told him that “*capital gains tax designation was irrelevant as far as the parliamentary authorities were concerned*”. He commented, “*I was repeatedly told that, as far as the rules were concerned, it did not matter which property I designated.*” Following that advice, he had therefore designated his Cheshire residence as his main home for parliamentary purposes and claimed ACA against the interest-only mortgage secured on his London residence.

25. Mr Osborne did not have copies of his ACA claims for the period 2001 to 2003, and believed that the Fees Office did not either, but he remembered that “*I claimed it for mortgage interest and (to the best of my recollection) nothing else. I am certain that I never claimed for furniture or utility bills or other costs associated with the London residence.*” He had, however, found in his files a copy of his mortgage statement for 31 August 2002 to 31 August 2003, which showed his monthly interest payments were £2,868 falling to £2,816. In that year he had paid £34,161 in mortgage interest costs. He added, “*According to Fees Office records, my total ACA claims for 2001 and 2002 were £3,119⁹ and £18,058*

⁸ Not included in the written evidence.

⁹ The Department of Resources later corrected this figure to £18,009. See WE 32.

respectively.¹⁰ *This is relevant because it shows that I only ever claimed for mortgage costs incurred in the purchase of my Cheshire residence, and never claimed for the full cost of the whole mortgage or for any of the portion that had originally been used to purchase my London residence.*"

26. With effect from 21 July 2003, Mr Osborne had changed the designation of his main home from Cheshire to London, and nominated his Cheshire home as his second home. He had continued the designation of his London home as his main home when he moved home in London in July 2006. Mr Osborne said that there had been three reasons for his change of main home designation in 2003. First, this was when the terms of the mortgage secured against his London home allowed it to be changed without incurring expensive penalty costs. Second, his family life was changing, and he anticipated that he would now be spending four full days a week in London while the House was sitting, and weekends and recesses only in Cheshire. Third, the stricter definition of 'main home' introduced in 2003 rendered "*out of date*" the advice he had received from the Department of Finance and Administration in 2001, and Members were now required on the new ACA form to identify clearly a 'main' and 'second' home. Mr Osborne commented, "*By then it was clear that I would be spending more nights a year in London.*" He therefore submitted the new ACA 1 form identifying London as his main home and Cheshire as his second home. He also split the existing mortgage in two, one for London and one for Cheshire, and from then on he had claimed against the ACA in respect of his Cheshire home.

27. Mr Osborne said that in November 2003 he had raised a £450,000 interest-only mortgage against his Cheshire home. He had wanted to raise at least £470,000 (the amount by which he had increased his London mortgage in 2000 in order to purchase and move into the Cheshire property). However, £450,000 was the maximum the mortgage company would allow given the then value of the Cheshire property. He commented, "*Even so, the costs of arranging the new mortgage, and valuing the property, amounted to several thousand pounds. I did not have a record of the exact value of the property then, but it had clearly risen substantially from the £445,000 we had paid for it since 2000 because of the general uplift in property prices in the area.*" He had spoken to the Fees Office before creating the new mortgage in Cheshire, and changing the designation of his main home. He said that "*They said it was within the rules and approved the change*". He had sent them a copy of the new mortgage details and the Fees Office had started paying out claims against the new mortgage.

28. Mr Osborne gave details of his claims against the ACA for mortgage interest in respect of the Cheshire property as set out in the following table:

¹⁰ Mr Osborne subsequently said that the references to 2001 and 2002 were references to the financial years 2001-02 and 2002-03 respectively (see WE 22).

Financial Year	Total mortgage interest claimed against ACA (£)
2003-04	No information available. Neither his office nor the Fees Office have a record.
2004-05	15,293
2005-06	18,361
2006-07	18,700
2007-08	19,438

29. As to why Mr Osborne considered that the costs arising from the mortgaging of the Cheshire property were necessarily incurred for the purpose of performing his parliamentary duties, given that he and his wife apparently owned the property outright before 2003, he commented that the costs were *“entirely associated with the interest on the mortgage secured against my home in Cheshire. I only own that home because it allows me to perform my parliamentary duties in my constituency, and stay overnight when I am more than 180 miles from Westminster.”* As he had explained, he had only previously owned the property outright because the £470,000 mortgage he had taken out to purchase it had been secured against his London home. He commented, *“In 2003 the terms of the mortgage contract meant I was able to unite the mortgage with the home it had been used to purchase, without incurring penalty charges.”*

30. Mr Osborne said that neither I nor the complainant had asked about his re-mortgage in 2005, when he increased the size of the mortgage on his Cheshire property to £480,000, again on an interest-only basis. However, he wanted to volunteer information which he had already provided to various media enquiries in the interests of complete transparency. Mr Osborne said that in 2005, the lock-in period on the mortgage he had secured in 2003 had expired, and he had to renegotiate to avoid an increase in mortgage payments as the interest rate moved on to the lender’s Standard Variable Rate (SVR). Due to the further increase in property prices in the intervening period, he was able to achieve what he had wanted to achieve in 2003 and increase the mortgage to at least cover the value of the original £470,000 he had borrowed to fund the purchase and move. At the same time, it had become clear that the property needed a number of essential repairs. Eight wooden windows and a front door were in a bad state of decay and needed to be replaced. He had already paid £901 as a deposit towards the cost of replacing three windows in February 2005, which he had claimed from the ACA at the time *“with the consent of the Fees Office”*. Also, Mr Osborne said that the boiler had broken and the chimney flue above the cooker needed urgent repair.

31. Mr Osborne said that the total cost of these repairs was in excess of £12,000. He had spoken to the Fees Office on the telephone, and they had *“suggested that I could either claim for the cost of these repairs directly, or I could increase the value of the interest-only mortgage, as they told me other MPs had done”*. Mr Osborne said that he therefore sought their permission to increase the mortgage to £480,000, and had sent them hard copies of

the new mortgage details. He added, “*The deal I secured meant the actual monthly mortgage ACA claim fell from £1,646 to £1,560 in January 2006.*”

32. Mr Osborne added that in 2008 he had again re-mortgaged for the same amount, once again to avoid moving to the SVR. Mr Osborne said that he was “*now on a tracker mortgage with zero per cent interest and as a result no monthly payments, which I believe demonstrates that ... I have always sought ‘value for money’ for my arrangements*”.

33. Mr Osborne said that none of the capital in any of the re-mortgages was used in support of the costs of his London residence. He commented, “*The £480,000 mortgage covers the £470,000 cost of purchasing and moving into my Cheshire home and subsequent essential repairs costing more than £12,000, and it was secured with the approval of the Fees Office*”. In 2006, he had moved house in London because he wanted a larger home for his growing family. He had increased his mortgage in London to £470,000. He commented, “*I have never claimed any allowance against this mortgage.*”

34. In response to my enquiry about the advice he had taken from the House authorities about any of his arrangements, Mr Osborne commented, “*I have sought and followed advice of the Fees Office on the Additional Costs Allowance from the moment I became an MP. It was with the advice and approval of the House authorities that I first designated my Cheshire home as my main home, so I could claim against the portion of my London mortgage that had been used to buy that Cheshire home. It was on the advice and approval of the House authorities that I split the mortgage in 2003, and secured a £450,000 interest-only mortgage against the home in Cheshire. It was again with the advice and approval of the Fees Office that I took out a £480,000 interest-only mortgage in 2005 to cover the original cost of purchasing and moving into the Cheshire home, and the cost of essential repairs. I have always sent the Fees Office copies of all my mortgage correspondence and continue to do so. They have paid every ACA claim I have made for mortgage interest and never once questioned it.*” He added, “*I believe I have fully complied with the rules of the House, always claimed only for costs incurred, done so in pursuit of my parliamentary duties, and always sought value for money as demonstrated by current monthly mortgage costs of zero ... I have never had an ACA claim for mortgage interest queried by [the Fees Office].*”

35. I responded to Mr Osborne on 20 July.¹¹ I asked for a copy of documentation for the mortgage he had taken out in October 2000, to show the lock-in period and subsequently the extension of the mortgage in 2003, and any documentary evidence Mr Osborne could provide to demonstrate the nature and cost of the work undertaken on his Cheshire property in 2005 to the extent of at least £12,000 of the sum for which he had re-mortgaged it.

36. Mr Osborne replied on 28 July.¹² He sent me “*all the relevant documentation that I have*” to show “*the lock-in period, and the subsequent extension of the mortgage in 2003*”.

¹¹ WE 7

¹² WE 8

This included an offer letter dated 16 October 2000 relating to the mortgage on Mr Osborne's London property.¹³ This letter confirmed the amount of the loan as £620,000¹⁴, that it was secured on Mr and Mrs Osborne's London property, that it was on an interest-only basis, that the interest rate was guaranteed not to exceed 5.95% per annum until 31 July 2003¹⁵, and that the mortgage was, as a result of the interest rate cap, subject to a number of special conditions. One of these conditions required, in the event of the repayment of any part of the mortgage advance before 1 August 2003, the payment also of an additional amount of interest equivalent to three per cent of the amount of capital repaid. Mr Osborne also enclosed a supplementary declaration signed on 27 September 2000 by way of which Mr and Mrs Osborne formally acknowledged *inter alia* the nature and duration of the interest rate cap, and the early repayment penalty term.¹⁶ In his letter to me, Mr Osborne calculated that he would have incurred a penalty charge of £13,500 if he had split the mortgage prior to July 2003 in order to raise a £450,000 mortgage against his Cheshire home.

37. The mortgage Mr Osborne had taken out in 2003 had been with a different mortgage provider. He enclosed with his letter a copy of a letter from the provider¹⁷, sent following completion of the mortgage in November 2003. This confirmed the sum advanced as £450,000, the payments that would be collected, and the arrangements for collecting them. He also enclosed a copy of an earlier mortgage quotation prepared by the same provider for his wife and himself in July 2003 for a £500,000 variable rate interest only investment linked mortgage which had lower monthly repayments for the first two years of the 25 year term.¹⁸

38. Mr Osborne also sent me copies of a series of receipts for replacement of all the windows and a door at his Cheshire property at a total cost of £11,950.¹⁹ He said that just over £900 of this had been had been a deposit on three of the windows (described on the receipt as "*a further three windows*") which he had claimed against the ACA, and Mr Osborne said that "*According to the Fees Office records and my own recollection, this is the only claim I submitted on the ACA for replacing the windows. There was one other window which I replaced, but I cannot find the receipt for it.*" He added that one of the receipts did not include the cost of six stone cills, as the stone mason had billed him direct. He said that he no longer had a copy of that receipt. He commented, "*Judging by some of the other receipts, the cost of each cill was £180— so the cost of six would have been a further £1,080. The receipts also do not cover the cost of painting the inside and outside of all of the windows and the door. This was carried out by ... a local decorator.*"

¹³ Not included in the written evidence.

¹⁴ The actual figure in the letter is £620,299, reflecting a charge added to the loan.

¹⁵ The mortgage offer letter also stated that the lender's current standard variable rate of interest was 7.490%.

¹⁶ Not included in the written evidence.

¹⁷ Not included in the written evidence

¹⁸ Not included in the written evidence.

¹⁹ Not included in the written evidence. The receipts which Mr Osborne enclosed included one dated 11 February 2005 for the balance of the cost of supplying and fitting *inter alia* a window and another dated 25 February 2005 for the deposit for supplying and fitting *inter alia* 'a further three windows'.

39. In order to support his statement that replacing the windows was an essential repair, Mr Osborne enclosed an extract from a survey of the property he and his wife had commissioned prior to its purchase.²⁰ Mr Osborne said that this stated, “*Rot in the front door which we suggest you should replace totally ... Single glazed small paned windows generally in poor condition with widespread rot and we suggest you allow for replacement of all windows.*” Mr Osborne added, “*Replacing the windows and the door were not the only essential repairs I carried out at that time and did not claim for on my ACA. I enclose a receipt for £2,320.63 from a local plumbing firm for the cost principally of installing a new boiler.*”²¹

40. Mr Osborne concluded his letter by saying that he hoped that this further documentation supported his previous statements that he had fully complied with the rules of the House, had always claimed only for costs incurred, had done so in pursuit of his parliamentary duties, and had always sought value for money. He had also, throughout his time as a Member, actively sought and acted on the advice of the Fees Office.

41. Mr Burton wrote to me again on 3 August.²² He enclosed a copy of a letter which Mr Osborne had sent to his constituents the previous month,²³ and a redacted copy of a receipt which Mr Burton said had been attached to a claim made by Mr Osborne in March 2005 for “*supplying and fitting a further three windows*” at his Cheshire property.²⁴ Mr Burton considered that the second page of the letter might be helpful to my inquiry. He said that it confirmed that the mortgage costs included in Mr Osborne’s expense claims covered the cost of buying and moving into his house in Cheshire. As this had occurred in the year before Mr Osborne had been elected to Parliament “*it does seem that the costs could not possibly have been necessarily incurred in performing parliamentary duties.*” Mr Burton went on to say that Mr Osborne had been able to use it as his main home from the date of becoming a Member, and that any other costs such as essential repairs or furniture would also have been incurred prior to him becoming a Member. He continued, “*Indeed, the enclosed letter confirms that he has never had to claim for furniture, and, together with the invoice for the ‘further’ three windows, indicates that all necessary expenses relating to the house had been incurred before Mr Osborne moved in*”. He commented, “*The fact that Mr Osborne used his Cheshire house as his main home while performing his parliamentary duties in a satisfactory manner for more than two years before taking out the £450,000 mortgage on it again suggests that it was not necessary to incur those costs in order to perform his parliamentary duties.*”

42. I wrote further to Mr Osborne on 6 August,²⁵ inviting his comments on the conclusions that Mr Burton sought to draw from the explanation Mr Osborne had given to his

²⁰ Not included in the written evidence.

²¹ Not included in the written evidence.

²² WE 9

²³ WE 10

²⁴ Not included in the written evidence.

²⁵ WE 11

constituents in the letter he had circulated, and in particular, for a response to Mr Burton's point that his mortgage interest claim should not have included the interest that related to that part of the loan which was used to meet the cost of buying, moving into and essential repairs for his Cheshire home since those costs had been incurred before he became a Member of Parliament.

43. Mr Osborne replied on 12 August.²⁶ He said that the explanation of his mortgage and expenses arrangements in the letter he had sent to his constituents was “*completely consistent both with the explanation I have provided to you in my first letter—and wholly consistent with the rules set out in the Green Books of 2001 and 2003.*” He went on to say, “*As [the] letter to constituents makes clear, and as I explained in my letter to you, I bought [the Cheshire property] in October 2000 as a direct consequence of being the Conservative parliamentary candidate for Tatton.*” He said that he had “*the reasonable anticipation*” that he would be elected at the forthcoming election. His wife was expecting their first child at the time, and “*we thought it sensible to try to buy a permanent constituency home before the child was born. ... The only reason I bought the house was because I believed I would need it for the purpose of allowing me to stay overnight in pursuit of my parliamentary duties once I became an MP...*”

44. Mr Osborne explained again that he had taken out a £470,000 mortgage in order to cover the cost of buying and moving in to his Cheshire property, and “*the £470,000 was not used for any other purpose*”. As he had explained in his previous letter, it was originally secured against his home in London “*until, in 2003, I was able to transfer it to the house in Cheshire without incurring significant financial penalties*”. Following his election in June 2001, he had needed the house in order to stay overnight in pursuit of his parliamentary duties. He commented, “*The costs of retaining the house included paying monthly interest payments on the £470,000 of mortgage I had taken out in order to buy and move into the property. Since I only own the house in order to fulfil my parliamentary duties, the monthly interest payments are ‘wholly, exclusively and necessarily incurred’ in pursuit of those duties*”.

45. Mr Osborne said that “*The logic of the complaint Mr Burton makes in his most recent letter is that a newly elected Member of Parliament who already owns a property near Westminster and a property in or near their constituency, and is paying mortgage interest on the property they designate as their second home, is not able to claim that mortgage interest against parliamentary allowances. If this were to be the case, then their probable course of action would then be to sell that second home and buy another one, perhaps next door, with another mortgage so that they would be able to claim mortgage interest. This strikes me as wholly unreasonable, indeed bizarre, and outside both the letter and spirit of the rules.*”

46. On Mr Burton's claim that all necessary work on the property had been completed before Mr Osborne had moved in, he commented that the invoice to which Mr Burton referred, a copy of which Mr Osborne had sent me with his letter of 28 July,²⁷ was only for

²⁶ WE 12

²⁷ WE 8

the deposit on the windows. He commented, “*The reference to ‘further’ relates, I believe, to the fact that I had already had one window replaced for which I had received an invoice for the full amount on 11 February 2005.*”²⁸ *The rest of the windows and the door were replaced later in 2005, and I have sent you copies of all those invoices as they help explain why I extended the mortgage. I note, of course, that claiming only the interest on the cost of [the] loan to make essential repairs amounts to a much smaller claim than claiming the whole cost of those repairs.*”

47. I wrote to Mr Osborne on 13 August.²⁹ I said that, as I understood the complainant’s point, it was not that Mr Osborne should not have claimed mortgage interest on a property which he already owned, but that he should not have claimed that part of the mortgage interest which related to the costs of buying and moving into the house and its initial repairs since most of these were effected before he had become a Member of Parliament. I said that I took it from Mr Osborne’s response that he believed that those costs were justified because he only bought the house in anticipation of his election to Parliament and because he could have claimed for these costs in respect of any new house bought after his election.

48. Mr Osborne replied on 14 August.³⁰ He said that my assumption about his argument was correct. He believed that claiming the interest on the portion of the mortgage over and above the actual purchase price was justified because he had only purchased the Cheshire house in anticipation of his election to the House. He would not have retained it had he not been elected. He only claimed the interest on the mortgage for the period subsequent to his election. In his opinion, the additional costs were reasonable, representing only around 5% of the purchase price, and were wholly associated with buying and moving into the property. He said, “*And I could have claimed for the whole of these costs in any new home I bought after the election, rather than the considerably smaller sum of just the interest on a mortgage loan covering the costs.*” Mr Osborne added, “*I would further note that at no time in eight years have the Fees Office queried my mortgage claims, and I always made sure that they were in possession of all the relevant mortgage documents. If they had queried the claims I would have responded to that query immediately. I don’t see that there is anything more I could reasonably have done to ensure that my belief that I have been complying with the rules was a view shared by the— and I have never been given any reason to doubt that it was a view shared by them.*”

49. Meanwhile, I had written to the Director of Operations, Department of Resources, on 30 July to seek his comments on the complaint.³¹ I asked if he could confirm the contacts which Mr Osborne reported he had had with the Fees Office in 2001, 2003, and 2005; if he could let me know the advice which was given at the time, including the suggestion that Mr Osborne was advised in 2001 to nominate Cheshire as his main home so that he could

²⁸ The details are set out in a footnote to paragraph 38.

²⁹ WE 13

³⁰ WE 14

³¹ WE 15

claim for part of the London mortgage; and if he could let me have any supporting documentation. I also asked whether and if so why the arrangements Mr Osborne had made for funding his Cheshire home from his London mortgage claims were acceptable to the Fees Office at the time; and if he could confirm from any documentary evidence his Department might have that Mr Osborne claimed from 2001 to 2003 only for that part of his London mortgage which covered the sum he sought for his Cheshire property, and not any part of the mortgage interest relating to his London property. I also sought the Director's advice on the size of the mortgage which Mr Osborne took out in 2003, given that it exceeded the value of the property when he had bought it in 2000, and the decision to re-mortgage the property again in 2005 for an increased sum on the basis that the difference between the initial purchase price and the mortgage price was necessary for work which otherwise he could have claimed from the ACA for necessary work.

50. On 6 August, I wrote again to the Director,³² enclosing a copy of Mr Burton's letter to me of 3 August.³³ Following receipt of Mr Osborne's response, I wrote once more to the Director on 13 August,³⁴ to invite his response on the point raised by the complainant, taking into account Mr Osborne's response.

51. The Director of Strategic Projects replied on behalf of the Department of Resources on 27 August.³⁵ He noted that Mr Osborne had purchased his Cheshire home in 2000 with the realistic expectation that he would be elected to the House at the next General Election. In order to make the purchase, and to meet the associated costs and those of certain initial repairs and decoration, he had raised a loan secured against his London home. The Director commented, "*There is, of course, nothing unusual in a person borrowing money to purchase a second home by mortgaging a property which he or she already owns.*"

52. On Mr Osborne's comment that when first elected to the House in June 2001 he had received advice about making his original nomination for ACA purposes, the Director commented, "*This is very likely. Mr Osborne would have attended an induction meeting with representatives of the then Department of Finance and Administration following the General Election in June 2001 when new Members were briefed about their salaries, pension and parliamentary allowances.*" The Director said that the Department held no correspondence or other documentation that could shed light on any specific advice that was given to Mr Osborne in 2001. The meetings were not documented, and records about individual conversations did not exist. However, the Director said that it was "*also likely*" that Mr Osborne would have been told that, in his personal circumstances (as outlined in Mr Osborne's letter to me of 15 July), "*it would have been possible for him to nominate either his London or his Cheshire property as his main home for ACA purposes. In 2001 the Green Book gave no guidance about the criteria to be used for nominating the main home and now, eight years on, it is impossible to confirm whether a specific recommendation was*

³² WE 16

³³ WE 9

³⁴ WE 17

³⁵ WE 18

made. This does not mean that such advice was not given but only that we have no record of it.”

53. However, the Director went on to say that in retrospect, Mr Osborne having told the Department that he wished to claim the ACA to pay the interest on part of his mortgage raised to purchase his Cheshire home, as he had said in his correspondence to me,³⁶ it ought to have advised him to nominate that home as his second home. This was because, while the money was clearly raised to enable him to have the two residences necessary for him to perform his parliamentary duties, *“strictly it should have been raised for the purpose of buying the property which he would nominate as his second home, not that nominated as his main home.”*

54. The Director also said that the Department ought also to have advised Mr Osborne that he should not claim mortgage interest in respect of the costs of purchase and initial repairs and decoration, as these had been incurred before he became a Member. In this context, the Director noted that *“it may be that Mr Osborne’s actual claims for mortgage interest between 2001 and 2003 fell short of the proportion of his mortgage interest which was nominally attributable to the extra money he had raised as a consequence of buying the Cheshire property.”*

55. The Director said that I should be aware that, had Mr Osborne not told the Department of his arrangements, and that he was claiming only the cost of the additional loan which had enabled him to purchase his Cheshire property, the Department *“would have had no knowledge of his arrangements, and we would have accepted the whole of the loan on his London home as eligible for reimbursement of mortgage interest costs under ACA.”* The Department had no documentary evidence to show what percentage of Mr Osborne’s total mortgage costs from 2001 to 2003 had been paid from his ACA. However, the figures which Mr Osborne had given to me in his letter of 15 July³⁷ suggested to the Director that *“was this considerably less than the proportion of his mortgage loan which had been raised to purchase the Cheshire property.”*

56. The Director confirmed that Mr Osborne’s ACA claims in each of the years from 2001–02 to 2003–04 were as set out in the table below:

Financial Year	Total ACA claim (£)
2001-02	3,119 ³⁸
2002-03	18,058
2003-04	19,895

³⁶ WE 6

³⁷ WE 6

³⁸ The Department of Resources later corrected this figure to £18,009. See WE 32.

57. On the change in Mr Osborne's mortgage arrangements in 2003, the Director commented, "*Mr Osborne's explanation of the reasons why he decided in 2003 to separate and regularise his mortgage arrangements and to redesignate his main home seem entirely reasonable, and would have been acceptable to the Department at that time.*" While agreeing that the loan raised in 2003 was £5,000 greater than the original purchase cost of the Cheshire property, the Director said that "*this would have been regarded as de minimis at the time, though strictly it could be argued that we should only have paid for 98.9% of the interest on the loan.*" He added, "*We have no record of any discussion between the Department and Mr Osborne about the change of designation or re-mortgaging in 2003.*"

58. The Director noted, in the context of Mr Osborne's 2005 re-mortgage, that "*A number of Members arrange fixed term mortgages in order to reduce costs and re-mortgage when the period expires. The Department has taken the view that this is acceptable, since it can result ... in a substantial saving to public funds*". However, he went on to say that the Green Book published in April 2005 (and the 2003 version) stated that interest on any additional mortgages, advances or loans secured on the same property was not allowable. He commented, "*It follows that any re-mortgage in 2005 ought not to have included additional funds to carry out repairs. However, while a Member at the time was not allowed to increase his or her mortgage loan to pay for necessary works, he or she could charge the cost of those works against ACA.*" He commented, "*This was perverse, and was recognised as such in the July 2006 Green Book update which allowed Members to increase mortgages on their second home in order to carry out major repairs or make improvements to the property.*" The Director again regretted that the Department could not locate any specific correspondence with Mr Osborne about his re-mortgage in 2005.

59. The Director's overall conclusions were that the absence of any formal records made it impossible to know for certain what information was provided by Mr Osborne and what advice he was given. His view was that Mr Osborne "*may not have been advised as well as he ought to have been in 2001. Nevertheless, I do not believe that between 2001 and 2003 he received any funds which he would not have received if he had decided to nominate London as his main home in 2001. The re-designation in 2003 was entirely within the rules, and the re-mortgage was acceptable. The increase in the amount borrowed in 2005 may have been technically outside the rules, but the rules were about to change because they were at the time perverse, as Mr Osborne's case demonstrates.*"

60. On 1 September, I sent Mr Osborne a copy of the Director's response.³⁹ I invited his comments on each of the points raised by the Department, in particular in relation to the identification of his main home in 2001.

61. Mr Osborne replied on 17 September.⁴⁰ In relation to the identification of his main home in 2001, he noted that the Department had confirmed his own recollection of events,

³⁹ WE 19

that the rules at the time allowed either property to be designated as the main home for ACA purposes. As to the Director's statement that in retrospect the Department could have provided him with different advice, Mr Osborne commented, "*I am not sure on what basis they make that retrospective assessment, given that they also say the rules at the time permitted either property to be nominated. As a new MP, of course, I assumed the advice I received was the correct advice. I was repeatedly told that, as far as the rules were concerned, it did not matter which property I designated. I told the Department of all the arrangements.*" He said that he had followed the Department's advice that he designate his Cheshire home as his main home and claim ACA against the London home, because "*that was the property against which the mortgage used to purchase the house in Cheshire had been secured.*" Mr Osborne commented that the Department had also advised him that he could change that decision when the penalty term expired in 2003, and pointed out that the mortgage documentation he had sent me showed that, had he separated out the mortgage in 2001 and designated Cheshire as his second home, "*a penalty charge of £13,500 would have been incurred as well as new arrangement fees for a new mortgage, which could have been claimed from public funds*". Mr Osborne believed that the Director's conclusion on this matter, that he did not believe that between 2001 and 2003 Mr Osborne had received any funds which he would not have received if he had decided to nominate London as his main home in 2001, was "*very important*".

62. On the 2003 re-mortgage of his Cheshire property, Mr Osborne noted the Department's acceptance that the arrangements were entirely reasonable and within the rules. He repeated that he had spoken to the Department at the time, before securing the mortgage, and been told that it was acceptable.

63. On the 2005 re-mortgage, Mr Osborne commented that he believed that the Director's letter "*indicates that the rules were in the process of changing between 2005 and 2006*". He said that he started claiming for the re-mortgaged property in January 2006. He noted that the Department did not mention exactly when the rules changed, but confirmed that he was given advice on the telephone by the Department that he could extend the mortgage to cover capital repairs, and he had sent hard copies of the extended mortgage, and "*received no queries about them from the Department*". He added, "*As the receipts I have provided show, I could have claimed over £10,000 from public funds for repairs on the ACA. As it is, I only claimed for interest costs. The Department also confirms that my re-mortgage resulted in 'a substantial saving to public funds'*".

64. Finally, Mr Osborne made a number of observations about the complaint against him.⁴⁰ He said that the Department had advised him to identify his Cheshire home as his main home when he sought their advice in his first weeks as an MP. It had confirmed that the rules would have allowed him to identify either home and "*there were no criteria at the time which could have guided me differently*". The Department had confirmed that his 2003 mortgage had been "*entirely within the rules*" and "*entirely reasonable*". He also said that it

⁴⁰ WE 20

⁴¹ See WE 5.

had confirmed that “*far from receiving more public funds than I was entitled to ... my designation of homes did not lead me to receive additional funds. Furthermore, my re-mortgages thereafter led to, in their words ‘a substantial saving to public funds’. In addition, my decision to extend the mortgage to cover the cost of capital repairs, rather than charging them to expenses, also represented a further and substantial saving to public funds.*” Mr Osborne added that the mortgage in question currently had an interest charge of zero per cent, “*which reinforces my argument that I have always sought to minimise the cost to the taxpayer of the arrangements for providing me with a home which I own wholly and exclusively for the purpose of fulfilling my Parliamentary duties.*” He went on to say, “*I was given advice from the Department as a newly elected MP and followed that advice; have always followed their advice since; have never had my claims queried by them and minimised the cost to the taxpayer as required by the rules of the House. The Department confirms that I did not receive any funds I would not have received if I had designated my homes differently between 2001 and 2003. Subsequently I could also have claimed more from public funds if I had followed an alternative path.*”

65. I responded to Mr Osborne on 22 September.⁴² I pointed out that in his letter to me of 15 July⁴³ he had stated that his mortgage interest claims for 2001 and 2002 had fallen significantly short of the mortgage interest payments which he had paid in respect of the mortgage on his London home. I commented that the Department had noted that it might be that Mr Osborne’s claim for mortgage interest fell short of the proportion of the mortgage interest which was attributable to the money he had raised as a consequence of buying his Cheshire property. His letter of 14 August,⁴⁴ however, had said that he had claimed interest on the portion of the mortgage over and above the actual purchase price of the house, which would suggest that he had claimed for the full mortgage interest cost attributable to his Cheshire home. I asked if he could clarify this. I added that, in particular, it would be helpful if he could break down the mortgage interest on his London property between 2001 and 2003 between that required for his London home and that required for his Cheshire home. I also asked whether, with any evidence he could provide, his claims for mortgage interest attributable to his Cheshire property were in fact less than the full cost of the interest on that mortgage, and what the difference was likely to have been.

66. Mr Osborne replied on 30 September.⁴⁵ He explained that, as he had made clear in his letter of 15 July, he did not have copies of all his mortgage documents from eight years ago, but had found “*an invoice for 2002–03*”, a copy of which he sent me.⁴⁶ He noted that between 31 August 2002 and 31 August 2003 his monthly mortgage interest payments had been £2,868 falling to £2,816, giving a total mortgage interest cost for the year of £34,161. This interest cost serviced a mortgage of £620,000, of which £150,000 was attributable to the cost of the purchase of his London home and £470,000 was the total cost of purchasing

⁴² WE 21

⁴³ WE 6

⁴⁴ WE 14

⁴⁵ WE 22

⁴⁶ Not included in the written evidence.

his Cheshire home. Attributing the interest costs in proportion to these purchase costs, 75.8% of the mortgage interest was attributable to the purchase of the Cheshire property, so the mortgage costs attributable to that property between 31 August 2002 and 31 August 2003 was £25,896. According to Fees Office records, his total ACA claims for 2001-02 were £3,119,⁴⁷ for 2002-03 were £18,058, and for 2003-04 were £19,895. He commented, “So take for example the period 2002-03, the mortgage interest cost attributable to the Cheshire property (£25,896 in 2002-03) was £7,000 more than the amount claimed against ACA (£18,058). I should point out that the years are not exactly overlapping as the mortgage interest covers August–August, while the expenses claims are for periods April–April. This makes clear that I only ever claimed for the mortgage costs incurred in the purchase of my Cheshire residence, and never claimed for the full cost of the whole mortgage or for any of the portion (£150,000) that had originally been used to purchase my London residence. These figures support the Department’s conclusion that my claim for mortgage interest ‘was considerably less than the proportion of his mortgage loan which had been raised to purchase the Cheshire property’ ... indeed, less than the interest payable on the mortgage costs of the purchase price alone.”

67. Mr Osborne went on to say, “In my letter of 14 August I made clear that I believe claiming interest on a mortgage over and above the purchase price of the home was justified, and that was the advice I received from the Fees Office. However, as the calculations above show, that did not arise in practice in the first few years because of a higher interest rate at the time when I fixed the mortgage. I did not and could not claim for the full interest costs of [my] Cheshire home, as for example the ceiling on the ACA allowance was £19,722 in 2002-03.”

68. Mr Osborne said that it was important also to return to a broader point. He said, “I own my Cheshire home wholly and necessarily in order to undertake my Parliamentary duties. I would not own it if I were not a Member of Parliament. I believe it is reasonable to say that the cost of maintaining that home includes the interest on the £480,000 of mortgage used to buy, move into, and subsequently repair it. At all times I sought and followed the advice of the Fees Office. I never sought financial gain and always sought to minimise the cost to the taxpayer.” He commented that the Department had concluded that in general his arrangements had led to “substantial” savings for the taxpayer, and that the Director did not believe that between 2001 and 2003 he had received any funds which he would not have received if he had decided to nominate London as his main home in 2001. He concluded, “My duty was to follow the advice of the Fees Office and to minimise the cost to the taxpayer; I did both.”

69. I wrote again to the Director of Strategic Projects in the Department of Resources on 1 October.⁴⁸ I invited his comments on my exchanges of correspondence with Mr Osborne following his previous letter,⁴⁹ and in particular on Mr Osborne’s view about the

⁴⁷ The Department of Resources later corrected this figure to £18,009. See WE 32.

⁴⁸ WE 23

⁴⁹ WE 18

retrospective assessment which the Director had given in that letter that the Department ought to have advised Mr Osborne to nominate his Cheshire home as his second home given that he had also said that it was open to him at that time to nominate either of his properties. I also specifically invited his comments on how far Mr Osborne's ACA claims appeared to have covered the interest on the cost of purchase and initial repairs and decoration on his Cheshire property, given his comment that Mr Osborne should have been advised not to claim for them, since these had been incurred before he had become a Member.

70. The Director replied on 7 October.⁵⁰ On the advice given to Mr Osborne to inform his decision on which property to nominate as his second home when first elected in 2001, the Director commented, "*Mr Osborne in his letter to you of 17 September makes it clear that he was newly elected in 2001, and that, having explained fully his circumstances to officials of the Department, it was reasonable for him to take the advice they offered. I agree with this. We have no reason to doubt Mr Osborne's account of his discussions with the Department in 2001.*" He added, "*While I am sure that officials at the time gave what they thought was good advice, the more detailed consideration of the issue which your investigations have occasioned have led us to conclude in retrospect that that advice was flawed. But Mr Osborne cannot be blamed for taking the advice he was given.*"

71. On the question of whether Mr Osborne should have been advised not to claim for the additional interest attributable to the cost of the purchase of its Cheshire property and its initial repairs and decoration, since these had been incurred before he became a Member, the Director commented, "*Although Mr Osborne makes the point that his Cheshire house is owned in order for him to perform his parliamentary duties, the Department does not meet costs incurred before a Member is elected even if those costs are incurred solely in anticipation of parliamentary duties.*" However, the Director also considered that, although it was impossible to be categorical without figures for the whole period, the evidence of Mr Osborne's letter of 30 September⁵¹ was that "*his mortgage interest claims appear to have amounted to a substantially lower proportion of the total mortgage interest that he paid than the interest nominally payable on the loan for the purchase [of the] Cheshire property less the cost of the purchase and initial repairs and decoration. ... My conclusion is that Mr Osborne did not, as a matter of fact, receive ACA in respect of mortgage interest on any costs for which it was inappropriate.*"

72. The Director also responded to Mr Osborne's point that the Director's earlier letter had not said when the rules changed in respect of permitting re-mortgaging to pay for necessary works. He said that the Members Estimate Committee (MEC) had agreed the changes to be made in the Green Book at its meeting on 18 June 2006. The new Green Book was published in July 2006, and Members were notified in a circular letter sent on 25 July 2006 of the changes in that edition. However, the change to allow mortgage loans to be increased to pay for necessary works emanated originally from a decision in principle taken

⁵⁰ WE 24

⁵¹ WE 22

by the MEC on 18 July 2005. Details had been remitted to the Advisory Panel on Members' Allowances, which had agreed in January 2006 that the new rule on re-mortgaging to pay for necessary works should be made. This was incorporated in the new rules agreed in June. The Director commented, *"Though I can understand that officials might have anticipated the change in January 2006, in strict terms the old rule remained in force until the MEC agreed to vary it."*

73. I wrote again to Mr Osborne on 14 October⁵² inviting his comments on the Department's response. I also summarised my understanding of the evidence I had received from him, and the information I had received from the Department, and invited him to confirm or amend it. I also asked for any additional information Mr Osborne could offer relating to the proportion of his mortgages on which he had claimed interest since 2001.

74. Mr Osborne replied on 4 November.⁵³ On the designation in 2001 of his Cheshire property as his main home and his making of claims in respect of interest on the mortgage secured on his London property, Mr Osborne reiterated that this was what he was advised to do at the time. He noted the Department's latest comments, but also referred back to its letter of 27 August⁵⁴ when the Director of Strategic Projects had said that it was likely that he would have been advised that in his personal circumstances it would have been possible for him to nominate either his London or his Cheshire residence as his main home for ACA purposes: in 2001 the Green Book gave no guidance about the criteria to be used for nominating the main home. Mr Osborne also referred to the Director's statement in that letter that he did not believe that between 2001 and 2003 Mr Osborne had received any funds which he would not have received if he had decided to nominate London as his main residence in 2001. He also noted the observations in the Director's letter of 7 October⁵⁵ that it had been reasonable for him to have taken the advice offered and that he could not be blamed for so doing. He commented, *"As a newly elected MP it was only reasonable that I should follow the advice I was given; indeed it would have been odd for me to do otherwise."*

75. On the question of whether, from 2001 to 2003, he had claimed for interest on more than the £445,000 purchase price of his Cheshire property, Mr Osborne drew attention to the Director's comment in his letter of 7 October that, from the evidence, his mortgage interest claims appeared to have amounted to a substantially lower proportion of the total mortgage interest than the interest nominally payable on the loan for the purchase of his Cheshire property, less the costs of the purchase and initial repairs and decoration. Mr Osborne also drew attention to the Director's statement that he did not, as a matter of fact, receive ACA in respect of mortgage interest on any costs for which it was inappropriate. As further evidence to support the Director's statement, Mr Osborne supplied me with full breakdowns of his mortgage interest relevant to the Cheshire property covering the period

⁵² WE 25

⁵³ WE 26

⁵⁴ WE 18

⁵⁵ WE 24

from 18 October 2000 to 31 October 2009, supplied following recent requests by him to the relevant financial institutions. He said, *“These confirm that not only in the period you ask about, but in the entire period to 2006–07, I claimed interest less than the mortgage interest costs attributable to solely the £445,000 purchase price of the Cheshire property.”*

76. Mr Osborne went on to say that in 2001–02, his total mortgage interest costs on a mortgage of £620,299 had been £36,079. Dividing this in the proportion which the £445,000 purchase price of the Cheshire property represented of the total mortgage, meant that 71.7% of the interest costs, amounting to £25,833, was attributable to the purchase price of the Cheshire property. According to the Department of Resources, his total ACA claim for 2001–02 had been £3,119.⁵⁶ He commented, *“So it is clear that I did not claim for the full proportion attributable to the £445,000 purchase price, let alone the entire mortgage.”* In 2002–03, the total interest costs had been £34,422 on the same mortgage, and the interest attributable to the purchase price of the Cheshire property was £24,694. According to the Department of Resources, Mr Osborne’s total ACA claim in 2002–03 had been £18,058.⁵⁷ Mr Osborne again commented, *“So it is clear that I did not claim for the full proportion attributable to the £445,000 purchase price, let alone the entire mortgage.”*

77. Mr Osborne said that, although neither he nor the Department had kept copies of the breakdown of his ACA in 2003–04, *“the mortgage interest costs attributable to the £445,000 purchase price of the Cheshire property are likely to have exceeded the amount claimed for mortgage interest against the ACA in 2003–04”*. Between April 2003 and November 2003, the mortgage with his original building society had continued. Mr Osborne had incurred interest costs of £19,613, of which 71.7% was attributable to the purchase price of the Cheshire property.⁵⁸ Between November 2003 and March 2004, he had incurred interest costs of £5004 on a £450,000 mortgage with his new lender. Dividing this in the proportion which the £445,000 purchase price of the Cheshire property represented of the total mortgage meant that 98.8% of these interest costs⁵⁹ were attributable to the purchase price of the Cheshire property. Mr Osborne said that the total interest cost for 2003–04 that was attributable solely to the purchase price was therefore £19,018.

78. Mr Osborne commented, *“While £19,018 is below the amount I claimed on ACA in 2003–04 (£19,895 according to [the Director of Strategic Projects’] letter of 27 August 2009), it is reasonable to suppose that £19,018 is greater than the amount claimed for mortgage interest in that year. Other costs are also claimed against the ACA, and in the following four years, the average difference between my total ACA claim and my ACA claim for mortgage interest was £3,891. I do not recall that my pattern of ACA claims in 2003–04 was any different than in any other year I have been in the House. Assuming a figure similar to this was also the case in 2003–04, then based on my total ACA claim of £19,895, the amount*

⁵⁶ WE 18. The Department of Resources later corrected this figure to £18,009. See WE 32.

⁵⁷ WE 18

⁵⁸ 71.7% of the total interest cost amounts to £14,070.

⁵⁹ 98.8% of the total interest cost amounts to £4,948.

claimed for mortgage interest would have been around £16,000, considerably less than the mortgage interest attributable solely to the purchase price.”

79. Mr Osborne pointed out that he had himself drawn to my attention the fact that in 2005 he had taken out a larger mortgage to cover the cost of repairs to his Cheshire property, and said that this formed no part of the complaint against him. He commented, “*I took out a £480,000 (plus fees taking the total to £481,499) interest-only mortgage in 2005 to cover the original cost of purchasing and moving into the Cheshire home, and the cost of essential repairs. I did so after I had consulted the Department and received their verbal approval.*” Mr Osborne reiterated what he had told me in his letter of 15 July about the essential nature of the repairs, and the extent to which they had been claimed against the ACA.⁶⁰ He went on to say, “*The total cost of these repairs was in excess of £12,000. I spoke to the Department on the telephone and asked for their advice. They suggested that I could either claim for the cost of these repairs directly or I could increase the value of the interest-only mortgage, as they told me other MPs had done. I sought their permission therefore to increase the mortgage to £480,000 and sent them hard copies of the mortgage details. In my letter of 28 July to you⁶¹ I provided evidence of these costs in the form of receipts, and an extract from the original survey of the property.*”

80. Mr Osborne further noted that, when it came to the essential repairs, the cost to the taxpayer of claiming interest on a mortgage extension was “*considerably less than the cost of claiming for the whole price of the repair. So instead of claiming for the full £12,000, I have instead claimed the interest on a mortgage that according to my calculation amounts to £1,512.*” He explained that, since January 2006, his mortgage loan amount, with successive lenders had been £481,499, including fees. Since then, he had paid total mortgage interest costs of £60,685. Dividing this in the proportion which £12,000 repair costs represented of the total mortgage, meant that interest of £1,512 was attributable to those costs. He commented, “*In other words, by increasing my mortgage amount in order to pay for these essential costs, I have cost the taxpayer only £1,512, rather than over £12,000 had I claimed directly for these repairs. Indeed, more broadly [the Director of Strategic Projects] confirms in his letter of 27 August that my mortgage arrangements in 2005 resulted in ‘a substantial saving to public funds’.*”

81. Mr Osborne also noted that the Director of Strategic Projects had said in his letter of 7 October that the rule change to allow mortgage loans to be increased to pay for necessary works occurred in July 2006. He commented, “*It is important to point out that I only claimed for mortgage interest on the element of the mortgage above £445,000 in 2006–07 and 2008–09, and so after the rule change which allowed me to do so. It was after seeking the approval of the Department that I re-mortgaged, increasing the loan amount to £480,000 (plus fees) in order to pay for necessary works*”. He also commented that the Director had in the same letter noted that the Members Estimate Committee had taken the decision in

⁶⁰ WE 6

⁶¹ WE 8

principle on 18 July 2005 and that “*officials might have anticipated the change in January 2006*”.

82. Mr Osborne concluded by summarising that the Department of Resources had confirmed that it was likely that he had been advised in 2001 that in his personal circumstances it would have been possible for him to have nominated either his London or his Cheshire residence as his main home for ACA purposes; that he could not be blamed for taking the advice he was given; that he did not as a matter of fact receive ACA in respect of mortgage interest on any costs for which it was inappropriate; that the Department did not believe that between 2001 and 2003 he had received any funds which he would not have received if he had decided to nominate London as his main home in 2001; that his explanation of the reasons for re-designating his main home in 2003 seemed entirely reasonable and would have been acceptable to the Department; that the re-designation in 2003 was entirely within the rules and the re-mortgage was acceptable; and that his 2005 re-mortgage resulted in a substantial saving to public funds. He added, “*As I said in my first letter to you in July, and have reiterated since then, I have only ever claimed for the purpose of allowing me to stay overnight in pursuit of my parliamentary duties since my election to Parliament in June 2001 for the seat of Tatton, some 180 miles from London. I only own a property in Cheshire in order to fulfil my duties as a constituency MP, and I have never sought to exploit parliamentary allowances for personal gain.*”

83. I replied to Mr Osborne on 17 November.⁶² I enclosed a table, prepared on the basis of the figures he had provided, showing details for each financial year from 2001–02 to 2007–08 of the total mortgage interest paid that was attributable to his constituency home, the total mortgage interest he had claimed against the ACA, and the maximum mortgage interest claimable under the rules of the House as advised by the Director of Strategic Projects.⁶³ These figures suggested that in 2001–02 and 2002–03 Mr Osborne’s claims did not reach the level at which they would have covered the interest on a mortgage in excess of £445,000; and that in 2003–04, on the basis of his estimate of a total mortgage interest claim of around £16,000, he was also unlikely to have claimed for the interest on a mortgage in excess of £445,000. However, the figures suggested that Mr Osborne appeared to have over-claimed for mortgage interest in 2005–06 and 2006–07. The position in respect of 2005–06 depended on clarifying his mortgage interest claims for that year. In respect of 2006–07 there was a question over the precise size of his mortgage interest claims, where there was a discrepancy between the figure calculated from the claim forms on the parliamentary website and the figures he had given, although I did not consider that the difference was material.

84. Mr Osborne replied on 30 November.⁶⁴ He said that the £18,361 figure given by him in his letter of 15 July for mortgage interest claimed in 2005–06 was the correct one. The

⁶² WE 27

⁶³ The table as sent to Mr Osborne also included details of the size of the various mortgages relating to his Cheshire property (see WE 27).

⁶⁴ WE 28

discrepancy between this and the £16,716 figure shown on the parliamentary web-pages had arisen because the parliamentary web-pages showed copies of the scanned ACA forms and for 2005–06 there were two forms for August but no form for July. Mr Osborne commented, *“One of the August forms was accidentally mislabelled, and should be for July. This was resolved with the Department at the time. This conclusion is supported by the figure for total ACA claim in 2005–06 given on the parliamentary web-pages of £21,533 This figure appears to be inconsistent with the mortgage interest figure you suggest of £16,716, while it would be consistent with the figure of £18,361. If the figure of £16,716 were correct for the total mortgage interest claimed, then the total ACA claim would be £19,737. However, if one counts one of the forms labelled ‘August’ as the missing entry, then this is consistent with a total ACA claim of £21,533, as shown on the parliamentary web-page.”*

85. As to the difference between the £18,700 figure given in his letter of 15 July for mortgage interest claimed in 2006–07 and the figure of £18,786 shown on the parliamentary web-pages, Mr Osborne said that the figure in his letter had been adjusted down from £18,786 to take account of a repayment he had made. He commented, *“In June 2006, I accidentally claimed £86 more mortgage interest than was claimable, and when I spotted this error repaid the amount.”*

86. Mr Osborne raised one point on the table I had sent him, relating to the £15,609 figure I had shown as the total interest paid on the mortgage attributable to his constituency home in the first period of 2007–08. Mr Osborne said that this figure should be £16,069. He commented, *“I believe this discrepancy arose because you used the figure of £1,561 for interest paid on the [...] mortgage in January 2008, rather than the figure of £2,022, both of which are provided on the statements I enclosed in my letter of 4 November. In the [...] statement enclosed in my letter of 4 November, there is a note that ‘The interest amount of £2,022 covers interest from 8/12/07 up to redemption on 9/01/08’. My office has spoken with [...] and confirmed that £2,022 is the correct figure.”*

87. Mr Osborne also commented on my use in the table of the word ‘overclaim’ in relation to his claims for mortgage interest in respect of certain years, and the figures I had given for these of £785 for 2005–06 and £1,065 for 2006–07. He commented, *“I hope that you would acknowledge, as I have repeatedly explained in previous correspondence, that these claims were made in good faith after I had sought and followed the advice of the Department about raising my mortgage. Indeed, as [the] Director of Strategic Projects in the Department of Resources said in his letter of 27 August, my mortgage arrangements in 2005 resulted in ‘a substantial saving to public funds’. I hope you would acknowledge that on the same method of identifying what you identify as ‘overclaims’ of £1,850,⁶⁵ and using figures you set out in your table, I underclaimed in relation to my mortgage in 2001–02, 2002–03, 2003–04, 2004–05, and 2007–08, by a total of £24,124.⁶⁶ Subtracting one figure from the other, I hope you*

⁶⁵ In fact, if the additional £86 is taken into account, Mr Osborne overclaimed by £1,936.

⁶⁶ Following corrected figures received from the Department of Resources on 18 January 2010 (WE 32), Mr Osborne amended this figure to £9,670.

would agree that, over the entire period I have been an MP since 2001, I have therefore underclaimed in relation to my mortgage by a total of £22,274.”⁶⁷

88. Mr Osborne went on to say, “If, however, you judge that I received the wrong advice, and acted on that wrong advice in good faith, I would be very willing to repay the £1,850 that you identify to ensure my claims are entirely beyond reproach”.⁶⁸

89. I replied to Mr Osborne on 3 December.⁶⁹ I accepted his statement that the correct figure for mortgage interest claimed in 2005–06 was £18,361. In respect of the mortgage interest claimed in 2006–07, I explained that I proposed to use the £18,786 figure, and to add a footnote pointing out the repayment he had made of excess mortgage interest claimed for June 2006. I offered to add to the footnote any details which Mr Osborne could provide as to when that repayment was made. In terms of the total interest figure for the first period of 2007–08, I accepted, for the reasons he had given, that Mr Osborne had paid £16,069. I attached a revised schedule reflecting these changes. I noted the further point he had made about offsetting his overclaims against the times when his claims for mortgage interest could have been higher and still within the total allowance available, and his offer to repay £1,850 on the terms he had stated.

90. Mr Osborne replied on 9 December.⁷⁰ He said that the repayment of the £86 excess in mortgage interest claimed for June 2006 had been made to the Department of Finance and Administration, by letter dated 12 May 2009, and included interest at 5%. This brought the total repayment to £99.96. Mr Osborne agreed that my revised schedule should be included in this Memorandum. It is set out in paragraph 98 below, as part of the findings of fact. Mr Osborne also said, “I welcome your decision to acknowledge the claims on mortgage interest could have been higher. I would also like to reiterate the point that it was my decision in my letter of 15 July to volunteer to you the fact that I had raised the mortgage to £480,000 and that it is not part of the complaint lodged against me by Mr Burton.”

91. Following my letter to him of 24 December, Mr Osborne emailed me on 29 December with details of a further repayment which he had made in October 2009.⁷¹ In a letter of 29 October to Sir Thomas Legg he had reported that he had discovered “two further small errors” in his past claims relating to 2005–06, with a total value of £184. He said that he was repaying a total of £222 to cover these errors and the associated interest. He wanted to make these payments to ensure that his affairs were beyond reproach, although he considered that they could have been offset against the fact that in the last five years he had claimed substantially less than he “was entitled to”. Mr Osborne said he was sending me these details for completeness, but did not think that they should affect my inquiry.

⁶⁷ Following corrected figures received from the Department of Resources on 18 January 2010 (WE 32), Mr Osborne amended this figure to £7,734.

⁶⁸ Mr Osborne subsequently identified that he had already paid a further £184 of this amount in addition to the £86 he mentioned in his letter of 30 November (WE 28).

⁶⁹ WE 29

⁷⁰ WE 30

⁷¹ WE 31

92. The Director of Strategic Projects, Department of Resources, wrote to me again on 18 January.⁷² He said that, following an inquiry from the Clerk of the Committee on Standards and Privileges, the Department had checked the amount received by Mr Osborne in ACA in 2001–02. He said, “We no longer have documents from that year. However, the figure which was released in respect of Mr Osborne’s ACA claims in 2001–02 as part of the general Freedom of Information release in October 2004 was £18,009. We have no reason to suppose that was other than an accurate figure. This figure has been in the public domain since 2004.” The Director continued, “When Mr Osborne inquired of the Department as to the amounts he had received in each year so that he could answer the questions which you had put to him in your letter of 30th June 2009,⁷³ he was given the figure of £3,119 in respect of ACA in 2001–02. This was because this was the figure which was obtained from our electronic records for that year. However, the electronic records for 2001–02 only contain those amounts actually paid out in 2002–03 in respect of costs incurred in 2001–02. This is the result of a change in accounting systems in 2002.” The Director explained that, when he had written to me on 27 August,⁷⁴ he had confirmed the figures I had been given by Mr Osborne “again relying on a mistaken interpretation of the electronic information for 2001–02”. He confirmed that the figures I had received for Mr Osborne’s ACA claims in 2002–03 and 2003–04 had been accurate. The Director expressed his regret for the error, and apologised for the inconvenience it had caused.

93. Following receipt of this letter, and with Mr Osborne’s agreement, I amended the table which included the figures for Mr Osborne’s ACA claim for 2001–02 (see paragraph 100 below) and put appropriate footnotes in the previously received evidence.

Findings of Fact

94. Mr Osborne, together with his wife, purchased a property in Cheshire in October 2000 for £445,000. He had been selected as the prospective Conservative candidate for Tatton in 1999. The purchase was made in the expectation that Mr Osborne would be elected as the Member for Tatton at the forthcoming General Election. The property is situated six miles from the constituency border. The purchase price, together with legal fees, mortgage arrangement fees, moving fees, and the costs of some essential repairs and basic redecoration, amounted to £470,000. Mr and Mrs Osborne financed these costs by increasing the £150,000 mortgage secured on their London property to £620,000.⁷⁵ The interest rate on this mortgage was capped until 31 July 2003, and the terms of the advance included an additional interest penalty of 3% of any part of the capital repaid before 1 August 2003. The cost of changing Mr Osborne’s mortgage to his Cheshire property before that date would therefore have been some £13,500.

⁷² WE 32

⁷³ WE 5

⁷⁴ WE 18

⁷⁵ The actual total advance was £620,299.

95. From the time of his election to Parliament in June 2001 until 21 July 2003, Mr Osborne designated his Cheshire home as his main home for allowance purposes. He did so following discussions all new Members had with the then Fees Office. In respect of this period, Mr Osborne claimed against the ACA for that part of the interest attributable to £470,000 of the mortgage secured on his and his wife's London property, to reflect the full purchase costs of his Cheshire property.

96. Mr Osborne changed his designation arrangements with effect from 21 July 2003. Thereafter, he designated his London home as his main home and his Cheshire home as his second home. In July 2006, Mr Osborne moved home in London, and designated his new London home as his main home in place of the previous one.

97. In November 2003, Mr Osborne raised a £450,000 interest-only mortgage secured against his Cheshire home and claimed interest on it against the ACA. It was £5,000 more than the initial purchase price of the property and was the most the lender would advance given the value of the property at the time.

98. In December 2005, Mr Osborne re-mortgaged his Cheshire property for £480,000, again on an interest-only basis.⁷⁶ He increased the sum borrowed to cover, besides the initial purchase price of £445,000, both the whole of the additional initial purchase costs of £25,000, and an additional £10,000 towards the cost of repairs to the property. These repairs, which he regarded as essential, included new windows and a new front door, as suggested in the structural survey he had obtained in September 2000, and a replacement boiler.

99. Mr Osborne re-mortgaged his Cheshire property for a similar sum on an interest-only basis with another lender in January 2008.

100. The following table shows, for each financial year from 2001–02 to 2007–08, details of the total interest paid by Mr Osborne on the mortgage attributable to his constituency home; the total mortgage interest he actually claimed; the maximum mortgage interest claimable on the basis of an allowable mortgage of £445,000 from May 2001 to 2006 inclusive, and £455,000 from June 2006 when the Members Estimate Committee agreed that mortgages could be increased to pay for necessary works; and the difference between the actual claim and the maximum interest thus eligible to be claimed:

Financial year	Total interest paid on mortgage attributable to constituency home (£)	Total mortgage interest claimed (£)	Maximum interest claimable on allowable mortgage (£)	Difference between total interest claimed and maximum interest claimable (£)
2001-02	33,003	18,009*	19,469**	-1,460

⁷⁶ The actual total advance was £481,499.

2002-03	34,422	18,058*	19,722**	-1,664
2003-04	24,630	16,000 (estimate)	19,031	-3,031
2004-05	18,573	15,293	17,960	-2,667
2005-06	20,138	18,361#	17,576	+785
2006-07	18,730	18,786##	17,635	+1,151
2007-08	21,467	19,438	20,286	-848

* Total ACA claim

** ACA ceiling for the year

£184 repaid in October 2009, plus interest of £38.

##£86 repaid in May 2009, plus interest of £14. The difference between Mr Osborne's net total claim of £18,700 and the total interest paid of £18,730 arises from small roundings in individual claims.

101. The Department of Resources accepts that, although it holds no correspondence or other documentation that could shed light on any specific advice given to Mr Osborne in 2001 when he was first elected to the House, it is likely that he would have been advised that he could nominate either his London or his Cheshire property as his main home for ACA purposes. With the benefit of hindsight, the Department considers that its advice was flawed. Having been informed by Mr Osborne that he wished to claim ACA to pay interest on the part of the London mortgage used to purchase his Cheshire home, it ought not to have advised Mr Osborne specifically to nominate his Cheshire property as his main home. This is because his claims should have been for the purpose of meeting the mortgage interest costs of the property nominated as his second home: claims could not be made for the purchase of a main home. Nevertheless, they consider that it was reasonable for Mr Osborne to have taken the advice he was given at the time by officials in the Department, and, in their view, Mr Osborne cannot be blamed for having done so. The Department also considers that it should have advised Mr Osborne to claim only for the mortgage interest attributable to the purchase price of the property, and not to claim in respect of the element of the loan attributable to the costs of purchase, and initial repairs and redecoration, as these had been incurred before Mr Osborne had been elected. The Department nonetheless believes that Mr Osborne did not receive, between 2001 and 2003, any funds he would not have received had he decided in 2001 to nominate London as his main home.

102. The Department of Resources considers that, although there was no record of any discussion with Mr Osborne about the matters, his change of designation of his Cheshire property in 2003 was entirely within the rules, and the re-mortgage acceptable. The Department would have regarded as *de minimis* the fact that the loan exceeded the original purchase price by £5,000. However, at the time Mr Osborne re-mortgaged his Cheshire property in 2005, additional mortgages, advances or loans on the same property were not allowed. A change in the rules was under consideration, but was not finally approved until June 2006. Mr Osborne should not therefore have included claims for the interest on the increase in the mortgage to cover the additional funds to carry out repairs. The cost of these repairs should, under the rules as they stood at the time, have been charged by Mr Osborne direct against the ACA. There is no record of any specific correspondence with

Mr Osborne about this re-mortgage. The Department has noted that the effect of the then rules was perverse, since the repairs could have been claimed against a Member's ACA.

103. Mr Osborne considers that all the costs he has claimed have been incurred in pursuance of his Parliamentary duties. His evidence is that he sought advice from the appropriate authorities at each decision point: when he designated his Cheshire property as his main home in 2001, when he split his mortgage in 2003 so as to take out a separate mortgage on his Cheshire property, and again when he increased the mortgage to cover repair costs in 2005 (which last point he has noted was raised by him in his evidence to me and not by the complainant). His evidence is that on each occasion, he explained in detail to the Fees Office his proposals and showed them full documentation. He always acted on the advice he received. He noted that no claim he had made for mortgage interest over the period of this inquiry had been questioned or rejected by the Fees Office. He has himself identified in 2009 minor discrepancies in his mortgage claims for 2005–06 and 2006–07 which he has repaid with interest. Mr Osborne's evidence is that he has never sought financial gain; he has always sought to minimise the cost to the taxpayer, for example through his practice of regular re-mortgaging, and in his view his arrangements have at all times provided value for money.

104. Mr Osborne accepts my analysis of his claims for mortgage interest against the ACA. This shows that Mr Osborne's mortgage interest claims did not exceed the interest payable on the initial purchase price of his Cheshire property of £445,000 in any year from 2001–02 to 2003–04. He accepts that his claims exceeded the amount that related solely to the purchase of his Cheshire property by £785 in 2005–06 and £1,151 in 2006–07. Mr Osborne realised earlier in 2009 that he had accidentally overclaimed by £184 in 2005–06 and by £86 in 2006–07. Mr Osborne notes that, on the same basis as I have calculated his overclaims, he has underclaimed overall what he could legitimately have claimed in relation to mortgage interest on his Cheshire home from 2001–02 to 2007–08 by £9,670. Nevertheless, if the Committee accepts that he received the wrong advice, and acted on that wrong advice in good faith, he would be very willing to repay £1,936 to ensure that his claims were entirely beyond reproach (of this sum, Mr Osborne has already repaid £184 for 2005–06 and £86 for 2006–07, with interest).

Conclusions

105. The principal matters I am to determine are whether in 2001 Mr Osborne correctly identified his Cheshire home as his main home for the purposes of his claims against parliamentary allowances, and whether, having changed his designation, it was necessary for Mr Osborne to have made claims against his parliamentary allowances for his Cheshire home in 2003 and subsequently when that home had not previously had a mortgage attached to it.

106. In considering these matters, I have addressed the following questions:

- i) Did Mr Osborne correctly identify his main home from 2001 to 2003?

- ii) Was the mortgage Mr Osborne raised in 2003 within the rules?
- iii) Were Mr Osborne's mortgage interest claims within the rules?
- iv) Was Mr Osborne right to increase his mortgage in 2005 to cover repair costs?

Did Mr Osborne correctly identify his main home from 2001 to 2003?

107. On coming into the House in June 2001, Mr Osborne took advice from the House authorities about his mortgage interest arrangements. He already had two homes: one in London and one in Cheshire. He had raised a mortgage to buy his Cheshire property in 2000 by increasing the mortgage on his London home. As long as a Member's mortgage interest claims were confined to their second home, there was nothing in the rules at the time to prevent a Member buying a second home in order to perform their parliamentary duties and funding it by raising a mortgage on another property. In 2001, the rules allowed Members to choose which was their main home without further guidance. Nevertheless, Mr Osborne's decision to nominate his property in Cheshire as his main home was against the rules because, in fact, his claims on his London property were solely to meet the mortgage interest costs of his Cheshire property, and he was not allowed to claim those costs because he had identified that property as his main home.

108. I accept Mr Osborne's evidence that he had been clear with the House authorities at the time that he had wished to claim for interest on that part of his London mortgage which was represented by the cost of buying his Cheshire home. It appears that he was advised, nevertheless, to nominate Cheshire as his main home and to claim ACA against his London home .

109. The Department of Resources has since described that advice as "flawed". I agree. Since Mr Osborne wanted to claim for the cost of his Cheshire home, he should have identified his London property as his main home and ensured that his mortgage interest claims reflected only the costs of his Cheshire property.

110. Mr Osborne was, therefore, in breach of the rules in identifying his Cheshire property as his main home and making claims for the mortgage interest which reflected the costs of that property.

111. It is fair to point out, however, that Mr Osborne was a new Member at the time he made this decision and that he sought—and I accept that he took—the advice of the House authorities. It is right that these factors should be weighed in assessing Mr Osborne's conduct. There is no evidence that Mr Osborne personally benefited from this arrangement and, as such, and at this distance in time, it would in my judgement be unfair to see it as a serious breach of the rules.

Was the mortgage Mr Osborne raised in 2003 within the rules?

112. Mr Osborne changed his mortgage arrangements in 2003. He decided to raise a mortgage secured on his additional home in Cheshire, rather than continue to secure it on his main home in London.

113. Mr Osborne was fully entitled to make this change within the rules of the House at the time. It was in my judgement a sensible decision, since it had the prospect of making more simple and more direct his mortgage arrangements. Mr Osborne already had a loan, secured on his London house, in order to meet the cost of buying his Cheshire property. It was in my view entirely acceptable that he should have been able to continue to claim the cost of buying his Cheshire property by charging to parliamentary allowances the interest costs of the new mortgage.

114. The complainant points out, correctly, that, when Mr Osborne was first elected to the House, he owned the Cheshire property outright. It does not, however, follow, as the complainant suggests, that it was unnecessary as a result to claim in 2003 and subsequently for the costs of staying away from his main home. The purchase of the Cheshire property had been wholly funded by a mortgage secured on Mr and Mrs Osborne's London property. The Cheshire property was undoubtedly being used for the purpose of performing Mr Osborne's parliamentary duties, and thus the interest on the mortgage used to purchase it was properly chargeable against the ACA.

115. I do not, therefore, uphold the complaint that the mortgage which Mr Osborne raised in 2003 was unnecessary in order to fulfil his parliamentary duties.

Were Mr Osborne's mortgage interest claims within the rules?

116. Mr Osborne's arrangements were complicated by the fact that he had taken out his initial loan to purchase his Cheshire property before he was elected to the House. That loan had covered the purchase price, transaction costs and the initial repairs. I accept the Department's advice that, under the rules as they were at the time, Members could not claim for costs incurred before they were elected to the House. They could claim for the continuing mortgage interest on the purchase price, but not for other costs. Mr Osborne maintained a mortgage for more than the original purchase price of his property throughout the period covered by this complaint. But this does not necessarily mean that he actually claimed the mortgage interest paid on the full sum.

117. Mr Osborne has offered evidence of his mortgage interest claims from 2001–02 to 2007–08. This shows that the mortgage interest he claimed (or which he reasonably estimated he claimed) did not in the first four years, from 2001–02 to 2004–05, and again in 2007–08, exceed the level of the interest on that part of the loan which was permitted by the House at the time. But the interest claimed exceeded those costs in both 2005–06 and 2006–07 by a total of £785 and £1,151 respectively.

118. Mr Osborne was, therefore, in breach of the rules in 2005–06 and 2006–07, but not in any other year, in the claims he made for mortgage interest on his additional property in Cheshire. I therefore uphold this part of the complaint, since the complainant alleged that Mr Osborne's mortgage claims after 2003 covered more than the initial purchase price of

the property. There is no evidence that this was an intentional breach. But Mr Osborne was not aware of the restrictions on his mortgage interest claims, so did not take them into account. I do not consider this a serious breach of the rules: the sums were not particularly large and the mistake was not intended. He has offered to repay the sums involved (£1,936, of which he has already paid £270 plus interest).

Was Mr Osborne right to increase his mortgage in 2005 to cover repair costs?

119. Mr Osborne himself drew my attention to the increase he made to the size of his mortgage on his Cheshire property on 7 December 2005 to meet the cost of some necessary repairs as well as to cover fully the costs associated with the original purchase. As I have explained above, any claims for the costs of the original purchase were not permissible. I accept that the repair costs were necessarily incurred and within the rules of the House at the time. I have no reason to doubt Mr Osborne's evidence that he agreed this arrangement in advance with the House authorities. Mr Osborne and the Department of Resources are right in suggesting that he could instead have claimed these costs directly from his Additional Costs Allowance. But this would have depended on there being sufficient headroom in the allowance, which there was not. It is difficult to see, therefore, how this mortgage arrangement represented a significant saving to the taxpayer.⁷⁷

120. At the time when Mr Osborne increased his mortgage to cover repair costs and began to claim for the additional interest, this practice was specifically prohibited by the rules then in force. The rules did not change until the relevant Committee of the House, the Members Estimate Committee, approved them in June 2006. While, therefore, this arrangement was strictly a breach of the rules of the House at the time Mr Osborne entered into it, he was only anticipating the change by a matter of some six months and I accept Mr Osborne's evidence that he took (mistaken) advice from the House authorities. In addition, the extra money claimed was modest. It would, in my view, be unduly harsh to criticise Mr Osborne for the action he took.

Overall Conclusion

121. My conclusion, therefore, is that Mr Osborne was in breach of the rules of the House in identifying his Cheshire property as his main home from 2001 to 2003, because the claims he made against his London home were in order to pay for the mortgage interest on his Cheshire property and Members may not make claims for their main home. Mr Osborne followed flawed advice from the House authorities. But he did not personally benefit financially from the error and I do not regard it as a particularly serious breach of the rules. Nevertheless, I uphold this part of the complaint.

122. I conclude also that Mr Osborne was in breach of the rules of the House in 2005–06 and 2006–07 in mistakenly claiming mortgage interest on a sum greater than the original

⁷⁷ Mr Osborne claimed £21,533 in 2005-06 against the ACA ceiling of £21,634. Source: WE 28 and www.parliament.uk

purchase price of his Cheshire property. Again, I do not consider this a particularly serious breach of the rules. Nevertheless, in that respect, I uphold this part of the complaint.

123. I note that Mr Osborne anticipated a change in the rules in 2006 in increasing his mortgage in December 2005 to meet necessary repairs on his Cheshire home. While that was a breach of rules as they were at the time, Mr Osborne's actions reflected rules which, within six months, were to become the rules of the House and the increase in his mortgage interest charges was modest. This action by Mr Osborne did not form part of the complaint.

124. Taken overall, I do not regard as particularly serious the breaches of the rules which I have identified. Mr Osborne has been consistent in pointing out that he took advice at all times from the House authorities and acted on that advice. The breaches were not major ones, were not intentional and did not provide Mr Osborne with any significant financial benefit. He has offered to pay back the excess sums he claimed for and received in 2005–06 and 2006–07. These amount to £1,936, less the sums he has already repaid.

18 January

John Lyon CB

Written evidence received by the Parliamentary Commissioner for Standards

1. Letter to the Commissioner from Mr Laurie Burton, 17 June 2009

I am writing to ask you to investigate the mortgage claims made by Mr George Osborne, the Member of Parliament for Tatton, under the Personal Additional Accommodation Expenditure (PAAE) allowance for Members of Parliament.

The Green Book is clear that "*claims must only be made for expenditure that it was necessary for a Member to incur to ensure that he or she could properly perform his or her parliamentary duties.*" The Green Book is also clear that "*members must ensure that claims do not give rise to, or give the appearance of giving rise to, an improper personal financial benefit to themselves or anyone else.*"

In view of these rules, there are two areas I would like you to examine:

First, can you investigate whether it was necessary to his parliamentary duties for Mr Osborne to take out a mortgage on his Cheshire home that was worth £4,995 more than he had originally paid for the house?

- The Land Registry documents say that Mr Osborne purchased his property in Cheshire in October 2000 for £445,000.
- According to the *Daily Mail*, 12 June 2009,⁷⁸ the property was mortgaged in 2003 for £449,995.

Secondly, despite owning the Cheshire property outright and reportedly making clear it was his second home, Mr Osborne claimed for two years on the mortgage for his London main residence. Mr Osborne has said of these claims (of around £18,000 a year over two years) that "*I claimed the allowances against that portion of the mortgage that was used to buy the property in Cheshire and I think that is a perfectly reasonable thing to do.*" (George Osborne, BBC News 24, 15 June 2009)

This raises two key questions, whether it was in any way "necessary" for Mr Osborne to claim for staying away from his main home when he owned his second home outright, and following that, what happened to the £36,000 that was claimed on his London main residence? It seems hard to believe that Mr Osborne would find it necessary to take a mortgage on his second home that was worth more than he paid for the home if the taxpayer was also contributing £36,000 to the cost of this home.

17 June 2009

2. *Daily Mail* article, 11 June 2009

OSBORNE 'FLIPPED HIS SECOND HOME'

BY TIM SHIPMAN DEPUTY POLITICAL EDITOR

Publication date: 11 June 2009

GEORGE Osborne was dragged into the MPs' expenses row yesterday over claims he 'flipped' his second home after taking out a £450,000 mortgage.

⁷⁸ Actually 11 June 2009

The Shadow Chancellor claimed second homes allowance on a London property and then switched it to a large farmhouse in his Cheshire constituency of Tatton.

He also admitted yesterday that he did not pay capital gains tax when he sold the London property a few years later - prompting calls from Labour MPs for him to pay up.

Tory leader David Cameron has since banned his MPs from flipping their homes and avoiding capital gains tax.

Mr Osborne, a multi-millionaire, bought the Cheshire residence ten months before he won the Tatton seat in 2001.

Instead of taking out a mortgage on the Cheshire farmhouse, he increased the mortgage on the London home where he and his wife Frances had lived since they bought it for £700,000 in 1998.

The Commons Fees Office advised Mr Osborne to designate the London house his second home - even though it was his main residence - so he could claim mortgage interest payments on the Cheshire property.

Mr Osborne is adamant that - unlike several Labour ministers who flipped their homes - he did not make any claims for furniture, utilities or food in London.

Two years later, he took out a separate £450,000 mortgage on the Cheshire farmhouse and made that formally his second home. The loan was guaranteed by Mr Osborne's father Sir Peter Osborne, founder of the Osborne & Little wallpaper chain.

The Shadow Chancellor has since claimed £100,000 on the picturesque property.

It was reported that Mr Osborne was able to reduce the mortgage on his London home to less than £200,000 before he sold it for £1.48million in 2006 - a £748,000 profit.

He did not pay Capital Gains Tax because as far as the tax authorities were concerned it was his main home since 1998, despite the two years when it was formally designated as his second home by Commons officials.

If officials had considered it his second home he could have been liable for £300,000.

But a spokesman for Mr Osborne said: *“George has never switched designation for personal advantage. There has been absolutely no impropriety and any suggestion of such is wrong.”*

BY TIM SHIPMAN DEPUTY POLITICAL EDITOR TIMELINE

April 1998: Buys family home in Notting Hill for £700,000

June 2000: £150,000 left on his London mortgage with the [building society] October 2000: Remortgages London home for £620,299 so he can buy property in Cheshire in cash sale

May 2001: Elected MP for Tatton. Tells Commons fees office that Cheshire is his second home but the mortgage is in London. They tell him to claim second homes allowance for mortgage interest in London

2003: Takes out £449,995 mortgage on the Cheshire property and remortgages London home for £199,875. Redesignates Cheshire as his second home for expenses

2003-2009: Claims around £100,000 for Cheshire home

July 2006: Sells London home for £748,000 profit. Does not pay capital gains tax as it is his main home. Buys new London home for £1.85 million.

11 June 2009

3. Letter to Mr Laurie Burton from the Commissioner, 19 June 2009

Thank you for your letter of 17 June about Mr George Osborne MP and his reported claims against the Members' allowances for his additional costs.

I have carefully considered your letter, recognising that since it relates to circumstances of more than seven years ago, I would need to seek the specific authority of the Committee on Standards and Privileges before initiating an inquiry.

My reading of the allegations contained in the material which you have identified, namely the *Daily Mail* article of 12 June⁷⁹ and your report of an extract from the interview with Mr Osborne on 15 June, is as follows. After Mr Osborne joined the House of Commons in 2001, he designated his Cheshire residence as his main home and made claims against what was then called the Additional Costs Allowance in respect of his London home. It is alleged that his London home was his main home, but he designated it as his second home on the advice of the House of Commons Fees Office, so that he could claim for mortgage interest. It is further alleged that in 2003 after he had raised a mortgage on his Cheshire property and reduced his mortgage on his London property, Mr Osborne changed his designation of his main home to his London home, making claims for his Cheshire home from that date.

This is my understanding of the allegations you have identified. If you think that I have misunderstood the position, please let me know. Could you now consider, on the basis of the information summarised above, or modified by you, whether you wish to make a formal complaint against Mr Osborne and if so what were the actions you believe he took which you consider were in contravention of the rules of the House.

19 June 2009

4. Letter to the Commissioner from Mr Laurie Burton, 21 June 2009

Thank you for your letter of 19 June. I confirm that I do wish to make a formal complaint against Mr Osborne, on the basis of your summary of the allegations as outlined in my letter of 17 June, together with some modifications resulting from the details of Members' expenses subsequently published.

I believe the actions of Mr Osborne contravened the rules of the House of Commons particularly in respect of The Code of Conduct for Members of Parliament, section V Rules of Conduct sub-section 15: *"Members shall at all times conduct themselves in a manner which will tend to maintain and strengthen the public's trust and confidence in the integrity of Parliament and never undertake any action which would bring the House of Commons, or its Members generally, into disrepute."*

Land Registry records show that Mr Osborne purchased a Cheshire property in September 2000 for £445,000 cash. This had nothing to do with Parliamentary duties, as at that time he was not, and had never been, a Member of Parliament. It was obviously a second (holiday?) home.

At that time his main residence was in London, where he had lived with his family since 1998. However, following his election to Parliament in June 2001 he designated the London home, which was mortgaged, as his *"second home"* in order to claim Additional Costs Allowance (ACA) for the mortgage payments.

Published MP expense details show that in 2003 a mortgage for £450,000 (£5,000 more than the purchase price) was taken out on the Cheshire house. Next to the heading Borrower Names it shows Mr G. Osborne and a second name which is redacted. This has been reported as being Mrs Frances Osborne.

Mr Osborne then redesignated the Cheshire house as his second home and began claiming ACA on the new mortgage payments. These were initially £1,271 monthly, rising to £1,458 in 2004/05, £1,560 in 2006/07 and some £1,900 in 2008.

⁷⁹ Actually 11 June

In 2006, Mr Osborne sold the London home for a profit of £748,000. If it had been still designated as the second home Capital Gains Tax (CGT) would have been payable, but the expedient of "flipping" (re-designation) meant that CGT could be avoided, as well as the above ACA being claimed.

There is ample evidence that the London residence is, and always has been, the Osborne family's main home. While there may be room for debate about the financial manipulations of Mr Osborne that have ensured maximum financial advantage for himself and his wife (as joint owner of their properties), there can surely be no doubt about the reaction of the general public to those manipulations.

Far from behaving "*in a manner which will tend to maintain and strengthen the public's trust and confidence in the integrity of Parliament*", Mr Osborne's actions have had absolutely the opposite effect.

The huge public outrage and anger at the actions of Mr Osborne and other Members is quite evident and really should not be ignored any longer if that confidence is ever to be restored.

I believe that action should be taken against Mr Osborne as he is a prime example of those who have destroyed the public's trust. Although other Members have paid back money relating to Capital Gains Tax or the "flipping" manipulations of mortgage arrangements, Mr Osborne has repeatedly refused to do so.

There is also an issue of wider importance. Unless and until some action is taken against one or more Members it will surely be a long, long time—if ever—before the House of Commons and all its Members are able to emerge from the current state of disrepute that some Members have created.

The public perception will continue to be "*they are all at the trough together, and any complaint against any of them will, as usual, be simply brushed aside*".

21 June 2009

5. Letter to Mr George Osborne MP from the Commissioner, 30 June 2009

I would welcome your help on a complaint I have received about your claims against the Additional Costs Allowance for a second home.

I attach a copy of the complainant's letter of 21 June. I attach also for information the complainant's initial letter of 17 June, my response of 19 June and an online copy of the relevant part of the *Daily Mail* article of 12 June to which the complainant refers.

In essence, the complaint is that between 2001 and 2003 you wrongly identified your main home for the purposes of your claims against the Additional Costs Allowance, and that from 2003 you claimed for mortgage payments that were not necessarily incurred, contrary to the rules of the House. I have told the complainant that I will not be inquiring into any liability you may have had for capital gains tax on the sale of your London property in 2006 since that is a matter for HMRC.

As the first part of the complaint goes back more than seven years, I have consulted the Committee on Standards and Privileges and they have agreed to me initiating an inquiry into this part of the complaint.

The Code of Conduct for Members of Parliament provides in paragraph 14 as follows:

"Members shall at all times ensure that their use of expenses, allowances, facilities and services provided from the public purse is strictly in accordance with the rules laid down on these matters, and that they observe any limits placed by the House on the use of such expenses, allowances, facilities and services."

The Green Book on Parliamentary Salaries, Allowances and Pensions published in [February 2001](#) (the edition which is relevant to the first part of the complaint) provides in Section 3 the rules in respect of the Additional Costs Allowance.

Paragraph 3.1.2 states:

“The Additional Costs Allowance (ACA) reimburses Members of Parliament for expenses incurred when staying overnight away from their main home whilst performing their parliamentary duties. This can be in either London or the constituency.”

Paragraph 3.2.1 deals with eligibility:

“...If you represent constituencies outside London you can claim ACA expenses in either London OR your constituency. If you have a home both in the constituency and in London, you should tell the Fees Office which one is your main home. ...”

In the Green Book published in June 2003 (the edition which is relevant to the second part of the complaint), the Speaker’s introduction said:

“Members themselves are responsible for ensuring that their use of allowances is above reproach. They should seek advice in cases of doubt and read the Green Book with care.”

Section 3.1.1 sets out the scope of the allowance as follows:

*“The Additional Costs Allowance (ACA) reimburses Members of Parliament for expenses wholly, exclusively and necessarily incurred when staying overnight away from their main residence (referred to below as their main home) for the purpose of performing Parliamentary duties. **This excludes expenses that have been incurred for purely personal or political purposes.**”*

Section 3.2.1 sets out eligibility:

“You can claim ACA if:

- a*** *You have stayed overnight in the UK away from your only or main home, and*
- b*** *This was for the purpose of performing your Parliamentary duties, and*
- c*** *You have necessarily incurred additional costs in so doing, and*
- d*** *You represent a constituency in outer London or outside London”*

...

Section 3.9.1 provides a definition of “main home”:

*“For **other Members** [i.e. other than Ministers or office holders], the location of your main home will normally be a matter of fact. If you have more than one home, your main home will normally be the one where you spend more nights than any other. If there is any doubt about which is your main home, please consult the Department of Finance and Administration.”*

These paragraphs have been included in successive Green Books since June 2003.

I would welcome your comments on this complaint in the light of this summary of the relevant rules. In particular it would be helpful if you could let me know:

1. the circumstances in which you came to acquire your Cheshire and your successive London residences with dates, finance arrangements and a brief description of the accommodation each provided;
2. whether, and if so when between 2001 and 2003, you designated your Cheshire residence as your main home;
3. the reasons why you considered your Cheshire residence to be your main home during this period;
4. whether, and if so when in 2003, you designated your London residence as your main home;

5. the reasons why you considered your successive London residences to be your main home from 2003 and what were the circumstances that led you to make the change from your Cheshire designation;
6. whether, and if so, why, you raised a mortgage on your Cheshire home in 2003, the size of the mortgage and its relationship to the value of the property at the time;
7. what claims for mortgage interest on your Cheshire home you made against the ACA in 2003-04 and each successive financial year;
8. whether, and for what reason, you consider that those costs were necessarily incurred for the purpose of performing your parliamentary duties, given that apparently you owned the home outright before 2003; to what use you put the capital thus released and whether any of it was used in support of the costs of your London residence;
9. what were the circumstances and arrangements you made for the change in your London house in 2006;
10. what advice, if any, you have taken from the House authorities about any of these arrangements.

Any other comments you would wish to make to help with my inquiry, would of course be very welcome.

I attach a note setting out the procedure I follow. I have written to the complainant to let him know that I have accepted his complaint and am writing to you about it.

It would be very helpful if you could let me have a response to this letter within the next three weeks. If there is any difficulty about this, or you would like a word on any matter arising from the complaint, please contact me at the House. I would be very grateful for your help on this matter.

30 June 2009

6. Letter to the Commissioner from Mr George Osborne MP, 15 July 2009

Thank you for your letter of 30 June relating to the complaint lodged by Mr Laurie Burton, who is known to me as the Chair of the Tatton Constituency Labour Party. I will willingly address all your questions and provide you with any information required.

I should say that I believe the complaint from Mr Burton to be entirely unfounded, and believe that at all times I have followed the rules set out in the Green Books published in February 2001 and June 2003.

In accordance with section 3.1.2 (Green Book 2001) and section 3.1.1 (Green Book 2003), all the allowances I have claimed have been incurred for the purpose of allowing me to stay overnight in pursuit of my parliamentary duties since my election to Parliament in June 2001 for the seat of Tatton in Cheshire, some 180 miles from London. I only own a property in Cheshire in order to fulfil my duties as a constituency MP for Cheshire, and I have never sought to exploit the allowances for personal gain.

In accordance with section 3.9.1 (Green Book 2003), I did consult the Department of Finance and Administration ("Fees Office") in advance of the designation of my homes for the purposes of the claiming of parliamentary allowances—both in 2001 and in 2003. I also consulted the Fees Office in advance of the mortgages I took out against the house in Cheshire in 2003 and 2005. Both at their request and on occasions unsolicited, I also submitted copies of all the relevant paperwork, including mortgage statements, letters from the mortgage companies and mortgage arrangement documents. At no point has anyone from the Fees Office contacted me in person or in writing to express any concern about my arrangements. All my claims for mortgage interest were accepted by the Fees Office and paid out in full.

In accordance with section 3.3.1 (Green Book 2003), I have borne "*in mind the need to obtain value for money*". Indeed, I apply that principle both to the expenses which are allowable against parliamentary expenses and those expenses I incur personally. That explains the regular re-mortgaging of both the houses in

Cheshire and London, every two or three years and usually with different mortgage providers, in order to obtain the best mortgage deals and to avoid paying the more costly Standard Variable Rate (SVR).

Let me answer each of your questions.

Question 1. The circumstances in which you came to acquire your Cheshire and successive London residences with dates, finance arrangements and a brief description of the accommodation each provided.

Following my marriage, my wife Frances and I jointly purchased [our London property] in April 1998. This was a three bedroom terraced house in London. We bought the house for £710,000, and secured against it a joint interest-only mortgage of £150,000.

In 1999 I was selected as the Conservative parliamentary candidate for Tatton in Cheshire, and my wife and I started to rent at my own expense a small cottage [...] in the constituency.

In October 2000, in the reasonable anticipation that I would be elected at the forthcoming election and that we would start a family, my wife and I ceased to rent and we instead bought [a property in Cheshire]. This is a four bedroom house, with a kitchen, TV room and sitting room, located 6 miles from my constituency border. It is 12 minutes drive from [the town's] train station, which has an hourly direct train service to London — the train service my family and I usually use to travel to my constituency. Only in the last year has a frequent direct train service been provided to a station within the constituency. I would not have bought the house if I had not hoped and anticipated that I would become shortly thereafter the MP for Tatton and therefore [it] is exclusively connected with my parliamentary duties.

The purchase cost of [the property] was £445,000. I calculated that when the cost of the legal fees, mortgage arrangement fees and moving fees were added, and the cost of some essential repairs and basic decoration were added, I would need at least £470,000 to buy and move into the house. This amounted to just over 5% on top of the purchase price, which I thought was wholly reasonable and represented good value for money. The sellers of the house wanted a quick sale for personal reasons, and the mortgage company said that increasing the existing mortgage we had would be far easier and quicker than taking out a new one against a new property. We therefore raised the £470,000 we needed by increasing the interest-only mortgage of £150,000 secured on [the London property] to £620,000. This, I understand, is common practice when people purchase second properties.

So, to sum up, by the time I was elected to Parliament in June 2001, I had an interest-only mortgage with the [...] Building Society of £620,000 secured against [the London property]—£150,000 of which had been used to buy [the London property] and £470,000 of which had been used to purchase and move into [the Cheshire property]

In 2003, for the reasons set out in detail below in response to later questions, I replaced that single mortgage with two separate mortgages — one secured against [the Cheshire property] and one secured against [the London property].

In July 2006, we moved house in London from [my first London property] to [my second London property]. This is a five bedroom semi-detached house. I have never claimed any parliamentary allowances against it or ever designated it as anything other than my main residence for parliamentary purposes.

Question 2: Whether, and if so when between 2001 and 2003, you designated your Cheshire residence as your main home.

Yes. Between June 2001 and July 2003 I designated my Cheshire residence as my main home for parliamentary purposes, on the advice of the Fees Office.

On 21 July 2003 I completed the ACA1 form, newly introduced by the Department of Finance and Administration, and identified [my London property] as my main residence and [my Cheshire property] as my second residence.

Question 3: the reasons why you considered your Cheshire residence to be your main home during this period

In June 2001, following my election to Parliament, I met with a representative of the Fees Office in a room in the House of Commons to discuss my arrangements for claiming the additional cost allowance. I believe this type of meeting was offered to all new MPs. Although I have no notes of the meeting, I have a clear recollection of its content for I had been considering what was the appropriate designation of my two homes and wanted advice.

I explained to the representative that I had recently purchased a house in Cheshire in the anticipation that I would be elected there. I also explained that I had met the costs of the purchase, and the costs associated with moving in and doing some essential repairs and basic redecoration, by securing an additional £470,000 of mortgage against my London home.

I explained that at present my wife, newborn son and I were dividing our time equally between London and Cheshire—with us usually spending Thursday evening or Friday morning to Monday morning in Cheshire while parliament was sitting, and the whole week there during much of the recess. However, I explained that I expected my child would eventually go to school in London—and so therefore I saw that in the long term as my main home. I know you are not considering capital gains tax liability, but I think it is relevant to note that I explicitly told the representative of the Fees Office that I regarded London as my main home for purposes of capital gains tax.

The representative of Fees Office advised me that in my family circumstances the rules would allow me to designate either property as my “main home”, but that it would be sensible to designate Cheshire as my “main home” and claim ACA against the London home as that was the property against which the mortgage used to purchase the house in Cheshire had been secured. The representative said I could always reconsider the issue when the terms of my mortgage allowed me to remortgage, which was not until 2003. I pressed on whether this would conflict with the designation for purposes of capital gains tax, and the representative told me that capital gains tax designation was irrelevant as far as the parliamentary authorities were concerned. I was repeatedly told that, as far as the rules were concerned, it did not matter which property I designated.

Following that advice, I therefore designated my Cheshire residence as my main residence and claimed ACA against the interest-only mortgage secured on my London residence.

I do not have copies of my ACA claims for the period 2001 to 2003, and nor apparently do the Fees Office. I remember however that I claimed it for mortgage interest and (to the best of my recollection) nothing else. I am certain that I never claimed for furniture or utility bills or other costs associated with the London residence. I have, however, found in my files at home a copy of my mortgage statement for 31 August 2002 to 31 August 2003. This shows my monthly mortgage interest payments were £2,868, before falling to £2,816. In that year I paid £34,161 in mortgage interest costs. According to the Fees Office records, my total ACA claims for 2001 and 2002 were £3,119⁸⁰ and £18,058 respectively. This is relevant because it shows that I only ever claimed for mortgage costs incurred in the purchase of my Cheshire residence, and never claimed for the full cost of the whole mortgage or for any of the portion that had originally been used to purchase my London residence.

Question 4: whether, and if so when in 2003, you designated your London residence as your main home

Yes, from 21 July 2003 onwards I designated my London residence as my main home for parliamentary purposes — and that has continued since I changed address in London in 2006.

Question 5: the reasons why you considered your successive London residences to be your main home from 2003 and what were the circumstances that led you to make the change from your Cheshire designation

There were three reasons.

⁸⁰ The Department of Resources later corrected this figure to £18,009. See WE 32.

First, the advice I had received from the Fees Office in 2001 was that I could always reconsider the designations of my two homes in 2003. That was when the terms of the single £620,000 mortgage I had secured against my London house allowed the mortgage to be changed without incurring expensive penalty costs. So 2003 was the first opportunity I had had since becoming an MP to create a separate mortgage secured against the home in Cheshire.

Second, my family life was changing. My second child was born in June 2003 and we were beginning to think about schooling for my two year old. I anticipated that I would now be spending four full days a week in London while parliament was sitting, and weekends and recesses only in Cheshire.

Third, in 2003 Parliament introduced a stricter definition of a “main home” and that meant the advice I had received from the Fees Office in 2001 was out-of-date. This is apparent in the contrast between section 3.1.2 of the 2001 Green Book, which provides no definition of a main home, and section 3.9.1 of the 2003 Green Book, which says “*your main home will normally be the one where you spend more nights than any other*”. The new ACA form was introduced requiring Members to clearly identify a ‘main’ and ‘second’ home. By then it was clear that I would be spending more nights a year in London. So I completed the new ACA1 form (attached), identified London as my main home and Cheshire as my second home. I split my mortgage in two, one for London and one for Cheshire, and from then on have claimed the ACA against the Cheshire home.

Question 6: whether, and if so, why, you raised a mortgage on your Cheshire home in 2003, the size of the mortgage and its relationship to the value of the property at the time

In November 2003 I raised a £450,000 interest-only mortgage against the Cheshire home. I wanted to raise at least a £470,000 mortgage, which was equal to the amount I had increased my London mortgage back in 2000 in order to purchase and move into [the Cheshire property]. However, £450,000 was the maximum the mortgage company would allow given the then value of the Cheshire home. Even so, the costs of arranging the new mortgage, and valuing the property, amounted to several thousand pounds. I did not have a record of the exact value of the property then, but it had clearly risen substantially from the £445,000 we had paid for it since 2000 because of the general uplift in property prices in the area.

I telephoned the Fees Office and spoke to a representative before creating the new mortgage in Cheshire, and changing the designation of my main home. They said that it was within the rules and approved the change. I sent them a copy of the new mortgage details and the Fees Office started paying out claims for ACA against the new mortgage.

Question 7: What claims for mortgage interest on your Cheshire home you made against the ACA in 2003-04 and each successive financial year

According to the Fees Office, these have been my claims for mortgage interest:

2003-04: neither my office nor the Fees Office have a record

2004-05: £15,292.50

2005-06: £18,360.52

2006-07: £18,700

2007-08: £19,437.84

Question 8: whether, and for what reason, you consider that those costs were necessarily incurred for the purpose of performing your parliamentary duties, given that apparently you owned the home outright before 2003; to what use you put the capital thus released and whether any of it was used in support of the costs of your London residence.

The costs are entirely associated with the interest on the mortgage secured against my home in Cheshire. I only own that home because it allows me to perform my parliamentary duties in my constituency, and stay overnight when I am more than 180 miles from Westminster. As I explain above, although I owned the Cheshire home outright before 2003 that was only because the £470,000 mortgage I had taken out to purchase

it in 2000 had been secured against my London home. In 2003 the terms of the mortgage contract meant I was able to unite the mortgage with the home it had been used to purchase, without incurring penalty charges.

Although neither you (nor the complainant Mr Burton) ask about my re-mortgage in 2005, when the size of the interest-only mortgage rose to £480,000, I want to volunteer information which I have already provided to various media inquiries, in the interests of complete transparency. In 2005, the lock-in period of the £450,000 mortgage I had secured in 2003 expired and I had to renegotiate in order to avoid the monthly mortgage payments rising as the mortgage moved onto the SVR. Due to the further increase in property prices, I was then able to achieve what I wanted to achieve in 2003 and increase the mortgage to at least cover the value of the original £470,000 I had borrowed to purchase and move into my Cheshire home. At the same time it had become clear that the property needed some essential repairs. Eight wooden windows and a front door were in a bad state of decay and needed to be replaced. I had already paid a deposit of 25% on the cost of replacing three windows in February 2005, at a cost of £901.11, which I claimed on the ACA at the time with the consent of the Fees Office. The boiler broke and needed replacing and the chimney flue above the cooker needed urgent repair. The total cost of these repairs was in excess of £12,000. I spoke to the Fees Office on the telephone and asked for their advice. They suggested that I could either claim for the cost of these repairs directly or I could increase the value of the interest-only mortgage, as they told me other MPs had done. I sought their permission therefore to increase the mortgage to £480,000, and sent them hard copies of the mortgage details. The deal I secured meant the actual monthly mortgage ACA claim fell from £1,646 to £1,560 in January 2006. In 2008, I again re-mortgaged for the same amount of £480,000 in order to avoid moving on to the more expensive Standard Variable Rate.

I am now on a tracker mortgage with zero per cent interest and as a result no monthly payments, which I believe demonstrates that pursuant to section 3.3.1 I have always sought 'value for money' for my arrangements.

None of the capital in any of the re-mortgages was used in support of the costs of my London residence. The £480,000 mortgage covers the £470,000 cost of purchasing and moving into my Cheshire home and subsequent essential repairs costing more than £12,000, and it was secured with the approval of the Fees Office.

Question 9: what were the circumstances and arrangements you made for the change in your London house in 2006.

In 2006, we moved from [my first London property] to [my second London property] because we wanted a larger home for our growing family. We increased our mortgage in London to £470,000. I have never claimed any allowance against this mortgage.

Question 10: what advice, if any, you have taken from the House authorities about any of these arrangements

As explained above, I have sought and followed advice of the Fees Office on the Additional Costs Allowance from the moment I became an MP. It was with the advice and approval of the House authorities that I first designated my Cheshire home as my main home, so I could claim against the portion of my London mortgage that had been used to buy that Cheshire home. It was on the advice and approval of the House authorities that I split the mortgage in 2003, and secured a £450,000 interest-only mortgage against the home in Cheshire. It was again with the advice and approval of the Fees Office that I took out a £480,000 interest-only mortgage in 2005 to cover the original cost of purchasing and moving into the Cheshire home, and the cost of essential repairs. I have always sent the Fees Office copies of all my mortgage correspondence and continue to do so. They have paid every ACA claim I have made for mortgage interest and never once questioned it.

I hope this full and detailed response answers your questions.

I repeat: I believe I have fully complied with the rules of the House, always claimed only for costs incurred, done so in pursuit of my parliamentary duties, and always sought value for money as demonstrated by current monthly mortgage costs of zero. I have actively sought and acted on the advice of the Fees Office and sent them all relevant documentation. I have never had an ACA claim for mortgage interest queried by them.

Please do not hesitate to be in touch if you require more detail from me in person or writing.

15 July 2009

7. Letter to Mr George Osborne MP from the Commissioner, 20 July 2009

Thank you for your letter of 15 July about this complaint in respect of your claims against the Additional Costs Allowance for a second home.

I was most grateful for this full and clear response. You kindly offered to provide any more detail I needed. What might be helpful, if it is readily available, would be:

1. a copy of an extract from the documentation for the mortgage which you took out in October 2000, to show the lock-in period and subsequently the extension of the mortgage in 2003;
2. any documentary material you may have, such as invoices, to demonstrate the nature and cost of the work you undertook on your Cheshire property in 2005, which accounted for at least £12,000 of the sum for which you re-mortgaged that property.

If you could let me have this information within the next week, that would be most helpful since I would like to make progress on this during the recess. If there is any difficulty, do get in touch. Once I receive this information, I am likely to seek advice from the Department of Resources, which I would hope to do shortly after receiving any additional information you can give me on the lines that I have requested.

Thank you again for your help.

20 July 2009

8. Letter to the Commissioner from Mr George Osborne MP, 28 July 2009

Thank you for your reply. I am happy to provide all the documentation you have requested.

You asked for a copy of documentation relating to the mortgage in October 2000, to show the lock-in period, and the subsequent extension of the mortgage in 2003. I have attached all the relevant documentation that I have, with the appropriate passages highlighted. The supplementary declaration we signed on 27 September 2000 states that: *“If I/we repay the whole or any part of the advance prior to 31 July 2003, I/we will pay to the Society an additional amount of interest equivalent to 3.00% of the amount of capital repaid.”* I calculate that I would have incurred a penalty charge of £13,500 if I had split my mortgage prior to July 2003 in order to raise a £450,000 mortgage against [the Cheshire property].

You also asked for receipts to support my statement that I had spent at least £12,000 on essential repairs to [the Cheshire property].

I enclose receipts totalling £11,950 from [...], a local company, for replacing all the windows in the house and a door. The receipts include the cost of the deposit on three of the windows (£901.11) which I claimed for on the ACA. According to the Fees Office records and my own recollection, this is the only claim I submitted on the ACA for replacing the windows. There was also one further window which I replaced, but I cannot find the receipt for it.

I should add that one of receipts does not include the cost of six stone cills, as the stone mason billed me direct and I no longer have a copy of that receipt. Judging by some of the other receipts, the cost of each cill was £180 - so the cost of six would have been a further £1,080. The receipts also do not cover the cost of painting the inside and outside of all of the windows and the door. This was carried out by [...], a local decorator. I have spoken to [the decorator] and he is going to try to send me a copy of the receipt for that work.

In order to support my statement that replacing the windows was an essential repair, I enclose a copy of the relevant page of the survey I commissioned before purchasing [the Cheshire property]. It states: *“Rot in the*

front door which we suggest you should replace totally... Single glazed small paned windows generally in poor condition with widespread rot and we suggest you allow for replacement of all windows."

Replacing the windows and door were not the only essential repairs I carried out at that time and did not claim for on my ACA. I enclose a receipt for £2,320.63 from a local plumbing firm for the cost principally of installing a new boiler.

I hope this further documentation supports my letter of 15 July 2009 that I have fully complied with the rules of the House, always claimed only for costs incurred, done so in pursuit of my parliamentary duties, and always sought value for money as demonstrated by current monthly mortgage costs of zero. Throughout my time as an MP I have actively sought and acted on the advice of the Fees Office.

28 July 2009

9. Letter to the Commissioner from Mr Laurie Burton, 3 August 2009

Further to our previous correspondence, I now enclose a copy of a letter from Mr Osborne to his Tatton constituency residents. Also enclosed is a copy of a claim he made in March 2005 for *"Supplying and fitting a further three windows"*

The first page of the letter is not at all relevant to his expenses claims, but the second page contains statements that are pertinent, and may be helpful to your inquiry. It confirms that the mortgage costs included in Mr Osborne's expenses claims covered the cost of buying and moving in to his house in Cheshire. As this occurred in the year prior to Mr Osborne ever becoming an MP, it does seem that the costs could not possibly have been necessarily incurred in performing parliamentary duties.

Although the Cheshire house is outside his constituency, he was able to use it as his main home from the date of becoming an MP, and any other costs such as essential repairs or furniture would also have been incurred prior to his becoming an MP.

Indeed, the enclosed letter confirms that he has never had to claim for furniture, and, together with the invoice for the "further" three windows, indicates that all necessary expenses relating to the house had been incurred before Mr Osborne moved in.

The fact that Mr Osborne used the Cheshire house as his main home while performing his parliamentary duties in a satisfactory manner for more than two years before taking out the £450,000 mortgage on it again suggests that it was not necessary to incur those costs in order to perform his parliamentary duties.

Mr Osborne also states that he acted on the advice of *"the House of Commons authorities"* in all his mortgage manipulations, and I note that other MPs have justified dubious expense claims with the same statement. I would be grateful if you could let me know whether advice from those *"authorities"* that results in a contravention of parliamentary rules is accepted as a legitimate reason for such contravention.

3 August 2009

10. Extract from a letter to Residents of the Tatton constituency from Mr George Osborne MP, July 2009

Finally, while I am writing to you, I wanted to just touch on the issue of MPs' expenses and my own arrangement. I know how angry people are at the abuses they have read about in the national papers, and I think all the political parties owe the public an apology for what has happened—and David Cameron has taken the lead in making that apology and getting money paid back. I myself have held open public meetings on the issue here in Knutsford and in Wilmslow.

Just so you know, I have a home here in Cheshire and a home in London. This enables me to both do my job here as your MP and represent you at Westminster, two hundred miles away—and to be with my young family.

Like most MPs, I claim only the interest costs of the mortgage on the house in Cheshire and some utility and maintenance bills. I have never claimed for furniture. I bought the house when I was selected to be a Conservative candidate for Tatton, and covered the cost of buying it and moving in by increasing the mortgage I already had on a place in London.

When you elected me in 2001, I then asked the House of Commons authorities for advice, and they advised me to claim the allowance against that portion of the mortgage I had taken out to buy the home in Cheshire. I did that until the terms of my mortgage allowed me two years later in 2003 to secure that portion of the mortgage directly against the Cheshire home—and ever since I have continued to make claims against that. I have never done anything for personal gain and I do everything to keep costs to the taxpayer to a minimum and because I got hold of a tracker mortgage deal, the current cost of the monthly payments is zero. I have always been open and transparent about these arrangements. Indeed the *Daily Telegraph* itself recently described them as “*straightforward*”.

July 2009

11. Letter to Mr George Osborne MP from the Commissioner, 6 August 2009

I have received a further letter from the complainant commenting on a letter that you sent constituents in July explaining the expenses claim that you made for your Cheshire property.

I enclose a copy of the complainant’s letter of 3 August, together with its enclosures.

Your letter, of course, covers the areas which I am inquiring into as a result of this complaint. As you know, I have written to the Department of Resources inviting their comments on this matter in the light of the responses you have sent me.

I think I do need, however, to invite your comments on the conclusions which the complainant seeks to draw from the explanation you have given your constituents. In particular, it would be helpful to have your response to his point that your mortgage interest claim should not have included the interest that related to that part of the loan which was used to meet the cost of buying, moving into and the essential repairs for your Cheshire home since those costs had been incurred before you became a Member of Parliament.

Any other points you may wish to make on the complainant’s further letter of 3 August would, of course, be very welcome.

If you could let me have a response to this letter by the end of August, that would be most helpful. I am likely to need to show it to the Department of Resources and that may affect the timing of their overall response, which I had hoped to receive by the end of August. I am copying this letter and its attachments to the Department of Resources so that they are aware of this additional issue.

6 August 2009

12. Letter to the Commissioner from Mr George Osborne MP, 12 August 2009

Thank you for your further letter of 6 August 2009. I have replied as quickly as possible as I too would hope that you receive a response from the Department of Resources by the end of August.

The explanation of my mortgage and expenses arrangements which I provided to my constituents in the letter I sent many of them in July this year is, I would argue, completely consistent both with the explanation I have provided to you in my first letter—and wholly consistent with the rules set out in the Green Books of 2001 and 2003.

In my letter to constituents I say:

"I bought the house [in Cheshire] when I was selected to be the Conservative candidate for Tatton, and covered the cost of buying it and moving in by increasing the mortgage I already had on a place in London.

"When you elected me in 2001 I then asked the House of Commons authorities for advice, and they advised me to claim the allowance against that portion of the mortgage I had taken out to buy the home in Cheshire. I did that until the terms of my mortgage allowed me two years later in 2003 to secure that portion of the mortgage directly against the Cheshire home — and ever since I have continued to make claims against that. I have never done anything for personal gain and I do everything to keep costs to the taxpayer to a minimum and because I got hold of a tracker mortgage deal, the current cost of the monthly payments is zero."

As this letter to constituents makes clear, and as I explained in my letter to you, I bought [the Cheshire property] in October 2000 as a direct consequence of being the Conservative parliamentary candidate for Tatton.

I had the reasonable anticipation that I would be elected at the forthcoming election. My wife was expecting our first child at the time and we thought it sensible to try to buy a permanent constituency home before the child was born. He was born in late June 2001, shortly after the election. The only reason I bought the house was because I believed I would need it for the purpose of allowing me to stay overnight in pursuit of my parliamentary duties once I became an MP, in line with Green Book paragraph 3.1.2 (2001) and Green Book section 3.1.1 (2003).

In order to cover the cost of buying and moving into the house I took out a £470,000 mortgage. The £470,000 was not used for any other purpose. As I explained in answer to Question 1 in your original letter, that mortgage was originally secured against my home in London until, in 2003, I was able to transfer it to the house in Cheshire without incurring significant financial penalties.

Following my election in June 2001, I needed the house in order to stay overnight in pursuit of my parliamentary duties. The costs of retaining the house included paying monthly interest payments on the £470,000 of mortgage I had taken out in order to buy and move into the property. Since I only own the house in order to fulfil my parliamentary duties, the monthly interest payments are expenses "*wholly, exclusively and necessarily incurred*" in pursuit of those duties.

The logic of the complaint Mr Burton makes in his most recent letter is that a newly elected Member of Parliament who already owns a property near Westminster and a property in or near their constituency, and is paying mortgage interest on the property they designate as their second home, is not able to claim that mortgage interest against parliamentary allowances. If this were to be the case, then their probable course of action would then be to sell that second home and buy another one, perhaps next door, with another mortgage so that they would be able to claim mortgage interest. This strikes me as wholly unreasonable, indeed bizarre, and outside both the letter and spirit of the rules.

Mr Burton cites as "*evidence*" that "*all necessary expenses relating to the house had been incurred before Mr Osborne moves in*" the invoice dated 25th February 2005 for "*a further three windows*". The invoice is, as the copy shows, only for the deposit on the windows. I enclosed a copy of this invoice in my last letter to you, and it was according to the Fees Office's records and my own recollections the only claim I submitted on the ACA. The reference to "*further*" relates, I believe, to the fact that I had already had one window replaced for which I had received an invoice for the full amount on 11 February 2005. The rest of the windows and the door were replaced later in 2005, and I have sent you copies of all those invoices as they help explain why I extended the mortgage. I note, of course, that claiming only the interest on the cost of [the] loan to make essential repairs amounts to a much smaller claim than claiming the whole cost of those repairs.

I am happy to answer any further questions you have.

12 August 2009

13. Letter to Mr George Osborne MP from the Commissioner, 13 August 2009

Thank you for your letter of 12 August responding to mine of 6 August about the letter which you sent your constituents and about which the complainant wrote to me on 3 August. I am most grateful for such a prompt response.

As I understand the complainant's point, it is not that you should not have claimed mortgage interest on a property which you already owned, but that you should not have claimed that part of the mortgage interest which related to the costs of buying and moving into the house and its initial repairs since most of these were effected before you became a Member of Parliament. I take it from your response that you believe those costs were justified because you only bought the house in anticipation of your election to Parliament and because you could have claimed for these costs in any new house you bought after your election. If I have got this wrong, do let me know.

I am now, as you expected, passing your letter to the Department of Resources so that they can take it into account in preparing their advice and comments. I will be back in touch once I have received their response.

Thank you again for your help.

13 August 2009

14. Letter to the Commissioner from Mr George Osborne MP, 14 August 2009

Thank you for your letter of 13th August.

Your assumption about my argument is correct. I believe claiming the interest on the portion of the mortgage over and above the actual purchase price of the home was justified because I only bought the house in anticipation of my election to Parliament just a few months later, would not have retained the home had I not been, and only claimed the interest on the mortgage for the period subsequent to my election. The additional costs were reasonable, representing only around 5% of the purchase price and were wholly associated with buying and moving into the property. And I could have claimed for the whole of these costs in any new house I bought after the election, rather than the considerably smaller sum of just the interest on a mortgage loan covering the costs.

I would further note that at no time in eight years have the Fees Office queried my mortgage claims, and I always made sure that they were in possession of all the relevant mortgage documents. If they had queried the claims I would have responded to that query immediately. I don't see that there is anything more I could reasonably have done to ensure that my belief that I have been complying with the rules was a view shared by them - and I have never been given any reason to doubt that it was a view shared by them.

In order to expedite your inquiries, I have dictated this letter from my constituency and asked [a member of staff] in my office in Parliament to pp it on my behalf.

14 August 2009

15. Letter to the Director of Operations, Department of Resources, from the Commissioner, 30 July 2009

I would welcome your comments on a complaint I have received against Mr George Osborne MP about his claims against the Additional Costs Allowance for a second home.

I attach a copy of the complainant's letter of 21 June. I attach also a copy of the complainant's initial letter of 17 June, my response of 19 June, and an online copy of the relevant part of the *Daily Mail* article to which the complainant refers. And I attach my commissioning letter to Mr Osborne of 30 June and his initial response of 15 July. Finally, I attach my letter to him of 20 July and his response of 28 July, together with relevant extracts from the supporting documentation he provided.

In essence, the complaint is that, between 2001 and 2003, Mr Osborne wrongly identified his main home for the purposes of his claims against the Additional Costs Allowance, and that from 2003, he claimed for mortgage payments that were not necessarily incurred, contrary to the rules of the House.

I would welcome your comments on this complaint. In particular, it would be helpful if you could confirm the contacts which Mr Osborne reports he had with the Fees Office in 2001, 2003, and 2005; if you could let me know the advice which was given at the time, including the suggestion that Mr Osborne was advised in 2001 to nominate Cheshire as his main home so that he could claim for part of the London mortgage; and if you could let me have any supporting documentation, such as copies of correspondence or file notes.

It would also be helpful if you could let me know whether the arrangements Mr Osborne made for funding his Cheshire home from his London mortgage claims were acceptable to the Fees Office at the time and if so, why. Could you confirm from any documentary evidence you may have that Mr Osborne claimed from 2001 to 2003 only for that part of his London mortgage which covered the sum he sought for his Cheshire property and not any part of the mortgage interest relating to his London property?

It would also be helpful to have your advice on the size of the mortgage which Mr Osborne took out in 2003, given that it exceeded the value of the property when he had bought it in 2000; and the decision to re-mortgage the property again in 2005 for an increased sum on the basis that the difference between the initial purchase price and the mortgage price was necessary for work which otherwise he could have claimed from the ACA for necessary repair.

Any other comments or advice you wish to make to help me in the resolution of this complaint would, of course, be very welcome.

I appreciate that we are now in the recess, but I would be grateful if you could let me have a response to this letter by the end of August.

30 July 2009

16. Letter to the Director of Operations, Department of Resources, from the Commissioner, 6 August 2009

I wrote to you on 30 July inviting your comments and advice on a complaint against Mr George Osborne MP in respect of his ACA claims for his second home.

I have now received a further letter of 3 August from the complainant, on which I have invited Mr Osborne's views. I attach a copy of the complainant's further letter, with its enclosures; and a copy of my letter of 6 August letter to Mr Osborne. It may be that you are able to pick up the complainant's additional point in preparing your overall response to my letter without awaiting Mr Osborne's reply. In any event, I will copy it to you as soon as I receive it.

6 August 2009

17. Letter to the Director of Operations, Department of Resources, from the Commissioner, 13 August 2009

This is to let you have a copy of Mr Osborne's response to the additional point I put to him on 6 August from the complainant about which I alerted you in my letter of the same date.

I enclose a copy of Mr Osborne's response of 12 August, and my response to him of 13 August. It would be helpful to have your views on the point raised by the complainant, taking account of Mr Osborne's response.

I still hope it might be possible for you to let me have a response to this by the end of the month. Please let me know if there is a difficulty about that. I look forward to hearing from you.

13 August 2009

18. Letter to the Commissioner from the Director of Strategic Projects, Department of Resources, 27 August 2009

Thank you for your letters of 30 July 2009 and 6 and 13 August 2009 concerning a complaint against Mr Osborne. You have asked for my opinion on this complaint and for information about advice given to Mr Osborne by the Department of Resources.

There are three strands to this case. These relate to:

- 1) advice given to Mr Osborne in 2001 and his original nomination of his main home;
- 2) the change in nomination and subsequent re-mortgaging in 2003, and
- 3) the re-mortgage of his Cheshire property undertaken in 2005

2001 nomination

Mr Osborne had purchased his Cheshire home in 2000 with the realistic expectation that he would be elected to the House at the next General Election. In order to make the purchase, he raised a loan secured against his London home to pay for the Cheshire property, together with the costs associated with its purchase and certain initial repairs and decoration. There is, of course, nothing unusual in a person borrowing money to purchase a second home by mortgaging a property which he or she already owns.

Mr Osborne says that he advised the Department about his mortgage arrangements, in relation to his London and Cheshire homes, in June 2001 when he was first elected to Parliament, and that he received advice about making his original nomination for ACA purposes. This is very likely. Mr Osborne would have attended an induction meeting with representatives of the then Department of Finance and Administration following the General Election in June 2001 when new Members were briefed about their salaries, pension and parliamentary allowances.

Unfortunately the Department holds no correspondence, or other documentation, that can shed light on any specific advice given to Mr Osborne in 2001. The meetings were not documented and records about individual conversations do not exist. However, it is also likely that Mr Osborne would have been told that, in his personal circumstances (as outlined in his letter to you of 15 July), it would have been possible for him to nominate either his London or his Cheshire residence as his main home for ACA purposes. In 2001 the Green Book gave no guidance about the criteria to be used for nominating the main home and now, eight years on, it is impossible to confirm whether a specific recommendation was made. This does not mean that such advice was not given but only that we have no record of it.

In retrospect, however, Mr Osborne having told us that he wished to claim the ACA to pay the interest on part of his mortgage raised to purchase his Cheshire home (as he says in his correspondence to you), we ought to have advised him to nominate that home as his second home. This was because, while the money was clearly raised to enable him to have the two residences necessary for him to perform his parliamentary duties, strictly it should have been raised for the purpose of buying the property which he would nominate as his second home, not that nominated as his main home.

We ought also to have advised Mr Osborne that he should not claim mortgage interest in respect of the costs of purchase and initial repairs and decoration since these were incurred before he became a Member (though as I note below, it may be that Mr Osborne's actual claims for mortgage interest between 2001 and 2003 fell short of the proportion of his mortgage interest which was nominally attributable to the extra money he had raised as a consequence of buying the Cheshire property).

However, you should be aware that, if Mr Osborne had not told us of his arrangements and that he was claiming only the cost of the additional loan which enabled him to purchase the second property, we would have had no knowledge of his arrangements, and we would have accepted the whole of the loan on his London home as eligible for reimbursement of mortgage interest costs under ACA.

We have no documentary evidence to show what percentage of Mr Osborne's total mortgage costs from 2001 to 2003 was paid from his ACA. However, the figures which he gives you on page 6 of his letter to you of 15 July suggest that this was considerably less than the proportion of his mortgage loan which had been raised to

purchase the Cheshire property. We can confirm that Mr Osborne's total claims under ACA were £3,119 in 2001/2; £18,058 in 2002/3 and £19,895 in 2003/4.

2003 changes

Mr Osborne's explanation of the reasons why he decided in 2003 to separate and regularise his mortgage arrangements and to redesignate his main home seem entirely reasonable, and would have been acceptable to the Department at that time.

You are correct in pointing out that the loan raised in 2003 was £5,000 greater than the original purchase cost the Cheshire property (£445,000). This would have been regarded as *de minimis* at the time, though strictly it could be argued that we should only have paid for 98.9% of the interest on the loan.

We have no record of any discussion between the Department and Mr Osborne about the change of designation or re-mortgaging in 2003.

2005 re-mortgage

A number of Members arrange fixed term mortgages in order to reduce costs and re-mortgage when the period expires. The Department has taken the view that this is acceptable, since it can result (as in Mr Osborne's case) in a substantial saving to public funds.

However, the Green Book published in April 2005 (and the 2003 version) stated that "*interest on any additional mortgages, advances or loans secured on the same property*" was not allowable (page 11 Section 3.12.1). It follows that any re-mortgage in 2005 ought not to have included additional funds to carry out repairs. However, while a Member at the time was not allowed to increase his or her mortgage loan to pay for necessary works, he or she could charge the cost of those works against ACA. This was perverse, and was recognised as such in the July 2006 Green Book update which allowed Members to increase mortgages on their second home in order to carry out major repairs or make improvements to the property.

Again I regret that we cannot locate any specific correspondence with Mr Osborne about his re-mortgage in 2005.

Conclusion

The absence of any formal records makes it impossible to know for certain what information was provided by Mr Osborne and what advice he was given.

My view is that Mr Osborne may not have been advised as well as he ought to have been in 2001. Nevertheless I do not believe that between 2001 and 2003 he received any funds which he would not have received if he had decided to nominate London as his main home in 2001. The re-designation in 2003 was entirely within the rules, and the re-mortgage was acceptable. The increase in the amount borrowed in 2005 may have been technically outside the rules, but the rules were about to change because they were at the time perverse, as Mr Osborne's case demonstrates.

I hope this covers all your questions. As ever, we will be happy to provide any additional information you need.

27 August 2009

19. Letter to Mr George Osborne MP from the Commissioner, 1 September 2009

I have now heard back from the Department of Resources with their comments on the complaint about your claims against the Additional Costs Allowance for your second home.

I attach a copy of the Department's letter of 27 August, together with copies of my letters to them of 30 July and 6 and 13 August.

As you will see, while the Department have no record of advice given to you in 2001, in retrospect, the Department consider that they ought to have advised you at the time to nominate your Cheshire home as your second home (and not your main home), since the claims you planned to make for interest on the mortgage secured on your London home were in relation to the purchase of your Cheshire home. The Department consider that they should also have advised you not to claim mortgage interest in respect of the costs of the purchase and initial repairs and decoration of your Cheshire home, since those costs were incurred before you became a Member of Parliament. Nevertheless, the Department do not believe that between 2001 and 2003 you received any funds which you would not have received if you had decided to nominate London as your main home in 2001.

Furthermore, the Department advise that your decision to redesignate your main home to your London property in 2003 would have been acceptable to the Department at the time, although, strictly speaking, you should not have claimed mortgage interest for that part of the loan which exceeded the original purchase cost of the Cheshire property.

Finally, the Department consider that the amount you borrowed on re-mortgaging your London home in 2005 was strictly speaking outside the rules, although these were subsequently changed to avoid what they describe as the perverse effect of the rules which existed at the time.

I would welcome your comments on each of the points raised by the Department, in particular in relation to the identification of your main home in 2001. I am minded to prepare a memorandum for the Committee on Standards and Privileges on this matter, although you should draw no inferences from that.

If you could let me have a response to this letter by 23 September, I would be most grateful. In the light of your response, I will consider whether I need further advice from the Department and whether we need to meet to discuss the matter before I submit a memorandum to the Committee.

Thank you again for your help.

1 September 2009

20. Letter to the Commissioner from Mr George Osborne MP, 17 September 2009

Thank you for your letter of 1 September 2009. I am grateful for the opportunity to comment on the points raised by the Department of Resources.

Identification of the main home in 2001

In relation to the identification of my main home in 2001, I note that the Department confirms that the rules at the time allowed either property to be designated as the main home for ACA purposes “... it is also likely that Mr Osborne would have been told that, in his personal circumstances (as outlined in his letter to you of 15 July), it would have been possible for him to nominate either his London or his Cheshire residence as his main home for ACA purposes. In 2001 the Green Book gave no guidance about the criteria to be used for nominating the main home...” This confirms my own recollection of events.

I note they say that “*in retrospect*” that they could have provided me with different advice. I am not sure on what basis they make that retrospective assessment, given that they also say the rules at the time permitted either property to be nominated. As a new MP, of course, I assumed that the advice I received was the correct advice.

I was repeatedly told that, as far as the rules were concerned, it did not matter which property I designated. I told the Department of all the arrangements. They advised that I designate Cheshire as my “*main home*” and claim ACA against the London home. This was because that was the property against which the mortgage used to purchase the house in Cheshire had been secured. The Department also advised me that I could change that decision when the penalty term expired in 2003. Indeed, the documentation I have provided to you show that had I separated out the mortgage at that point and designated Cheshire as my second home, a penalty charge of £13,500 would have been incurred as well as new arrangement fees for a new mortgage, which could have been claimed from public funds.

Therefore I believe that the Department's conclusion on this matter is very important: *"I do not believe that between 2001 and 2003 he received any funds which he would not have received if he had decided to nominate London as his main home in 2001."*

2003 re-mortgage

I note that the Department has confirmed that my 2003 mortgage was *"entirely reasonable"* and *"entirely within the rules"*, and that the re-mortgage was *"acceptable"*. I repeat that I spoke to the Department at the time, before securing the mortgage, and that they told me it was acceptable.

2005 re-mortgage

I believe that the Department's letter indicates that the rules were in the process of changing between 2005 and 2006. I started claiming for the re-mortgaged property in January 2006. The Department do not mention exactly when the rules changed, but I can confirm that I was given advice on the telephone by the Department that I could extend the mortgage to cover capital repairs. I sent hard copies of the extended mortgage and received no queries about them from the Department.

As the receipts I have provided show, I could have claimed over £10,000 from public funds for repairs on the ACA. As it is, I only claimed for interest costs. The Department also confirms that my re-mortgage resulted in *"a substantial saving to public funds"*.

Conclusion

I return to your initial summary of the complaint made against me, namely that *"between 2001 and 2003 you wrongly identified your main home for the purposes of your claims against the Additional Costs allowance, and that from 2003 you claimed for mortgage payments that were not necessarily incurred, contrary to the rules of the House"* (Letter 30 June 2009, para2),⁸¹ and I would draw these observations:

1. The Department advised me to identify my Cheshire home as my main home when I sought their advice in my first weeks as an MP. They confirm that the rules would have allowed me to identify either home and there were no criteria at the time which could have guided me differently.
2. The Department confirmed my 2003 mortgage, again the subject of the complaint against me, was *"entirely within the rules"* and *"entirely reasonable"*.
3. The Department confirms that far from receiving more public funds than I was entitled to, which of course is the implication of the complaint, my designation of homes did not lead me to receive additional funds. Furthermore, my re-mortgages thereafter led to, in their words *"a substantial saving to public funds"*. In addition, my decision to extend the mortgage to cover the cost of capital repairs, rather than charging them to expenses, also represented a further and substantial saving to public funds. Indeed, the mortgage in question currently has an interest charge of 0%, which reinforces my argument that I have always sought to minimise the cost to the taxpayer of the arrangements for providing me with a home which I own wholly and exclusively for the purpose of fulfilling my parliamentary duties.

I was given advice from the Department as a newly elected MP and followed that advice; have always followed their advice since; have never had my claims queried by them and minimised the cost to the taxpayer as required by the rules of the House.

The Department confirms that I did not receive any funds I would not have received if I had designated my homes differently between 2001 and 2003. Subsequently I could also have claimed more from public funds if I had followed an alternative path.

If you wish, I would be very happy to discuss any of these comments with you in person.

⁸¹ WE 5

17 September 2009

21. Letter to Mr George Osborne MP from the Commissioner, 22 September 2009

Thank you for your letter of 17 September responding to mine of 1 September, with which I enclosed the letter of 27 August from the Department of Resources.

I was most grateful to have your response. Before consulting further the Department of Resources, in particular about their reference to the advice they ought to have given you, I would like to clarify one point about the mortgage interest claims you made against the ACA.

Your letter of 15 July (page 6) states that your mortgage interest claims for 2001 and 2002 fell significantly short of the mortgage interest payments which you paid for the mortgage on your London home. The Department notes that it may be that your claim for mortgage interest fell short of the proportion of the mortgage interest which was attributable to the money you had raised as a consequence of buying your Cheshire property. Your letter to me of 14 August, however, says that you claimed interest on the portion of the mortgage over and above the actual purchase price of the house, which would suggest that you claimed for the full mortgage interest cost attributable to your Cheshire home.

I would be grateful, therefore, if you could clarify this for me. In particular, it would be helpful if you could break down the mortgage interest on your London property between 2001 and 2003 between that required for your London home and that required for your Cheshire home. It would also be helpful to know whether, with any evidence you can provide, your claims for mortgage interest attributable to your Cheshire property were less than the full cost of the interest on that mortgage and what the difference was likely to have been.

If you could let me have a response within the next two weeks, I will then consult with the Department of Resources. I am grateful for your continued help on this matter.

22 September 2009

22. Letter to the Commissioner from Mr George Osborne MP, 30 September 2009

Thank you for your letter of 22 September. I am very happy to explain the position relating to my mortgage interest on my London property between 2001 and 2003.

You asked me to break down the mortgage interest between 2001 and 2003 between that on my London home and my Cheshire home. The calculations laid out below should help clarify this issue.

As I made clear in my letter of 15 July, I do not have copies of all my mortgage documents from eight years ago, but have found an invoice for 2002/3. Between 31 August 2002 and 31 August 2003 my monthly mortgage interest payments were £2,868 falling to £2,816, giving a total mortgage cost for the year of £34,161. I have already sent you a copy, but enclose an additional copy of this mortgage invoice.

This interest cost serviced a mortgage of £620,000. Of that £620,000, £150,000 was the cost of the purchase of my London home, while £470,000 was the total cost of purchasing [the Cheshire property].

Therefore the mortgage interest costs incurred in the purchase of my Cheshire residence was as follows:

75.8% of the mortgage is attributable to the Cheshire property (£470,000 of £620,000); so the mortgage cost attributable to the Cheshire property between 31 August 2002 and 31 August 2003 was 75.8% of £34,161, which works out at £25,896.24.

According to the Fees Office records, my total ACA claims for 2001-02 , 2002-03 (referred to as 2001 and 2002 in my letter of 15 July) and 2003-04 were £3,119,⁸² £18,058 and £19,895.39 respectively.

So take for example the period 2002-03, the mortgage interest cost attributable to the Cheshire property (£25,896.24 in 2002-03) was £7000 more than the amount claimed against the ACA (£18,058). I should point out that the years are not exactly overlapping as the mortgage interest covers August-August, while the expenses claims are for periods April-April.

This makes clear that I only ever claimed for the mortgage costs incurred in the purchase of my Cheshire residence, and never claimed for the full cost of the whole mortgage or for any of the portion (£150,000) that had originally been used to purchase my London residence.

These figures support the Department's conclusion that my claim for mortgage interest "*was considerably less than the proportion of his mortgage loan which had been raised to purchase the Cheshire property*" (letter of 27 August from [the Director of Strategic Projects]⁸³), indeed, less than the interest payable on the mortgage costs of the purchase price alone.

In my letter of 14 August I made clear that I believe claiming interest on a mortgage over and above the purchase price of the home was justified, and that was the advice I received from the Fees Office. However, as the calculations above show, that did not arise in practice in the first few years because of a higher interest rate at the time when I fixed the mortgage. I did not and could not claim for the full interest costs of [my] Cheshire home, as for example the ceiling on the ACA allowance was £19,722 in 2002-03.

Having provided these details I think it is important to return to a broader point. I own my Cheshire home wholly and necessarily in order to undertake my parliamentary duties. I would not own it if I were not a Member of Parliament. I believe it is reasonable to say that the cost of maintaining that home includes the interest on the £480,000 of mortgage used to buy, move into and subsequently repair it. At all times I sought and followed the advice of the Fees Office. I never sought financial gain and always sought to minimise the cost to the taxpayer.

The Department concludes that in general my arrangements led to "*substantial*" savings for the taxpayer. [The Director of Strategic Projects] also wrote that "*I do not believe that between 2001 and 2003 he received any funds which he would not have received if he had decided to nominate London as his main home in 2001*".

My duty was to follow the advice of the Fees Office and to minimise the cost to the taxpayer; I did both.

30 September 2009

23. Letter to the Director of Strategic Projects, Department of Resources, from the Commissioner, 1 October 2009

I last wrote to you about this matter on 1 September to let you know that I was passing to Mr Osborne your letters to me of 27 August. I am now writing to let you have the exchanges of correspondence which followed and to invite any other comments you may wish to make on them.

I attach a copy of my letter of 1 September to Mr Osborne; Mr Osborne's initial response of 17 September; my letter to him of 22 September and his response of 30 September with its enclosures.

I would welcome any comments you may wish to make on this, in particular, on Mr Osborne's view about the retrospective assessment which you give in your letter of 27 August that the Department ought to have advised Mr Osborne to nominate his Cheshire home as his second home given that you also say it was open to the Member at that time to nominate either of his properties. I would welcome also any comments you may wish to make on how far Mr Osborne's ACA claims appear to have covered the interest on the cost of

⁸² The Director of Strategic Projects later confirmed that the correct figure for 2001-02 was £18,009. See WE 32.

⁸³ WE 18

purchase and initial repairs and decoration on his Cheshire property, given your comment in your letter: “Mr Osborne should have been advised not to claim for these costs since they were incurred before he became a Member.”

It would be most helpful if I could have a response to this letter within the next two weeks so that I can then proceed to finalizing my memorandum to the Committee.

Thank you for your help.

1 October 2009

24. Letter to the Commissioner from the Director of Strategic Projects, Department of Resources, 7 October 2009

Thank you for your letter of 1 October, with which you enclosed correspondence between you and Mr Osborne following my letter to you of 27 August.

You ask about Mr Osborne's view of my assessment that, Mr Osborne having told us after his first election in 2001 that he wished to claim ACA to pay the interest on part of his mortgage raised to purchase his Cheshire home, we ought to have advised him to nominate that home as his second home.

Mr Osborne in his letter to you of 17 September makes it clear that he was newly elected in 2001, and that, having explained fully his circumstances to officials of the Department, it was reasonable for him to take the advice they offered. I agree with this. We have no reason to doubt Mr Osborne's account of his discussions with the Department in 2001. While I am sure that officials at the time gave what they thought was good advice, the more detailed consideration of the issue which your investigations have occasioned have led us to conclude in retrospect that that advice was flawed. But Mr Osborne cannot be blamed for taking the advice he was given.

You ask whether Mr Osborne's ACA claims covered costs which they should not. In my letter of 27 August, I suggested that Mr Osborne should have been advised not to claim for interest on the cost of purchase and initial repairs and decoration on his Cheshire home since these were incurred before he became a Member. Although Mr Osborne makes the point that his Cheshire house is owned in order for him to perform his parliamentary duties, the Department does not meet costs incurred before a Member is elected even if those costs are incurred solely in anticipation of parliamentary duties. However, from the evidence of Mr Osborne's letter to you of 30 September, his mortgage interest claims appear to have amounted to a substantially lower proportion of the total mortgage interest that he paid than the interest nominally payable on the loan for the purchase [of the] Cheshire property less the costs of the purchase and initial repairs and decoration. (Without figures for the whole period, it is impossible to say this categorically, but the period in question was one when interest rates were high). My conclusion is that Mr Osborne did not, as a matter of fact, receive ACA in respect of mortgage interest on any costs for which it was inappropriate.

There is one other matter on which I can provide further information. Mr Osborne's letter to you of 17 September points out that my letter did not say when the rules changed in respect of re-mortgaging to pay for necessary works. The Members Estimate Committee (MEC) agreed the changes to be made in the 2006 Green Book at its meeting on 18 June 2006. The new Green Book was published in July 2006 and a circular letter was sent to Members on 25 July 2006 setting out the changes in that edition. However, the change to allow mortgage loans to be increased to pay for necessary works emanated originally from a decision in principle of the MEC on 18 July 2005 to vary other rules relating to mortgage interest. Details were remitted to the Advisory Panel on Members' Allowances (APMA) to consider and APMA agreed in January 2006 (*inter alia*) that the new rule on re-mortgaging to pay for necessary works should be made. This was incorporated in the new rules agreed in June. Though I can understand that officials might have anticipated the change in January 2006, in strict terms the old rule remained in force until the MEC agreed to vary it.

Please let me know if I can provide any further assistance.

7 October 2009

25. Letter to Mr George Osborne MP from the Commissioner, 14 October 2009

I have now heard back from the Department of Resources with their comments on your letters to me of 17 and 30 September about this complaint in respect of your claims for your Cheshire property.

I attach a copy of my letter of 1 October to the Director of Strategic Projects, and a copy of his response of 7 October.

I would welcome any further and final comments you may wish to make on the Department's response. Subject to those, the evidence which you have given me, together with the information provided by the Department, would appear to be as follows:

a) You explained to the Department in 2001 that you had raised an additional £470,000 secured on your London home in order to purchase your Cheshire home. It was open to you to identify either of the properties as your main home, particularly given your family circumstances. You were advised by the Department that it would be sensible to designate Cheshire as your main home and to make claims on your London property. Having considered this further in the light of the current inquiries, the Department consider that this advice was flawed because it led to you claiming for that part of the London mortgage which was raised only for the purchase of your Cheshire home.

b) The Department take the view that if a Member claims for interest on a mortgage raised to finance the purchase of a property bought before they became a Member of Parliament, it is not permissible for them to claim the interest on that part of the loan which relates to the costs of the actual purchase and to the initial repairs and redecoration. In your case, these costs amounted to £25,000 of the £470,000 loan. There is no conclusive evidence that from 2001 to 2003 you claimed for interest on more than the £445,000 purchase price of the property; and the circumstantial evidence you have quoted, namely the mortgage interest statement from August 2002 to August 2003 supports that conclusion. Your case, which the Department accepts, is that your ACA claims did not reach the level at which they would have covered the interest on the initial start-up costs of £25,000.

c) The £450,000 interest-only mortgage you raised in November 2003 exceeded the purchase cost of the property by £5,000. For the reasons set out above, it would not have been within the rules for you to claim for interest on more than the £445,000 purchase price. Neither you nor the Fees Office have a record of the interest you charged to the ACA in 2003-04, but from the figures you have provided it is not possible to say with any assurance that your claims for mortgage interest did not cover the interest on the final £5000.

d) While this was not part of the complaint, the Department has identified from the information you have provided that you should not in 2005 have made claims for the interest on a further £10,000 which you borrowed to meet the cost of repairs to the property.

I would be very grateful if you could either confirm or amend the above summary of my understanding of the evidence I have received. If you wish to add to it or provide additional evidence, that too would be welcome. In particular it would be helpful to have any additional evidence relating to the proportion of your mortgages on which you have claimed interest since 2001. Subject to your comments, I propose to reflect this in the memorandum I am preparing for the Committee. If it were possible to let me have a response within the next three weeks, that would be most helpful.

I am very grateful for your assistance on this matter.

14 October 2009

26. Letter to the Commissioner from Mr George Osborne MP, 4 November 2009

Thank you for your letter of 14 October.

You raise four separate issues, which I will answer in turn.

a) You raise the fact that in 2001 I designated Cheshire as my main home and made claims on the interest on the mortgage secured on my London property. This is what I was advised to do at the time.

I note what the Department now say, but may I refer you to the previous letter from the Department. In his letter of 27 August, the Director of Strategic Projects in the Department of Resources, wrote that

"... it is also likely that Mr Osborne would have been told that, in his personal circumstances (as outlined in his letter to you of 15 July), it would have been possible for him to nominate either his London or his Cheshire residence as his main home for ACA purposes. In 2001 the Green Book gave no guidance about the criteria to be used for nominating the main home..."⁸⁴

I also refer you to the Department's view, also stated in [the Director of Strategic Projects'] letter of 27 August, that

"I do not believe that between 2001 and 2003 he received any funds which he would not have received if he had decided to nominate London as his main home in 2001."

I would add the new observation from the Department, in the Director of Strategic Projects' letter of 7 October, that

"it was reasonable for him to take the advice offered" by the Department and that "Mr Osborne cannot be blamed for taking the advice he was given."⁸⁵

As a newly elected MP it was only reasonable that I should follow the advice I was given; indeed it would have been odd for me to do otherwise.

b) You state that there is no conclusive evidence that from 2001 to 2003 I claimed for interest on more than the £445,000 purchase price of the property. May I first point out that Director of Strategic Projects writes (in his letter of 7 October) that

"from the evidence... his mortgage interest claims appear to have amounted to a substantially lower proportion of the total mortgage interest than the interest nominally payable on the loan for the purchase of the Cheshire property less the costs of the purchase and initial repairs and decoration."

I would also draw your attention to the very important conclusion of the Director of Strategic Projects, that

"Mr Osborne did not, as a matter of fact, receive ACA in respect of mortgage interest on any costs for which it was inappropriate."

I can provide further evidence to support this. I have recently requested and now received full breakdowns of my mortgage interest from the relevant bank or building society going back to 2000. These are enclosed.

They confirm that not only in the period you ask about, but in the entire period to 2006-07, I claimed interest less than the mortgage interest costs attributable to solely the £445,000 purchase price of the Cheshire property.

Specifically in the years in question:

2001-02

In 2001/02 the total mortgage interest costs were £36,079.24 on a mortgage of £620,299 from the building society. Of this 71.7% (£445,000/£620,299) is attributable to the purchase price of the Cheshire property. This works out at £25,833.10, considerably more than my total ACA claim in 2001-02 of £3,119⁸⁶ (according to

⁸⁴ WE 18

⁸⁵ WE 24

⁸⁶ The Director later confirmed that the figure was £18,000. See WE 32.

Director of Strategic Projects' letter of 27 August). So it is clear that I did not claim for the full proportion attributable to the £445,000 purchase price, let alone the entire mortgage.

2002-03

In 2002-03 the total mortgage interest costs were £34,422.12 on a mortgage of £620,299 from The Principality building society. Of this 71.7% (£445,000/£620,299) is attributable to the purchase price of the Cheshire property. This works out at £24,694.29, considerably more than my total ACA claim in 2002/03 of £18,058 (according to Director of Strategic Projects' letter of 27 August). So it is clear that I did not claim for the full proportion attributable to the £445,000 purchase price, let alone the entire mortgage.

c) You raise the question of whether I claimed for more than solely the purchase price of the property (£445,000) after November 2003 when I raised a £450,000 mortgage.

Neither the Department nor I have kept copies of the breakdown of my ACA in 2003-04. However, the mortgage interest costs attributable to the £445,000 purchase price of the Cheshire property are likely to have exceeded the amount claimed for mortgage interest against the ACA in 2003-04:

2003-04

In 2003-04 the total mortgage interest costs were £24,616.56. This is divided between £19,612.81 on a mortgage of £620,299 from [the building society] between April 2003 and November 2003; and £5,003.75 on a mortgage of £450,000 from [the other building society] between November 2003 and March 2004. Thus, the proportion of the interest cost attributable to the purchase price works out at 71.7% (£445,000/£620,299) of £19,612.81, added to 98.8% (£445,000/£450,000) of £5,003.75. This works out at £19,018.30.

While £19,018.30 is below the amount I claimed on ACA in 2003-04 (£19,895 according to [the Director's] letter of 27 August 2009),⁸⁷ it is reasonable to suppose that £19,018.30 is greater than the amount claimed for mortgage interest in that year. Other costs are also claimed against the ACA, and in the following four years, the average difference between my total ACA claim and my ACA claim for mortgage interest was £3,891.35. I do not recall that my pattern of ACA claims in 2003-04 was any different than in any other year I have been in the House. Assuming a figure similar to this was also the case in 2003-04, then based on my total ACA claim of £19,895, the amount claimed for mortgage interest would have been around £16,000, considerably less than the mortgage interest attributable solely to the purchase price (ie £19,018.30).

You state that the Department *"has identified... that [I] should not in 2005 have made claims for the interest on a further £10,000 which [I] borrowed to meet the costs of repairs to the property."*

I would like to start by pointing out that I drew this matter to your attention, and it forms no part of the complaint against me.

I took out a £480,000 (plus fees taking the total to £481,499) interest-only mortgage in 2005 to cover the original cost of purchasing and moving into the Cheshire home, and the cost of essential repairs. I did so after I had consulted the Department and received their verbal approval.

As I said in my letter of 15 July, these repairs were essential: Eight wooden windows and the front door were in a bad state of decay and needed to be replaced. I had already paid a deposit of 25% on the cost of replacing three windows in February 2005, at a cost of £901.11, which I claimed on the ACA at the time with the consent of the Department. The boiler broke and needed replacing and the chimney flue above the cooker needed urgent repair. The total cost of these repairs was in excess of £12,000. I spoke to the Department on the telephone and asked for their advice. They suggested that I could either claim for the cost of these repairs directly or I could increase the value of the interest-only mortgage, as they told me other MPs had done.

I sought their permission therefore to increase the mortgage to £480,000 and sent them hard copies of the mortgage details.

⁸⁷ WE 18

In my letter of 28 July to you I provided evidence of these costs in the form of receipts, and an extract from the original survey of the property.⁸⁸

I would further note that when it comes to the essential repairs, the cost to the taxpayer of claiming interest on a mortgage extension is considerably less than the cost of claiming for the whole price of the repair. So instead of claiming for the full £12,000, I have instead claimed the interest on a mortgage that according to my calculation amounts to £1,512.40. The calculation is laid out below:

Since January 2006, my mortgage loan amount has been £481,499 (including fees) at both building societies. Since January 2006, I have claimed a total of £60,684.91 in mortgage interest costs.

So the *pro rata* interest cost works on £12,000 is:

$$£60,684.91 \times (£12,000 \div £481,499) = £1,512.40$$

In other words, by increasing my mortgage amount in order to pay for these essential costs, I have cost the taxpayer only £1,512.40, rather than over £12,000 had I claimed directly for these repairs. Indeed, more broadly [the Director of Strategic Projects] confirms in his letter of 27 August that my mortgage arrangements in 2005 resulted in *"a substantial saving to public funds"*.

The Director of Strategic Projects writes in his letter of 7 October that the rule change *"to allow mortgage loans to be increased to pay for necessary works"* occurred in July 2006. It is important to point out that I only claimed for mortgage interest on the element of the mortgage above £445,000 in 2006-07 and 2008-09, and so after the rule change which allowed me to do so. It was after seeking the approval of the Department that I re-mortgaged, increasing the loan amount to £480,000 (plus fees) in order to pay for necessary works. The Director of Strategic Projects further notes, in his letter of 7 October, that the decision was made *"in principle at the MEC on 18th July 2005"* and that *"officials might have anticipated the change in January 2006"*.

I hope that these comments answer any remaining questions you may have.

Conclusion

I would summarise that the Department for Resources has confirmed in a number of letters now that:

- *"... it is also likely that Mr Osborne would have been told that, in his personal circumstances (as outlined in his letter to you of 15 July), it would have been possible for him to nominate either his London or his Cheshire residence as his main home for ACA purposes. In 2001 the Green Book gave no guidance about the criteria to be used for nominating the main home..."* (Director of Strategic Projects' letter of 27 August 2009)
- *"Mr Osborne cannot be blamed for taking the advice he was given."* (Director of Strategic Projects' letter of 27 August 2009)
- *"Mr Osborne did not, as a matter of fact, receive ACA in respect of mortgage interest on any costs for which it was inappropriate."* (Director of Strategic Projects' letter of 7 October)
- *"I do not believe that between 2001 and 2003 he received any funds which he would not have received if he had decided to nominate London as his main home in 2001."* (Director of Strategic Projects' letter of 27 August 2009)
- The explanation of the reasons for redesignating my main home in 2003 *"seem entirely reasonable, and would have been acceptable to the Department"* (Director of Strategic Projects' letter of 27 August 2009)

⁸⁸ WE 8

- *"the re-designation in 2003 was entirely within the rules, and the re-mortgage was acceptable"* (Director of Strategic Projects' letter of 27 August 2009)
- My 2005 re-mortgage resulted *"in a substantial saving to public funds"* (Director of Strategic Projects' letter of 27 August 2009)

As I said in my first letter to you in July, and have reiterated since then, I have only ever claimed for the purpose of allowing me to stay overnight in pursuit of my parliamentary duties since my election to Parliament in June 2001 for the seat of Tatton, some 180 miles from London. I only own a property in Cheshire in order to fulfil my duties as a constituency MP, and I have never sought to exploit parliamentary allowances for personal gain.

4 November 2009

27. Letter to Mr George Osborne MP from the Commissioner, 17 November 2009

Thank you for your letter of 4 November in which you respond to the summary of the evidence contained in my letter of 14 October. I am most grateful for your full response.

I enclose a table prepared on the basis of the figures you have provided.⁸⁹ I should be grateful if you would confirm that these figures are accurate. As you will see, they suggest that in 2001-2 and 2002-03 your claims did not reach the level at which they would have covered the interest on a mortgage of over £445,000; and that in 2003-04, on the basis of your estimate of a total mortgage interest claim of around £16,000, you are also unlikely to have claimed for the interest on a mortgage of over £445,000. You will see however that the table suggests that you appear to have over-claimed for mortgage interest in two years (2005-06 and 2006-07). The former depends on clarifying your mortgage interest claims for 2005-06. In respect of the latter, there is a question over the precise size of your mortgage interest claims but it is not material. I attach a note giving further details of these two points and would welcome your response. Any further points you wished to make about the table, which is intended to summarise the figures you have sent me, would also be welcome.

If it were possible to let me have your response in the next two weeks, that would be most helpful. I am very grateful for your continued assistance on this matter.

17 November 2009

28. Letter to the Commissioner from Mr George Osborne MP, 30 November 2009

Thank you for your letter of 17 November 2009. I am very happy to examine the two discrepancies which you raise, and comment on the table which you enclosed. First, you raise the issue of two discrepancies:

a) Between the figure for mortgage interest claimed in 2005-06 given by us in letter of 15 July (£18,361) and that shown on the parliamentary web-pages (£16,716).

I believe the correct figure is £18,361.

On the parliamentary web-pages are copies of the scanned ACA forms and for the year 2005-06 there are two forms for August but no form for July.

One of the August forms was accidentally mislabelled, and should be for July. This was resolved with the Department at the time.

⁸⁹ Not reproduced here.

This conclusion is supported by the figure for total ACA claim in 2005-06 given on the parliamentary web-pages, of £21,533 (the appropriate page is attached). This figure appears to be inconsistent with the mortgage interest figure you suggest of £16,716, while it would be consistent with the figure of £18,361.

If the figure of £16,716 were correct for the total mortgage interest claimed, then the total ACA claim would be £19,737. However, if one counts one of the forms labelled 'August' as the missing entry, then this is consistent with a total ACA claim of £21,533, as shown on the parliamentary web-page.

b) Between the figure for mortgage interest claimed in 2006-07 which I cited in my letter of 15 July (£18,700), and that shown on the parliamentary web-pages (£18,786).

In the letter of 15 July I used the figure of £18,700 as this has been adjusted down from £18,786 to take account of a repayment I have made. In June 2006, I accidentally claimed £86 more mortgage interest than was claimable, and when I spotted this error repaid the amount.

Second, you provide a table setting out your analysis of the figures.

I have one point to raise: the £15,609 figure for 'Total interest paid on mortgage attributable to constituency home' in the first period of 2007-08. My records show that this figure should be £16,069.41.

I believe this discrepancy arose because you used the figure of £1,560.85 for interest paid on the building society mortgage in January 2008, rather than the figure of £2,021.76, both of which are provided on the statements I enclosed in my letter of 4 November. In the building society statement enclosed in my letter of 4 November, there is a note that "*The interest amount of £2,021.76 covers interest from 8/12/07 up until redemption on 9/01/08.*" My office has spoken with the building society and confirmed that £2,021.76 is the correct figure.

Conclusion

I would ask a question about one further important point. In your letter you use the word "*overclaim*" in relation to my claims for mortgage interest, and give figures in column E of your table of £785 for 2005/6 and £1,065 for 2006-07. I hope that you would acknowledge, as I have repeatedly explained in previous correspondence, that these claims were made in good faith after I had sought and followed the advice of the Department about raising my mortgage.

Indeed, as [the] Director of Strategic Projects in the Department of Resources, said in his letter of 27 August, my mortgage arrangements in 2005 resulted in "*a substantial saving to public funds.*"

I hope you would also acknowledge that on the same method of calculating what you identify as 'over-claims' of £1,850, and using figures you set out in your table, I under claimed in relation to my mortgage in 2001/2, 2002/3, 2003/4, 2004/5, and 2007/8 by a total of £24,124.⁹⁰ Subtracting one figure from the other, I hope you would agree that, over the entire period I have been an MP since 2001, I have therefore under claimed in relation to my mortgage by a total of £22,274.⁹¹ If, however, you judge that I received the wrong advice, and acted on that wrong advice in good faith, I would be very willing to repay the £1,850 that you identify to ensure my claims are entirely beyond reproach.

30 November 2009

⁹⁰ Mr Osborne later corrected this figure to £9,670 in the light of revised figures supplied by the Department of Resources on 18 January 2010. See WE 32.

⁹¹ Mr Osborne later corrected this figure in the light of revised figures supplied by the Department of Resources on 18 January 2010. to £7,734.

29. Letter to Mr George Osborne MP from the Commissioner, 3 December 2009

Thank you very much for your letter of 30 November responding to mine of 17 November with which I enclosed a table setting out the mortgage interest incurred and claimed on your Cheshire property from 2001–02 to 2007–08.

I have carefully considered the information in your letter. I accept that the correct figure for mortgage interest claimed in 2005–06 was £18,361.

In respect of the mortgage interest claimed in 2006–07, I propose to use the figure £18,786, and to add a footnote pointing out that you paid £86 back to reflect the excess mortgage interest claimed for June 2006. If you or your office could let me know when that repayment was made, I will add it to the footnote.

In terms of the total interest figure for the first period of 2007–08, I accept that you paid £16,069, for the reasons you have given.

I attach a revised schedule which, if you agree, I propose to include in my memorandum.⁹²

I have noted the further point you make about offsetting the over claims you made against the times when your claims for mortgage interest could have been higher and still within the total allowance available. I will, of course, note this in my memorandum. I will also note your offer to repay £1,850 on the terms you state. The determination of this will, of course, be a matter for the Committee once it has seen and considered my memorandum.

I will now complete the drafting of the factual sections of the Memorandum and let you have it so that you can comment as necessary on its factual accuracy.

Thank you again for all your help.

3 December 2009

30. Letter to the Commissioner from Mr George Osborne MP, 9 December 2009

Thank you for your letter of 3 December.

You ask me to let you know when the repayment was made for £86 in mortgage interest for June 2006. This repayment was made in a letter to the Head of Validation at the Department of Finance and Administration, dated 12 May 2009, and included interest at 5% bringing the total repayment to £99.96.

You also ask if I agree that you should attach your revised schedule in your Memorandum to the Committee. I agree that this should be included.

I welcome your decision to acknowledge the claims on mortgage interest could have been higher. I would also like to reiterate the point that it was my decision in my letter of 15 July to volunteer to you the fact that I had raised the mortgage to £480,000 and that it is not part of the complaint lodged against me by Mr Burton.

9 December 2009

⁹² Not reproduced here. For the final version, see paragraph 100 of the Memorandum.

31. Email to the Commissioner from Mr George Osborne MP, 29 December 2009

In my email of 24 December [not reproduced here] I promised further details provided to Sir Thomas Legg of minor administrative errors in my mortgage claims.

In my letter to Sir Thomas Legg of 29 October 2009, I included the following section:

“As you pointed out in your letter, I have already repaid £99.96 for an administrative mistake in my ACA claim for June 2006.

“I have since discovered two further small errors in my past claims. In October 2005, I claimed £1,646 in mortgage interest costs, yet due to an interest rate change, the mortgage cost that month was only £1,540. And, in February - March 2006 I claimed £3,200 in mortgage interest costs, yet the combined mortgage costs for February and March were only £3,121.70.

“These sum to a total error of £184.30. Including interest at 5%, compounded since the date of the claims, I am repaying £222.10 to the House of Commons.

“While I could have more than offset these overclaims with the fact that over the last five years I have often claimed substantially less on my mortgage interest costs than I was entitled to, I want to make these payments to ensure my affairs are entirely beyond reproach.”

I do not think these should affect the enquiry but want to include them for completeness.

29 December 2009

32. Letter to the Commissioner from the Director of Strategic Projects, Department of Resources, 18 January 2010

I am writing to confirm the message which you received on Friday.

Following an inquiry from the Clerk of the Committee on Standards and Privileges, we have checked the amount received by Mr Osborne in ACA in 2001-2.

We no longer have documents from that year. However, the figure which was released in respect of Mr Osborne's ACA claims in 2001-2 as part of the general Freedom of Information release in October 2004 was £18009. We have no reason to suppose that was other than an accurate figure. This figure has been in the public domain since 2004.

When Mr Osborne inquired of the Department as to the amounts he had received in each year so that he could answer the questions which you had put to him in your letter of 30th June 2009, he was given the figure of £3119 in respect of ACA in 2001-2. This was because this was the figure which was obtained from our electronic records for that year. However, the electronic records for 2001-2 only contain those amounts actually paid out in 2002-3 in respect of costs incurred in 2001-2. This is the result of a change in accounting systems in 2002.

When I wrote to you on 27th August 2009, I confirmed the figures you had been given by Mr Osborne, again relying on a mistaken interpretation of the electronic information for 2001-2.

I can confirm that the other figures you received in respect of Mr Osborne's ACA (£18058 for 2002/3 and £19,895 in 2003/4) are accurate.

I very much regret this error, and I apologise for the inconvenience it will have caused.

I am sending a copy of this letter to Mr Osborne and to the Clerk of the Committee.

18 January 2010

Appendix 2: Letter to the Chairman from Mr George Osborne, 18 January 2010

I am happy to accept the Commissioner's conclusions. I note his overall conclusion that 'The breaches were not major ones, were not intentional and did not provide Mr Osborne with any significant financial benefit'. I repeat to the Committee the offer I made to the Commissioner to repay £1,666 in order to ensure my claims are entirely beyond reproach.

Formal minutes

Tuesday 19 January 2010

Members present:

Sir Malcolm Rifkind, in the Chair

Mr Kevin Barron
Mr Andrew Dismore
Nick Harvey
Mr Greg Knight
Mr Elfyn Llwyd

Mr Chris Mullin
The Hon Nicholas Soames
Mr Paddy Tipping
Dr Alan Whitehead

Draft Report (Mr George Osborne), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Paragraph 18 read, amended and agreed to.

Paragraph 19 read and agreed to.

Paragraph 20 read, amended and agreed to.

Paragraph 21 read and agreed to.

Paragraph 22 read, amended and agreed to.

Paragraph 23 read and agreed to.

Paragraph 24 read, amended and agreed to.

Paragraph 25 read and agreed to.

Paragraph 26 read, amended and agreed to.

Two Papers were appended to the Report.

Resolved, That the Report, as amended, be the Sixth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

[Adjourned till Tuesday 2 February at 9.30 am