

HOUSE OF LORDS REFORM BILL - COST PROJECTIONS

INTRODUCTION

1. This paper sets out the Government's cost estimates for reform of the House of Lords. It should be read alongside the Impact Assessment. This paper been prepared by the Cabinet Office in order to assist those reading the Impact Assessment and help inform debate on the Government's proposals.
2. Tables 1-3 overleaf set out the total costs of reforming the House of Lords. The purpose of this paper is to explain how these figures were calculated, what assumptions have been made and which sources the Government has drawn on to form the basis of its calculations.
3. As set out in the Bill, the pay and allowances for members of the reformed House of Lords will be set by the Independent Parliamentary Standards Authority (IPSA). In order to project the likely costs of House of Lords Reform, the Government has had to make some assumptions about how members will be paid, what allowances they will be entitled to, and the level at which these allowances will be set. These assumptions are not intended to prevent or prejudice any decision IPSA might make about the total remuneration for members of the reformed House of Lords.

SUMMARY

4. When transition is complete, the net average annual cost¹ of the House of Lords is expected to rise by just over £13.6 million (2012/13 price terms) in the 2025-30 Parliament.² Beneath this total, the average annual additional costs associated with House of Lords reform will be £44.3 million annually – this includes the costs of members' pay, employer national insurance contributions, members' staffing allowances and accommodation allowances. This is offset by £30.7 million of benefits. This represents the savings from allowances that would have been paid to members of the House of Lords if the House was not reformed, and the additional revenue to the Exchequer from bringing payment of members of the House of Lords into the taxation system.³
5. However, under the Parliamentary Voting System and Constituencies Act 2011, the number of MPs will fall from 650 to 600. Calculated on the same basis, this will result in just under £13.6 million of annual savings. Therefore, taken as a whole, the Government's reforms of Parliament, once completed in 2025, are forecast to be broadly cost neutral in terms of annual average running costs.

¹ Cost minus benefits excluding election costs which are dealt with separately below.

² All figures presented in this paper are in 'real' 2012/13 price terms to account for the inflation.

³ Some figures may not add due to rounding.

Table 1 - Annual average costs and savings of parliamentary reforms excluding elections (£m; 2012-13 price terms)

	2015-2020 Parliament	2020-2025 Parliament	2025-2030 Parliament
Net costs of House of Lords reform	£ 7.4	£ 10.5	£ 13.6
Saving from reducing the size of the House of Commons	£ 13.6	£ 13.6	£ 13.6
Net cost of reforms of both Houses of Parliament	£ - 6.2	£ - 3.1	£ 0.0

Note: all figures rounded to the nearest £0.1m. Net cost of reform to both of House of Parliament 2025-2030 for example is not precisely £0 and stands at £0.0m only after rounding to the nearest £0.1m.

Tables 2 and 3 - breakdown of annual average costs and benefits of the reformed House of Lords excluding elections (£m; 2012-13 price terms)

		2015-2020 Parliament	2020-2025 Parliament	2025-2030 Parliament
New members' pay	Basic pay	£ 5.0	£ 9.9	£ 14.9
	Employer National Insurance contributions	£ 0.5	£ 1.1	£ 1.6
	Total remuneration	£ 5.5	£ 11.0	£ 16.5
New members' allowances	Staffing allowances	£ 5.1	£ 10.3	£ 15.4
	Residential accommodation allowances	£ 2.5	£ 4.9	£ 7.4
	Other allowances	£ 1.7	£ 3.4	£ 5.0
	Total allowances	£ 9.3	£ 18.6	£ 27.8
Transitional members' costs	Attendance allowance	£ 15.3	£ 7.6	£ -
	Travel and subsistence	£ 1.7	£ 0.8	£ -
	Total transitional member costs	£ 17.0	£ 8.5	£ -
Total costs		£ 31.7	£ 38.0	£ 44.3

Benefits	Cost of unreformed House - allowances	£ 23.1	£ 25.1	£ 27.1
	New income from taxation	£ 1.2	£ 2.4	£ 3.6
	Total Benefits	£ 24.3	£ 27.5	£ 30.7

6. During the transitional period of 2015-25, there are expected to be savings, as cost savings from the reduction in the number of members of the House of Commons are realised in full earlier than the cost increases deriving from House of Lords reform. Net savings of approximately £6.2 million per year are expected on average during the 2015-20 Parliament, and approximately £3.1 million per year of net savings are expected on average during the 2020-25 Parliament.
7. These figures do not include the costs of elections to the reformed House of Lords, as this is not an annual cost. The total cost of each election has been projected at £85.7 million. Elections are expected to take place approximately every 5 years, and all cost projections throughout assume that elections will take place every 5 years.
8. We have also not modelled for any changes to the running costs of the House of Lords, as it is not possible to forecast these changes.

ANNUAL COSTS - DETAILED COMMENTARY

Part 1: Total Costs

9. This section of the document calculates the total additional annual costs of the reformed House of Lords. This has been divided into three categories: costs associated with paying new members; the cost of allowances for new members; and the cost of transitional members. Each area of cost is explained in more detail below.

New Members' Pay

10. This section of the document calculates the total remuneration of members of the reformed House of Lords. It is made up of two factors: members' basic pay and employer national insurance contributions. Each factor is explained in more detail below.

Basic Pay

11. This figure represents the total pay to members of the reformed House of Lords which will be paid by IPSA,⁴ excluding the related costs that IPSA would bear, such as National Insurance contributions, which are calculated separately.
12. The starting point for calculating this figure was the assumption that members of the reformed House of Lords would be paid a daily rate of £300 before tax. This is equivalent to £43,950 if the member participated on every sitting day, assuming the average annual number of sitting days is as in the 2010-12 session (146.5 sitting days).⁵ However it is not the Government's expectation that members of the House of Lords will serve on a full-time basis, and clause 46 of the Bill inserts new section 7B(2) of the Parliamentary Standards Act 2009 which provides that IPSA must determine pay in a way that has regard to the level of a member's participation. Thus it is not anticipated that members of the reformed House of Lords will normally claim £43,950 per year.
13. It is therefore necessary to estimate how frequently members of the reformed House of Lords will attend sittings. The current average rate of attendance is 63%.⁶ However, the Government believes that this figure may not accurately represent attendance in the reformed House. Therefore an upper estimate was calculated by looking at the average attendance amongst high attending members of the current House – those who attend at least two thirds of sitting days – which is 88%.⁷ The average of these two figures, 75%, has been used as the estimated level of attendance by members of the reformed House – which equals 110 sitting days per year.
14. The total basic pay costs were therefore calculated by multiplying the number of sitting days on which we expect each new member of the House of Lords to participate by the number of new members of the reformed House in receipt of basic pay. This has been

⁴ Transitional members, Lords Spiritual and office holders in receipt of salaries under the Ministerial and Other Salaries Act 1975 will not receive pay from IPSA.

⁵ <http://www.publications.parliament.uk/pa/ld/ldstat.htm>

⁶ <http://www.publications.parliament.uk/pa/ld/ldstat.htm>

⁷ Calculated from attendance allowance claims from January 2011 – March 2011

<http://www.parliament.uk/mps-lords-and-offices/members-allowances/house-of-lords/holallowances/hol-expenses04/201011/>

conservatively estimated at 150 in 2015, 300 in 2020 and 450 in 2025 – i.e. all elected and appointed members. In practice, the new section 7A(7) of the Parliamentary Standards Act 2009 (inserted by clause 46 of the Bill) provides that any member who is in receipt of a salary under the Ministerial and Other Salaries Act 1975 will not be entitled to basic pay from IPSA. This will apply to any ministers in the House of Lords (unless unpaid ministers) and also to the Leader of the Opposition in the House of Lords, the Opposition Chief Whip and the Lord Speaker. It is likely in practice therefore that there will be a number of members who do not receive basic pay from IPSA, and this will reduce the net cost of reform, but this has not been modelled for as it is too uncertain.

National Insurance Contributions

15. IPSA will also pay National Insurance contributions for new members of the reformed House of Lords. Assuming as above that the average new member of the reformed House attends 75% of sitting days, this gives them a total annual pay of close to £33,000. The relevant employer's National Insurance contributions rate (Class 1) is 13.8%, but no contributions are paid on the first £146 each week. Once this allowance is taken into consideration the effective rate of employer National Insurance payments is 11%. This is calculated using the HMRC (Class 1) National Insurance thresholds.⁸ As at paragraph 14 above, no account is taken of members who are paid under the Ministerial and Other Salaries Act 1975, on whose behalf IPSA would not pay National Insurance contributions.

New Members' Allowances

16. This section of the document calculates the total expenditure incurred by the payment of allowances to new members of the reformed House of Lords. It is made up of three factors; a staffing allowance, an accommodation allowance and other allowances – primarily travel and subsistence. Each factor is explained in more detail below.
17. The allowances of Lords Spiritual are not factored in as the Government has not attempted to prejudge the possible types of expenses that IPSA might consider appropriate. The role of the Lords Spiritual is not expected to affect the costs substantially.

Staffing Allowance

18. The Government has assumed that members of the reformed House of Lords will be provided with a staffing allowance that will enable them to employ one full-time equivalent member of staff. Members will not have constituency duties and the Bill prevents IPSA from paying an allowance in respect of maintaining a constituency office. This sum also reflects the fact that the House of Lords already provides research services to its members, notably through the House of Lords Library. It is therefore envisaged that staff for members of the reformed House will primarily provide administrative, rather than research, support.

⁸ <http://www.hmrc.gov.uk/rates/nic.htm>

19. IPSA currently allocates a staffing budget of £144,000 to London-based MPs to enable them to employ 4 full-time equivalent members of staff – this includes employer pension and National Insurance contributions.⁹ London-based MPs have been used as a model as they are paid a higher allowance by IPSA than other MPs, to reflect that all of their staff will be based in London, where average earnings are higher. All members of the House of Lords will similarly be expected to employ staff based entirely in London, as they have no specific duties in their electoral districts.
20. On average an MP claims 95% of this budget,¹⁰ meaning that each London MP claims, on average, £136,800 to employ 4 members of staff. As we estimate that IPSA will allow for members of the reformed House of Lords to employ 1 full time equivalent member of staff, we project that each will incur staffing expenses of £34,200 a year – one quarter of £136,800. This figure was then multiplied by the number of new members in each Parliament to produce a total cost for staffing.

Accommodation Allowance

21. The Government's working assumption is that IPSA will provide similar accommodation allowances to those currently given to MPs under the 4th Scheme.¹¹ It is conservatively assumed that all new members from outside London will choose to rent and thus be entitled to £20,000 per year, plus (also conservatively) that each member will be entitled to a further £2,425 for caring responsibilities.¹² On average 87% of capped allowances are claimed by MPs,¹³ which has been assumed to be the case also in the reformed House of Lords. This leads to an average annual expenditure of £19,500 per non-London member of the reformed House of Lords.
22. It was also necessary to estimate how many “non-London” members there will be in the reformed House of Lords. For elected members this information was taken from the provision relating to electoral districts contained in Schedule 2 of the Bill, which is 106 per electoral cycle. For appointed members this was taken to be 68.3%, based on the number of current cross benchers who have declared their principal residence to be outside London.¹⁴ The Government sees no reason why accommodation allowance would be available to appointed members whose principal residence was already in London. Thus we have assumed that, by 2025, there will be 42 elected members of the reformed House of Lords and just over 25 appointed members who will not be eligible for an accommodation allowance.

⁹<http://parliamentarystandards.org.uk/IPSAMPs/Schemeold/schemedownload/Download%20scheme/Fouth%20Edition%20of%20the%20MPs'%20Scheme%20of%20Business%20Costs%20and%20Expenses.pdf> para 7.7

¹⁰ <http://www.publications.parliament.uk/pa/cm201213/cmselect/spcomipsa/writev/mainest/m02.htm>

¹¹ <http://www.parliamentarystandards.org.uk/IPSAMPs/Schemeold/schemedownload/Download%20scheme/Fouth%20Edition%20of%20the%20MPs'%20Scheme%20of%20Business%20Costs%20and%20Expenses.pdf>

¹² The 4th Scheme allows a further £2,425 for caring responsibilities- as it is unclear how many members of the reformed House of Lords will have caring responsibilities it is conservatively assumed that all are able to claim this allowance.

¹³ <http://www.publications.parliament.uk/pa/cm201213/cmselect/spcomipsa/writev/mainest/m02.htm>

¹⁴ December 2011 financial claims <http://www.parliament.uk/business/lords/whos-in-the-house-of-lords/house-of-lords-expenses/>

Other Allowances

23. This figure represents all other payments including: the London Area Living Payment (LALP); an allowance for office administration to members of the reformed House of Lords; and all those that fall within IPSA's "uncapped costs" for MPs. The majority of the uncapped costs are accounted for by travel and subsistence payments. However, it also includes: costs of staff training; disability allowance (financial support for disabled members to allow them to carry out their duties); security allowance (payments to cover special provision required to ensure the security of MPs and their staff); and the contingency allowance.
24. It has been assumed that the average cost of uncapped expenses for each member of the reformed House of Lords will be equal to the average cost for each member of the current House of Commons, around £11,077.¹⁵ This figure was then multiplied by the number of new members of the House of Lords for each Parliament, and then reduced to 75% of that amount to reflect the expected attendance rate of members of the reformed House (which would, for example, be expected to have an impact on travel costs).
25. It is conservatively assumed IPSA will offer the LALP (a form of London weighting) to new members of the House of Lords at the weighted average of payments made to Members of the House of Commons, which is £4,200 (there are two different levels of LALP) and that all London based members of the reformed House of Lords will claim this. It is assumed however that the amount of the LALP would also be linked to participation, and therefore that on average only 75% of this will be paid, in line with attendance assumptions.
26. It is further assumed that, although IPSA would not provide expenses for office rental accommodation, they may provide expenses for certain costs of administering an office in London. IPSA's 4th expenses scheme does not provide an allocation for administrative provisions which is separate from the cost of renting an office. However, the 1st and 2nd editions of the scheme did provide such a separate budget, set at £10,400 for 2010-11. Given, however, that this administrative provision is expected to cover the costs of running two offices and four FTE members of staff, and that the House of Lords meets most of the costs of offices on the parliamentary estate, we have assumed that IPSA would only provide a quarter of this to cover the single office and 1 FTE member of staff to which members of the reformed House of Lords are assumed to be entitled.

Transitional Members' Costs

27. This section of the document calculates the cost associated with the transitional members of the House of Lords. These have been calculated separately from the cost of new members as transitional members will continue to be paid under resolutions of the House. In practise the Government expects this to continue to amount to a daily attendance allowance and other expenses on the current basis. They will not be entitled to the new allowances being introduced to support new members of the reformed House. There are two components to this cost: the cost of their daily attendance allowance, and the costs of their travel and subsistence.

¹⁵ Average uncapped cost per MPs

<http://www.publications.parliament.uk/pa/cm201213/cmselect/spcomipsa/writev/mainest/m02.htm>

28. All calculations of transitional members' costs proceed from the conservative assumption that the number of transitional members remains constant throughout a Parliament. This is highly unlikely to be the case – in practice, numbers of transitional members will decline, as any people who cease to be transitional members will not be replaced.

Attendance Allowance

29. Currently, members of the House of Lords can claim £300 a day for each sitting day that they attend in the House. Not all members claim this allowance and others choose to claim £150 or no allowance on occasions where they believe that their contribution to the work of the House does not warrant a whole day's payment. During 2011 the average daily claim for attendance by a member of the House of Lords was £274.¹⁶

30. The Government has assumed that this will continue to be the average daily claim during the transition period. It has also assumed that transitional members will attend at the same rate as new members of the reformed House, 75% (see paragraph 13). From these two figures, together with the average number of sitting days in a year (146.5), it is possible to calculate the projected expenditure on transitional members' attendance allowance.

Travel Allowance

31. Currently, the average member of the House of Lords claims £29 for travel for each sitting of the House that they attend.¹⁷ Using our assumptions about the average level of attendance during the transition (75%), and the number of transitional members in each transition Parliament, it is possible to project the costs of travel payments to transitional members during the transition period.

Part 2: Benefits

32. There are two primary monetised "benefits" to reform of the House of Lords, against which the increased costs can be offset. The first is the notional saving from no longer paying a daily attendance allowance and other expenses to those persons who would, but for the reforms, have been members of the House of Lords, which the House would have had to continue to fund. The second is the tax benefits from bringing the payment of members of the reformed House of Lords into the tax system. Currently, members of the House of Lords do not pay tax on the income they receive from their daily attendance allowance. This will not be the case for new members of the reformed House. This represents a new revenue stream for the Treasury and is therefore counted as a benefit.

Cost of unreformed House of Lords remuneration and expenses

33. Currently, members of the House of Lords claim an average of £274 per sitting day in attendance allowance. They also claim an average of £29 per day for travel and

¹⁶ Average claim per peer per day during 2011, based on information from <http://www.parliament.uk/business/lords/whos-in-the-house-of-lords/house-of-lords-expenses/>, updated to 2012-13 prices.

¹⁷ Travel claims April 2011- December 2011 <http://www.parliament.uk/business/lords/whos-in-the-house-of-lords/house-of-lords-expenses/>

subsistence. This information together with the current size of the House, and the number of sitting days in a year, have been used to calculate the savings from no longer remunerating those persons who would, but for the reforms, have been members of the House of Lords.

34. This saving will continue to increase after the House of Lords is reformed. This reflects the fact that if these reforms are not introduced it is likely that the total membership of the House of Lords will continue to increase – imposing greater costs on the House of Lords. Our model assumes that the overall average daily attendance of the House would increase by 9 members every year, which reflects historic trends in membership.¹⁸

Tax benefit

35. The taxation of payment to members of the House of Lords represents a change in their tax treatment and therefore this should be reflected in the cost projections.¹⁹ As there are no other changes in tax treatment, no other tax savings have been included. Income tax collected from staff members, for example, has not been counted as a benefit because they already pay income tax.²⁰
36. The Government calculated this figure using 2012-13 tax thresholds.²¹ Using the assumption of 75% participation the Government first estimated an average gross income of £33,100 for members.²² To calculate which tax band the new members of the reformed House of Lords fell into, however, it is necessary to make an assumption about what other employment a member might have, because income tax is calculated on the basis of gross income across all an individual's jobs. The higher the member's other source of income, the greater the tax rate on the new income source will be.
37. Given the assumption that members will attend 75% of sitting days, it is conservatively estimated here that members' income outside the House will be 25% of the national average wage rate.²³ This gives an effective income tax rate of 18% on the forecast average annual pay of each member of the House of Lords entitled to basic pay from IPSA, therefore bringing £8,000 per year back to the Exchequer per member, which has a total value of £3.6m by 2020.

¹⁸ Average trend in membership calculated using House of Lords Sessional statistics from 1999 forward.

¹⁹ http://www.hm-treasury.gov.uk/d/green_book_complete.pdf, para 5.55

²⁰ Note that only income tax is a benefit; national insurance is not because it creates a future liability for the taxpayer.

²¹ <http://www.hmrc.gov.uk/paye/rates-thresholds.htm>

²² At £300 per sitting day the members of the reformed House of Lords can take home £44,000 if they attend 100% of the time. With an assumption of 75% participation their gross salary would however be £33,100.

²³ This equates to a job paying £408 a week, taken from <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/ashe-results-2011/ashe-statistical-bulletin-2011.html>) then up rated to 2012-13 prices <http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>). It was assumed that members of the reformed House worked at this job for 25% of their working week.

Part 3: Net Costs

38. This section calculates the net cost of House of Lords reform, which is simply the difference between the costs and the benefits.

Part 4: Savings from reducing the size of the House of Commons

39. Reform of the House of Lords is not the only change that this Government is making to the composition of Parliament. The Government has also legislated to reduce the number of MPs from 650 to 600 through the Parliamentary Voting System and Constituencies Act 2011. These reforms come into effect at the next parliamentary general election after the completion of the current Boundary Reviews.

40. There are two components to this saving. The first is the reduction in MPs' remuneration. An MP's annual salary is £65,738. In addition to this, employer pension contributions of 28.7%²⁴ are paid, as are employer National Insurance contributions at 12.3%. Therefore the total salary related expenditure for a Member of Parliament is £92,691; the Government intends to reduce the number of MPs by 50, and this represents a total saving of £4.6 million.

41. The second component is the allowances paid to MPs. For consistency with the reformed House of Lords costings this has been calculated on an identical basis: i.e. we used IPSA's forecasts to estimate the uncapped costs per MP/ member of the House of Lords and, for all other costs, used the budgetary limits from the IPSA's 4th expenses scheme, combined with forecast proportions of eligible claims actually claimed in 2012/13.

42. In total, therefore, we estimate that (per year) reducing the size of the House of Commons saves £131,000 per MP in staffing expenses and a further £48,000 in all other expenses. Members of the House of Lords by contrast are expected to cost £34,000 in staffing and £30,000 for all other expenses. This difference is mainly due to members of the reformed House of Lords not requiring funding or staff for a constituency office.

43. This equates to £179,000 per MP, resulting in a saving of £9.0m for 50 MPs. Combined with the savings from MPs' salaries and pensions this provides a total annual saving of £13.6m.

Part 5: Change in the cost of Parliament

44. This final row deducts the forecast saving from the reduction in the number of MPs from the additional forecast total cost of the reform of the House of Lords to provide the overall projected change in the annual cost of Parliament.

²⁴ MPs' pensions – 2012 onward, Commons Library Standard Note Page 7, <http://www.parliament.uk/briefing-papers/SN06283>

ELECTION COSTS - DETAILED COMMENTARY

45. This section of the explanatory note discusses the costs of elections. They have been calculated separately from the other costs associated with the reformed House of Lords, as they do not represent an annual figure. The total cost of elections is projected to be £85.7m every 5 years.
46. There are two primary components to the cost of administering the elections. The first is the cost of conducting the election itself, which is made up of amounts paid to Returning Officers to cover their services and expenses. The expenses which are incurred by Returning Officers relate to the costs of polling stations, issuing poll cards, postal voting and running the count. The second cost is for the free delivery of candidate mailings to electors prior to the poll. For elections to the House of Commons, candidates are entitled to send one mailing to each elector or household with the Parliamentary Constituency area free of charge. The main purpose of allowing candidates to send one communication free of charge is to allow the electorate to be informed of the policies of candidates/parties standing, and to help them to make informed choices when casting their vote. The Royal Mail undertakes the delivery of these communications and is reimbursed from the Consolidated Fund according to the terms of a Service Level Agreement which is in place between the Cabinet Office and Royal Mail. It is assumed that the Government will cover the same costs for elections to the House of Lords.

Part 1: Costs for the conduct of a House of Lords election

47. Costs for the conduct of the poll have been generated using the Election Costing Model, which contains the assumptions and costs which are used by the Cabinet Office to determine the level of funding which Returning Officers receive for conducting UK Parliamentary and European Parliamentary elections. The model for the House of Lords elections has been developed to factor in the cost analysis, which has been undertaken on the claims from Returning Officers which have been settled for the UK Parliamentary and European Parliamentary elections. This has helped to ensure that the figures for the House of Lords reflect our understanding of the true cost of national polls in the United Kingdom.
48. The figures contained in the table below outline the cost of an election held in isolation as a standalone poll. These also assume that the costs will be broadly comparable to a European Parliamentary election. This is most notably due to the intention for House of Lords elections to be run on similar boundaries to European Parliamentary elections under an electoral system which returns more than one candidate per voting area.
49. In practice, House of Lords elections will be held at the same time and combined with House of Commons elections, which will lead to significantly reduced costs for the poll. Combining the House of Lords elections with existing House of Commons elections will specifically lead to little additional expenditure being required for the cost of polling stations (bar the costs of printing the ballot papers and any bespoke training which polling staff require on House of Lords polls) and there would be no additional cost of producing and sending out poll cards.
50. Further savings may also be made if Returning Officers for both the House of Lords and House of Commons elections decide to issue joint postal ballot packs and use the same

venue for the count process. It is possible that other general clerical costs could also be combined. However, given that existing legislation does not actually require these elements of the poll to be combined, for the purpose of this costing estimate they have not been included in the table below which sets out the projected total cost of elections to the House Lords, once the savings from combination have been included.

51. It is likely however that the counting cost of an election will be greater in a Semi-open List system for House of Lords elections because voters will also have the opportunity on the ballot paper to vote for a party and/or to express a “below the line” preference for a particular candidate. Where such a preference is made, the ballot paper will have to be counted a second time, once it has been determined how many seats have been assigned to each party. This will lead to an increased amount of time being required for the count, which will lead to increased staff and accommodation costs. As with previous European elections, the Government does not expect there to be a need for electronic counting machines at House of Lords elections.

Table 4 – Comparative administrative costs for the conduct of a House of Lords election – standalone or combined with an election to the House of Commons (£m; 2012-13 price terms)

	Returning Officers fees	Polling station costs	Postal voting costs	Poll card costs	Count costs	Other costs	Total
Total cost to the public sector of a <u>standalone</u> election	£ 2.3	£ 35.8	£ 12.0	£13.1	£10.6	£6.6	£ 80.5
Total marginal cost to the public sector of <u>combining</u> a House of Lords election with a House of Commons election	£2.4	£8.6	£ 12.0	£ -	£13.3	£ 6.6	£ 42.9

Notes: The public sector cost of a standalone election assumes a closed party list while cost of the House of Lords election assumes a semi-open list. ‘Other costs’ includes an assumed £250,000 for insurance and a further £150,000 for claims processing and software changes.

52. The volume of this additional cost is, however, highly uncertain because this system does not operate in UK territory. The Government has therefore created a range of cost estimates for the additional count. For the high estimate it has been assumed that 50% of ballots express a “below the line” preference, for the low estimate 0%. For the central estimate it is assumed that 20% of voters express a preference.²⁵ This cannot necessarily be relied upon because the number of seats in a district for House of Lords elections will be greater, and the elections will be held on the same day as elections to the House of Commons; but, in the absence of clear evidence to make a reasoned forecast, it has been used as the central estimate. Table 4 gives the central estimate.

Part 2: Candidate mailings distributed at public expense

53. The legislation for UK Parliamentary and European Parliamentary elections allows for each candidate (or party and independent candidates at European Parliamentary elections) to be allowed to send one piece of mail to each elector free of charge through the Royal Mail and paid for from the Government’s consolidated fund. The costs only cover the distribution of the mailings, with the funding which is required for producing the literature being borne by the political party/candidate.

54. It is hard to project the likely cost of mail distribution for elections to the reformed House of Lords, as it is difficult to develop a precise model around the process which operates for UK Parliamentary and European Parliamentary elections.

55. The Government’s low estimate is that the costs are equal to the funding which was required for the delivery of mailing for elections to the House of Commons in 2010, which amounted to £28.7m. Once adjusted to reflect 2012/13 prices this figure would increase to £29.5m. As VAT was not charged for this election but will be charged in future this figure is uplifted by 20%.²⁶ Therefore after adjusting for inflation and VAT the low estimate is £35.4m.

56. The Government’s high estimate is that mailings will cost £50.2m. This figure represents the amount which was required for mailings at the 2009 European Parliamentary elections, once VAT has been applied and the figure has been adjusted for inflation. This is a reasonable upper estimate because the Government has since negotiated a new contract with Royal Mail which should decrease costs by around £7m. The central scenario is therefore a mid-point between the high and low estimates of £42.8m.

57. The Government will consider the specific approach to mailings in light of experience with Police and Crime Commissioner and other elections.

²⁵ This is based partially on the results of survey research published in 1998, when an Open List was under debate for electing UK MEPs (*Open or Closed List Voting for the European Parliament Elections 1999: State of the Nation Report*, Professor Dunleavy, Dr Helen Margetts and Stuart Weir February 1998).

²⁶ There was no requirement for VAT to be charged on Royal Mail’s bespoke candidate mailing products for the 2009 European Parliamentary and 2010 UK Parliamentary elections. However, following a change in the requirements which was made and introduced in 2011, VAT will now be added to the cost of candidate mailings.