

Title: House of Lords Reform Bill IA No: Lead department or agency: Cabinet Office Other departments or agencies:	Impact Assessment (IA)	
	Date: 25/06/2012	
	Stage: Development/Options	
	Source of intervention: Domestic	
	Type of measure: Primary legislation	
	Contact for enquiries: Oliver Phillips- 020 7271 6385	
Summary: Intervention and Options		RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?	
£299.4m	£0	£0	No	NA

What is the problem under consideration? Why is government intervention necessary?

In a modern democracy it is important that those who make the laws of the land should be elected by the people to whom those laws apply. The current House of Lords performs an effective role in UK parliamentary democracy but lacks accountability, democratic authority and legitimacy.

What are the policy objectives and the intended effects?

To give the House of Lords democratic legitimacy the Government will introduce reforms to elect 80% of the members of the House. The role of the House of Lords will remain unaltered; it will continue to be a scrutinising and revising second chamber, thus maintaining the primacy of the House of Commons. To ensure that the House of Lords maintains the independent expertise which helps to make it effective, 20% of members will be appointed.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0 - Do nothing and continue with a mostly appointed and partly hereditary House of Lords.

Option 1 - Establish an 80% elected and 20% appointed second chamber of 450 part-time members.

Option 1 has been chosen as a preferred option as it strikes the right balance between cost and enabling the necessary roles and functions of an effective House of Lords to be maintained.

Option 2 - Establish an 80% elected and 20% appointed elected second chamber of 300 full-time members.

Option 3 - Establish a second chamber based on a 80% full-time elected and 20% appointed part-time membership of 450 members, as recommended by the Joint Committee on the draft Bill.

Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro	< 20	Small	Medium
		No	No	No	No
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded:		Non-traded:
			N/A		N/A

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

 Date: 27/06/12

Summary: Analysis & Evidence

Policy Option 1

Description: Preferred Option 1: establishing an 80% elected and 20% appointed second chamber of 450 part-time members

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 18	Net Benefit (Present Value (PV)) (£m)		
			Low: -£345.8m	High: -£181.5m	Best Estimate: -£299.4m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-£562.9m	-£65.0m	-£620.8m
High	-£446.4m	-£50.2m	-£491.5m
Best Estimate	-£523.9m	-£61.5m	-£581.3m

Description and scale of key monetised costs by 'main affected groups'

In transition (2015-25) remuneration and allowances of new members of the reformed House are expected to cost £22.2m pa on average and £44.3m pa 2025-30. The largest two components of this are payments to new members of £16.5m pa (£8.2m pa in transition) and staffing allowances (£15.4m pa; £7.7m pa in transition on average). Allowances of transitional members will cost £12.7m pa 2015-25 on average. Elections are estimated to cost £85.7m. All figures in 2012/13 price terms.

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£254.0m	£29.7m	£275.0m
High	£280.8m	£35.0m	£310.0m
Best Estimate	£259.2m	£30.7m	£281.8m

Description and scale of key monetised benefits by 'main affected groups'

The present House of Lords will be replaced with elected, appointed and transitional members saving all current attendance expenditure associated with the present House of Lords. This will save an annual average of £24.1m pa in transition (2015-25) and £27.1m pa in 2025-2030. The tax on the salary of new members will also create an additional revenue stream of £3.6m pa from 2025 onwards and will generate an average saving of £1.8m pa 2015-2024. All figures in 2012/13 price terms.

Other key non-monetised benefits by 'main affected groups'

This option allows members to maintain professional expertise, protects Commons primacy (thus maintaining an efficient lawmaking system) and prevents a 'two-tier' house associated with having both full- and part-time members. It brings change more incrementally than the other options by maintaining the current system of a wholly part-time chamber and having continuously decreasing numbers of members in overlapping transition periods.

Key assumptions/sensitivities/risks Discount rate (%) 3.5%

Percentage of sittings attended by part-time members of the reformed House of Lords. These costings conservatively assume that members will participate in 75% of sittings in the central scenario, 88% of sittings in the low estimate, 63% of sittings in the high estimate.

As IPSA decides the levels of payments for participation and expenditure costings are based on assumed IPSA behaviour.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: NA	Benefits: NA	Net: NA	No	NA

Evidence Base (for summary sheets)

Note:

In this Impact Assessment, references to “full-time members” refer to members who are expected to participate in the work of the House on every sitting day. As this is on average 146.5 days in a year, it does not correspond with the usual definition of “full-time” which is in the general area of 220-232 working days, but it is used here for convenience.

References to “part-time members” are to members who are expected to vary their level of participation below that level of 146.5 days a year.

All figures are presented in 2012/13 price terms and all figures outlined in this evidence base describe the central scenario as detailed under ‘assumptions’. All figures are rounded to the nearest £0.1m and may not add due to rounding.

Problem under consideration and rationale for intervention

In a modern democracy it is important that those who make the laws of the land should be elected by the people to whom those laws apply. The current House of Lords performs its work well but lacks sufficient democratic authority. Government legislation is necessary to establish a more legitimate chamber by providing a direct link between those who make legislation and those who must live by it.

Option 0: Do nothing

As now, membership to the House of Lords would be based upon appointment and hereditary privilege. The current House numbers more than 800 and this number would continue to increase.

Taking no action would mean that the House of Lords would continue to lack democratic authority. The status quo will also result in more people becoming peers via appointment, which will continue to increase the costs of daily allowances and expenses. If left unchecked this could present a barrier to the efficient running of the House of Lords.

Option 1: (Preferred Option): Establish an 80% elected and 20% appointed House of Lords, with 450 members, all of whom would be part-time.

A fully reformed House of Lords would be phased in over the course of three elections in 2015, 2020 and 2025.

Table 1.1 – Number of members of each type in transition to a fully reformed House of Lords under option 1

	2015	2020	2025
Elected	120	240	360
Appointed	30	60	90
Transitional	506	253	0
Lords Spiritual	21	16	12
Total	677	569	462

Monetised costs and benefits:

Option 1 will increase the net annual expenditure of the House of Lords (i.e. excluding election costs) by an average of £9.0m pa in transition (2015-2025) and £13.6m pa in the 2025-30 Parliament. Costs post transition from 2025 are expected to remain constant in real terms but the net costs will fall by

approximately £0.4m pa thereafter because, in the counterfactual scenario where the House of Lords remain unreformed, there would be increasing cost pressures as more members were appointed to the chamber.

Elections to the House of Lords will also cost an additional £85.7m (2012/13 price terms) in 2015 and every five years thereafter. This includes both electoral administration and also the cost of candidate mailings at public expense. This will remain the same in all options and it is further assumed that the Electoral Commission would launch a publicity campaign in 2015 to raise awareness of the election, as they are currently doing for the Police and Crime Commissioner elections, at a cost of £3.8m.

These monetised costs are primarily driven by three cost/savings drivers:

- 1) Newly elected and appointed members will be paid for their participation in the work of the House and will be separately allocated money for staff and expenses incurred in their parliamentary duties by the Independent Parliamentary Standards Authority (IPSA). These new payments, National Insurance contributions and expenses are expected to cost £22.2m pa on average in transition and £44.3m pa in the 2025-30 Parliament onwards. Members of the House of Lords are not expected to receive an employer pension contribution;
- 2) Members of the current House of Lords who are claiming the existing £300 daily allowance + travel and subsistence expenses will leave the House of Lords incrementally, saving an average of £11.4m pa in transition and £27.1m pa in the 2025-30 Parliament (after netting off the cost of those members of the House of Lords who will remain during the transitional period); and
- 3) Every five years from 2015 onwards the Government will expand the polling at the general election to facilitate the election of one third of the elected members of the House of Lords. This will cost £85.7m per election.

Detailed cost and savings breakdown:

Superannuation costs of new members: Members of the reformed House of Lords are assumed to draw a payment for daily participation of £300, or £43,950 pa for maximum participation and the Government will also pay National Insurance (at an overall rate of 11% in the central scenario). This superannuation costs £8.2m pa in transition (2015-2025) and £16.5m pa in the 2025-2030 Parliament.

Expenses costs (including staffing allowances): The members of the reformed House of Lords are also expected to be granted sufficient staffing allowances by IPSA for one full-time employee totalling £7.7m pa in transition and £15.4m pa in the 2025-2030 (in the central estimate of one member of staff per new member of the reformed house). They are also anticipated to receive further expenses of £6.2m pa in transition and £12.4m pa thereafter.

Election costs: By combining the polls with general elections the Government will save money by utilising all general election polling stations for House of Lords elections. As a result, the elections to the House of Lords are expected to add only £42.9m per election to the costs of electoral administration. It is also assumed that candidate mailings will cost a further £42.8m at each election. It is further assumed that the Electoral Commission will spend a further one-off £3.8m publicising the first election in 2015 as they are expecting to do for the Police and Crime Commissioner elections.

Allowance savings: The existing members of the House of Lords claim allowances of £150 or £300 per sitting day, and claims would be expected to increase in an unreformed House as new members of the House of Lords are appointed. Members of the current House of Lords further each claim £29 per day attended in travel expenses. On the basis that this continued at the present rate, transitional members of the reformed House of Lords would be expected to cost £12.7m pa on average 2015-2025 (and nothing thereafter as there would be no transitional members). To derive the total saving in allowances, it is necessary to deduct this figure from what the cost of allowances would be if the House remained unreformed, which in the transitional period would be £24.1m pa on average. Doing so produces savings of £11.4m pa on average in the transitional period. In the 2025-2030 Parliament the cost of an unreformed House would be £27.1m pa on average and there are no deductions to be made, so the saving is £27.1m.

Tax savings: New members of the reformed House of Lords will also be brought into the normal PAYE tax system creating a contribution to the Exchequer of around £8,000 per member. This creates a benefit of around £1.8m pa in transition and £3.6m pa from 2025 onwards.

Non-monetised benefits

An elected House of Lords will create a second chamber that has democratic legitimacy while maintaining an element of independent expertise through the appointment of 20% of its members by the independent House of Lords Appointment Commission (HOLAC).

By creating a House of Lords which is entirely part-time, the expertise of the entire chamber will be systematically refreshed as members continue to gain new and relevant expertise through their outside activities and interests. By constantly expanding the skills base of its members the House of Lords will become more effective at revising legislation. This would also help preserve the primacy of the House of Commons by ensuring that constituency MPs were the only full-time professional politicians in the UK Parliament and that the Lords maintained its role as a 'revising' chamber, thus perpetuating the efficiency of the current parliamentary system.

Option 2: Reform the House of Lords to have 300 full-time members with 80% elected and 20% appointed.

As with option 1, a fully reformed House of Lords would be phased in over the course of three elections in 2015, 2020 and 2025.

Table 1.2 – Number of members of each type in transition to a fully reformed House of Lords under option 2

	2015	2020	2025
Full time elected	80	160	240
Full time appointed	20	40	60
Transitional	506	253	0
Lords Spiritual	21	16	12
Total	627	469	312

Monetised costs and benefits

The net monetised cost of option 2 is slightly lower than option 1 largely because this option employs fewer full time equivalent members of the reformed House of Lords. This is because we assume that part-time members will participate 75% of the time which is equivalent to 338 (75% x 450) full time equivalent members.

Option 2 is expected to increase the average annual cost of the House of Lords by an average of £5.9m pa in transition (2015-2025) and £8.2m pa in the 2025-2030 Parliament. Costs post transition in 2025 are expected to remain constant in real terms but the net costs will fall by approximately £0.4m pa thereafter because, in the counterfactual scenario where the House of Lords remains unreformed, there would be increasing cost pressures as more members are appointed to the chamber.

Elections to the House of Lords will also cost an additional £85.7m (2012/13 price terms) in 2015 and every five years thereafter. This includes both electoral administration and also the cost of candidate mailings at public expense. This will remain the same in all options and it is further assumed that the Electoral Commission would launch a publicity campaign in 2015 to raise awareness of the election, as they are currently doing for the Police and Crime Commissioner elections, at a cost of £3.8m.

These monetised costs are primarily driven by three cost/savings drivers:

- 1) Newly elected and appointed members will draw a new annual salary and will be separately allocated money for staff and expenses incurred in their Parliamentary duties by the Independent Parliamentary Standards Authority (IPSA). These new salary, pension and expenses are expected to cost an average of £19.0m pa in transition and £37.9m in the 2025-30 Parliament. Note that in contrast to part-time members of the House of Lords they are assumed to receive a pension for service as the House of Lords would be their sole source of pensionable income;
- 2) Members of the current House of Lords who are claiming the existing £300 daily allowance + travel and subsistence expenses will leave the House of Lords incrementally, saving an average of £11.4m pa in transition and £27.1m pa in the 2025-30 Parliament (after netting off the cost of those members of the House of Lords who will remain during the transitional period); and
- 3) Every five years from 2015 onwards the Government will expand the polling at the general election to facilitate the election of one third of the elected members of the House of Lords. This will cost £85.7m per election.

Detailed cost and savings breakdown:

Superannuation costs of new members: The new members are assumed to draw a salary of around £43,950 pa and the government will also pay National Insurance (at an overall rate of 12% for this option) and a pension contribution assumed to be 28.7% (the same employer pension contribution as members of the Commons). This superannuation costs £9.2m pa in transition (2015-2025) and £18.5m thereafter

Expenses costs (including staffing costs): New members of the reformed House of Lords are also expected to be granted an staffing allowance by IPSA totalling £5.1m pa on average in transition and £10.3m pa in the 2025-30 Parliament (in the central estimate of one member of staff per new member of the reformed house). The new members of the reformed House of Lords are also anticipated to receive further expenses of £4.6m pa in transition and £9.2m in 2025.

Election costs: By combining the polls with general elections the Government will save money by utilising all general election polling stations for House of Lords elections. As a result, the elections to the House of Lords are expected to add only £42.9m per election to the costs of electoral administration. It is also assumed that candidate mailings will cost a further £42.8m at each election. It is further assumed that the Electoral Commission will spend a further one-off £3.8m publicising the first election in 2015 as they are expecting to do for the Police and Crime Commissioner elections.

Allowance savings: The existing members of the House of Lords claim allowances of £150 or £300 per sitting day, and claims would be expected to increase in an unreformed House as new members of the House of Lords are appointed. Members of the current House of Lords further each claim £29 per day attended in travel expenses. On the basis that this continued at the present rate, transitional members of the reformed House of Lords would be expected to cost £12.7m pa on average 2015-2025 (and nothing thereafter as there would be no transitional members). To derive the total saving in allowances, it is necessary to deduct this figure from what the cost of allowances would be if the House remained unreformed, which in the transitional period would be £24.1m pa on average. Doing so produces savings of £11.4m pa on average in the transitional period. In the 2025-2030 Parliament the cost of an unreformed House would be £27.1m pa on average and there are no deductions to be made, so the saving is £27.1m.

Tax savings: the new members of the reformed House of Lords will be brought into the normal PAYE tax system creating a contribution to the Exchequer of around £11,200 per member. This creates a benefit of around £1.7m pa in transition and £3.4m from 2025 onwards.

Non-monetised costs

This option would create 300 full-time professional politicians and thus the House of Lords may lose some of the outside expertise associated with its current *part-time* membership.

The Joint Committee on the draft House of Lords bill identified a risk that, with only 300 members, the House of Lords may have insufficient members to adequately fulfil its functions; namely scrutinising legislation, conducting inquiries and holding Government to account.

Non-monetised benefits

A house of 300 members would ease current capacity concerns in the Palace of Westminster – the average daily attendance of the present House over the last four sessions has been 404, with the last session averaging 475.

Option 3: Establish a second chamber based which provides for an 80% elected and 20% appointed part-time House of Lords with 450 members, and alternate transitional arrangements, advocated by the Joint Committee on the draft House of Lords Reform Bill.

A fully reformed House of Lords under this option would be phased in over the course of three elections in 2015, 2020 and 2025, although at a different rate of transitional membership to options 1 and 2. Note that although this option is based on the numbers and composition recommended by the Joint Committee, all other assumptions are aligned with options 1 and 2 to ensure comparability (i.e. the position on pay, pensions and allowances for a part-time member of the reformed House of Lords are identical to option 1 and the treatment of full time members is identical to option 2).

Table 1.3 – Number of members of each type in transition to a fully reformed House of Lords under option 3 (as recommended by the Joint Committee on the draft House of Lords Reform Bill)

	2015	2020	2025
Elected	120	240	360
Appointed	30	60	90
Transitional	449	392	0
Lords Spiritual	21	16	12
Total	620	708	462

Note: The assumption on the attrition rate of transitional members (2.67% pa) between 2015 and 2020 is taken from the report of the Joint Committee on the draft House of Lords Reform Bill (page 79).

Monetised costs and benefits:

Option 3 is the most expensive option because it would create more full-time equivalent members of the reformed House of Lords than either option 1 or 2. Because transition would occur more slowly (on average) there would also be a greater cost of transitional members.

Option 3 will increase the annual expenditure of the House of Lords (i.e. excluding election costs) by an average of £14.7m pa in transition (2015-2025) and £23.8m pa in the 2025-30 Parliament. Costs post-transition in 2025 are expected to remain constant in real terms but the net costs will fall by approximately £0.4m pa thereafter because, in the counterfactual scenario where the House of Lords remains unreformed, there would be increasing cost pressures as more members were appointed to the chamber.

Elections to the House of Lords will also cost an additional £85.7m (2012/13 price terms) in 2015 and every five years thereafter. This includes both electoral administration and also the cost of candidate mailings at public expense. This will remain the same in all options and it is further assumed that the

Electoral Commission would launch a publicity campaign in 2015 to raise awareness of the election, as they are currently doing for the Police and Crime Commissioner elections, at a cost of £3.8m.

These monetised costs are primarily driven by three cost/savings drivers:

- 1) Full time members are assumed to draw an annual salary and a pension while part-time members will receive a daily participation rate and no pension as described in option 1. All members are expected to receive expenses incurred in their Parliamentary duties from the Independent Parliamentary Standards Authority (IPSA). These payments are calculated to be £27.1m pa on average in transition and £54.3m pa in 2025;
- 2) Members of the current House of Lords who are claiming the existing £300 daily allowance + travel and subsistence expenses will leave the House of Lords incrementally saving £10.0 m pa on average in transition and £27.1m in the 2025-30 Parliament; and
- 3) Every five years from 2015 onwards the Government will expand the polling at the general election to facilitate the election of one third of the elected members of the House of Lords. This will cost £85.7m per election.

Detailed cost and savings breakdown:

Superannuation costs of new members: The new full time members are assumed to draw a salary of around £43,950 pa and the Government will also pay National Insurance (at an overall rate of 12%). Full-time members are further assumed to draw a pension from IPSA conservatively assumed to be worth 28.7% of salary. Part-time members are assumed to be paid a £300 daily participation rate. This superannuation costs £12.7m pa in transition (2015-2025) and £25.5m in the 2025-30 Parliament.

Expenses costs (including staffing costs): All new members of the reformed House of Lords are also assumed to be granted a staffing allowance by IPSA totalling £7.7m pa in transition and £15.4m thereafter (in the central estimate of one member of staff per new member of the reformed House). They are also anticipated to receive further expenses of £6.7m pa in transition and £13.4m pa in the 2025-30 Parliament.

Election costs: By combining the polls with general elections the Government will save money by utilising all general election polling stations for House of Lords elections. As a result, the elections to the House of Lords are expected to add only £42.9m per election to the costs of electoral administration. It is also assumed that candidate mailings will cost a further £42.8m at each election. It is further assumed that the Electoral Commission will spend a further one-off £3.8m publicising the first election in 2015 as they are expecting to do for the Police and Crime Commissioner elections.

Allowance savings: The existing members of the House of Lords claim allowances of £150 or £300 per sitting day, and claims would be expected to increase in an unreformed House as new members of the House of Lords are appointed. Members of the current House of Lords further each claim £29 per day attended in travel expenses. On the basis that this continued at the present rate, transitional members of the reformed House of Lords would be expected to cost £14.1m pa on average 2015-2025 under this option (and nothing thereafter as there would be no transitional members). To derive the total saving in allowances, it is necessary to deduct this figure from what the cost of allowances would be if the House remained unreformed, which in the transitional period would be £24.1m pa on average. Doing so produces savings of £10.0m pa on average in the transitional period. In the 2025-2030 Parliament the cost of an unreformed House would be £27.1m pa on average and there are no deductions to be made, so the saving is £27.1m.

Tax savings: New members of the existing House of Lords will also be brought into the normal PAYE tax system creating a contribution to the Exchequer of around £8,000 per part-time member and £11,200 per full time member. This creates a benefit of around £2.4m pa in transition and £4.7m pa in the 2025-30 Parliament.

Non-monetised costs

The creation of an 80/20 full-time/part-time House would result in an imbalance between the participation levels of the elected full-time members and the appointed part-time members who are expected to vary their level of participation. This option carries the most risk of a "two-tier" House developing, which would not be conducive to a smooth running of the second chamber.

Non-monetised benefits

Unlike option 2, option 3 (by having a 20% appointed, part-time chamber) does allow for some members to maintain their professional expertise, thus creating a more informed House. By having 360 full-time members, as well as 90 part-time members, members would be applying more time to fulfilling the roles and functions of the House than would a chamber of just 300.

As average daily attendance over the last four sessions has been 404 members it is likely that this option would thus be likely to fulfil all the current functions of the House.

Conclusion

Overall we judge that option 1 strikes the best balance as the 100% part-time aspect promotes incremental change, negates risks of a perception of more 'professional politicians', helps secure the primacy of the Commons and allows the retention of up-to-date professional experience and expertise. Moreover, we judge that 450 members would be sufficient to fulfil the functions of the Lords as a revising chamber and the transition arrangements offer the most effective method of introducing reform, both in terms of achieving a mainly elected House more quickly and better managing the change.

Assumptions

Full-time members are assumed to earn £43,950. Part-time members are assumed to earn £300 per day, equivalent to £43,950 if they participate 100% of the time.

The low estimate assumes that the part-time members of the reformed House of Lords and transitional members have the same attendance record as the members of the existing House of Lords and attend 63% of sessions. The high estimate assumes that new members of the reformed House of Lords (and transitional members) will attend 88% of sessions, which is the current average amongst peers who attend more than 2/3 of sittings. The central estimate conservatively assumes that the attendance of the new members of the reformed House of Lords will be 75% (the midpoint of the high and low estimate).

All estimates assume that there will be no employer pension contribution made for part-time members of the reformed House of Lords but that a contribution will be made for all full-time members. All estimates assume that employers will make National Insurance contributions. For full-time members with a salary of £43,950, National Insurance contribution would be paid at an effective rate of 12% of salary. Part-time members by contrast are assumed to only pay National Insurance on the number of days worked for an annual full-time equivalent salary of £43,950. Thus in the central assumption of 75% participation, part-time members are assumed to attract employer National Insurance contribution on an income of $\text{£43,950} \times 75\% = \text{£33,100}$, at an effective employer National Insurance rate of 11%.

The Government calculated the tax benefit figure using 2012-13 tax thresholds.¹ Using the assumption of 75% participation the Government first estimated a gross salary of £33,100.² To calculate which tax band the new members of the reformed House of Lords fell into it is necessary to make an assumption about other employments, because income tax is calculated on the basis of gross income across all an individual's jobs. The higher the other source of income, the greater the tax rate on the new income source, and the greater the benefit for these purposes.

¹ <http://www.hmrc.gov.uk/paye/rates-thresholds.htm>

² At £300 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

To be conservative and consistent with other assumptions we have assumed that members of the House of Lords spend 0.25 full time equivalent in another employment, which we have assumed pays the national average wage rate.³ This gives an effective tax rate of 18% on the House of Lord's pay in the central scenario. (Source- <http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/ashe-results-2011/ashe-statistical-bulletin-2011.html> then uprated to 2012-13 prices <http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>)

For the low estimate part-time members are conservatively assumed not to have a second job and thus pay an effective income tax rate of 14% on their overall income (based on the HMRC tax thresholds for 2012-13; using the central scenario assumption of 75% participation). For the high estimate, however, the part-time members of the reformed House of Lords are expected to have a second job in which they earn £35,000 and therefore pay an effective tax rate of 40% on their House of Lords pay. Note this does not affect the level of costs which are based on gross salaries, and only impacts on the size of the benefit from this new tax scheme.

All calculations assume that there is no change to other House of Lords administration costs as a result of a smaller House of Lords.

Expenses assumptions:

Expenses are broadly assumed to be modelled on the IPSA's 4th Scheme for the House of Commons where relevant, but truncated where the role of the House of Lords will be different from the House of Commons. So, for example, expenses aimed at an explicit constituency function such as office expenditure are not assumed. Similarly the number of staff is reduced from those allowed for the House of Commons, to reflect both members' part-time role and the fact they will not need to staff a constituency office. Note that all part-time members of the House of Lords are assumed to be given the majority of expenses on a pro-rata basis only, so if a member of the reformed House of Lords participated 80% of the time he would be expected to be allocated an expenses allowance equal to twice that of a member participating 40% of the time.

High and central estimates assume that each member of the reformed House of Lords will have one full-time equivalent member of staff, and will thus be granted a staffing expenses allowance equivalent to a quarter of the present House of Commons. The low estimate assumes that new members of the new House of Lords will have 0.5 fte each and will thus be granted a staffing expenses allowances equivalent to 1/8 of the current House of Commons allowance. Thus for example a full-time member is assumed to have a staffing allowance no greater than a quarter of the MPs' staffing allowance of £144,000, i.e. £36,000 per annum. It is assumed that the new members of the House of Lords will claim 95% of this possible allowance. This is based on the proportion of the staffing allowance claimed by MPs in the first half of 2011.

All estimates assume that both part-time and full-time Members of the reformed House of Lords are entitled to claim £20,000 in accommodation allowance and a further £2,425, notionally for caring responsibilities. It is further assumed that they will claim 87% of this entitlement based on the proportion of the allowance claimed by MPs. Note that this allowance is assumed not to be based on attendance.

All estimates assume that members of the reformed House of Lords who live in London will be entitled to claim the London Area Living Payment of either £3,760 or £5,090 depending on their electoral district. It is assumed that members will claim 100% of this payment but that IPSA will award it on the basis of attendance (i.e. only half of this is received if the member participates on only half of sitting days)

All estimates assume that 12% of the elected members of the reformed House of Lords will be from London and are thus not entitled to claim accommodation allowances while 31.7% of appointed members will be from London.

³ 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 member of the reformed House worked at this job for 25% of their working week.

All estimates assume that new members of the House of Lords are not awarded any start up expenses and that exiting members of the House of Lords do not get any exit costs or severance. This is because members of the reformed House will have no constituency office to either set up or wind down.

All estimates assume that new members of the House of Lords claim the same per person as member of the House of Commons for all uncapped expenditure including travel and subsistence, disability and security assistance, staff training and all other budgets (but pro rata for the number of days attended). This is a conservative cost assumption because it is expected that IPSA would not necessarily award all of these expenses to the members of the reformed House of Lords.

All estimates assume that transitional members of the reformed House of Lords (and members of the unreformed House of Lords in Option 0) claim £29.70 per day on average for travel in 2012/13 price terms (2011 average travel expenditure uprated by the GDP deflator).

Assumptions on the numbers of transitional members under each option are those set out in the Government's 2011 White Paper and used by the Joint Committee. It was not possible to model the exact number of transitional members ahead of the introduction of the Bill, as the base line from which the number of transitional members will be calculated is not fixed until the day the Bill is introduced. It is likely to be higher, but the Government has, conservatively, not modelled for attrition amongst transitional members in Options 1 or 2, which would reduce costs. The number of transitional members only affects the costs in the transitional period; it does not affect the final annual cost of the House of Lords once the reform process has been completed, as there are no transitional members at that point.

All estimates assume that there will be no further costs for poll card costs (as they will already be in place for the House of Commons election) but that there will be a 100% increase in ballot papers, postal voting costs and 'core' count cost and poll clerk training and central government LRO fees.

Election costs assume that presiding officers, poll clerks and LRO and supervising officers who are not already overseeing two elections will be awarded an increase of 20% in line with election guidance. It is assumed that the additional count costs are linked to the number of ballots that need to be counted for a second time. This is highly uncertain, however, 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. 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.

All estimates assume that all costs rise in line with inflation and are thus constant in 2012/13 prices.