

Stuart Wilks-Heeg and Stephen Crone

Funding Political Parties in Great Britain:

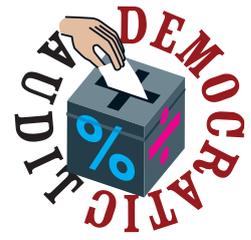
a Pathway to
Reform



This report was produced by Democratic Audit, an independent research organisation based at the University of Liverpool. It was commissioned by the Joseph Rowntree Reform Trust Ltd, which has a long-standing interest in party funding reform.

About Democratic Audit

Democratic Audit is an independent research organisation that carries out research into the quality of democracy in the UK. The Audit's methodology for auditing and assessing democracy has won



international acclaim. It is widely copied across the world, having been employed in at least 21 nations by governments, international bodies such as the UNDP and the Open Society Institute, universities and research institutes. Democratic Audit has published three major successive democratic audits of the UK, using the methodology, and many path-breaking reports on specific aspects of the UK's political life from a clearly defined democratic perspective.

Democratic Audit is a not-for-profit company, grant funded by the Joseph Rowntree Charitable Trust. Registered in England and Wales; company no. 6145962.



Contents

①	Introduction	5
②	Myths and realities in party funding	7
	Getting down to brass tacks	7
	An uneven playing field	7
	A big donor culture	8
	A varied funding base	8
	The myth of the golden age	9
	The professionalisation of politics	9
	A spending arms-race?	10
	The indirect role of state subsidies	11
	Corruption: more smoke than fire?	12
	Democracy costs money	12
	Public support for reform	12
③	The current system and its limitations	13
	The long road to PPERA	13
	The impact of PPERA	14
	Unforeseen consequences	15
	Strengthening the system	15
	More teeth for the watchdog	15
	The real elephant in the room	15
	Conclusion	16
④	Towards a resolution	17
	Identifying common ground	17
	Moving towards a reform package	18
	A changed political context	18
	Aiming for consensus	18
	Rethinking state subsidies	19
	A long-term perspective	20
	Respecting party diversity	21
	A viable reform package	21
⑤	Conclusion	22

Boxes, tables and figures

Box 1: State funding of UK political parties	11
Box 2: The current regulatory framework	13
Box 3: Funding controversies before and after PPERA	14
Box 4: Guiding principles for party funding reform	17
Box 5: Options for party funding reform	19
Box 6: International experience of party funding reform	20
Box 7: A medium-term strategic approach: a pathway to party funding reform	21
Table 1: Estimated expenditure of the three main parties during comparable parliamentary terms	10
Table 2: Notional impact of a £50,000 cap on donations received by the political parties during the 2010 General Election campaign	18
Figure 1: Sources of party income, 1 January 2005 – 31 December 2009	8
Figure 2: Main categories of party spending, 1 January 2005 – 31 December 2009	9
Figure 3: Party spending at UK general elections, 1945-2005	10

Acknowledgements

The authors wish to thank Justin Fisher, Ruth Fox, Matt Korris, Jacob Rowbottom and Stuart Weir for their valuable comments on earlier drafts of this text.

About the authors

Dr. Stuart Wilks-Heeg is Executive Director of Democratic Audit and Senior Lecturer in Social Policy at the University of Liverpool. He is the author of *Purity of Elections in the UK: Causes for Concern* (York: Joseph Rowntree Reform Trust, 2008).

Stephen Crone is a Research Associate with Democratic Audit. He holds a first class honours degree in Politics and History from the University of Liverpool.

Any queries about this report may be directed to Stuart Wilks-Heeg: swilks@liv.ac.uk



Introduction

A decade ago, landmark reforms introduced a new regulatory system for party funding and election spending in the UK. This framework, established by the Political Parties, Elections and Referendums Act (PPERA) 2000, arose from cross-party agreement about the need to address widespread public concern about party funding issues.

The 2000 Act was a radical departure from past practice, but was never likely to provide a full, long-term solution. From 2004-07, three separate reviews of party funding identified the need for further reform. The last of these under Sir Hayden Phillips (a former senior civil servant) failed for lack of cross-party agreement, leaving key concerns about the regulation of donations and party spending unresolved.

Party funding reform is back on the agenda. The coalition government's inaugural agreement pledges to 'limit donations and reform party funding in order to remove big money from politics'. The Committee on Standards in Public Life (CSPL), whose 1998 report formed the basis for the 2000 legislation, convened a day-long hearing on party funding in July 2010. Subsequently, the Committee announced that it is to carry out a full inquiry into the issues, reporting in mid-2011. On 9 September, the Deputy Prime Minister, Nick Clegg, announced that inter-party talks would take place following the inquiry to agree reforms.

This pamphlet aims to summarise the current debate and offer a way forward. It begins by exploring myths and realities in party funding and election spending, before considering the impact and limitations of the current legal framework. The final section outlines a possible route map to reforms which meet the essential test of being both principled and pragmatic.



Myths and realities in party funding

Any evaluation of options for party funding reforms must be informed by an understanding of past and current trends. While there are gaps in the evidence base, existing research does much either to dispel or support a number of conventional wisdoms about party funding. Separating myths from realities is a crucial first step.¹

Getting down to brass tacks

It is widely recognised that representative democracy could not function without political parties, which provide a pivotal link between free civil society and effective, accountable government. Parties translate the competing demands of civil society into policy proposals which can be put to the electorate. In turn, parties maximise the scope for popular elections to produce both stable governments and effective opposition. To undertake these roles, political parties require members, activists and leaders. They also need money. The annual running costs of Labour and the Conservatives run to tens of millions of pounds. The combined turnover of the three main parties from 2005-09 was £349 million.²

An uneven playing field

While the resourcing of political parties is fundamental to them fulfilling their democratic functions, party politics takes place on a notoriously uneven playing field. As figure 1 shows, the income of both the Conservatives (£163m) and Labour (£154m) from 2005-09 exceeded that of the Liberal Democrats (£32m) by a factor of five.



Representative democracy could not function without political parties, which provide a pivotal link between free civil society and effective, accountable government



¹ While we have borrowed the 'myths and realities' heading from the sub-title of a recent report by Michael Pinto-Duschinsky, we do not concur with all of his interpretations. See M. Pinto-Duschinsky, *Paying for the Party: myths and realities in British political finance* (London: Policy Exchange, 2008).

² The focus of this pamphlet is on the funding of the three main UK parties and the costs of Westminster elections. It is important to note, however, that patterns of party funding and spending will differ in the constituent parts of the UK, not least because of the growing significance of devolved elections.



Large individual donations have accounted for between 25 and 60 per cent of the two largest parties' income over the last decade



Smaller parties, such as the Greens, must suffice with around 1/60th of the resources available to either of the two main parties.

A big donor culture

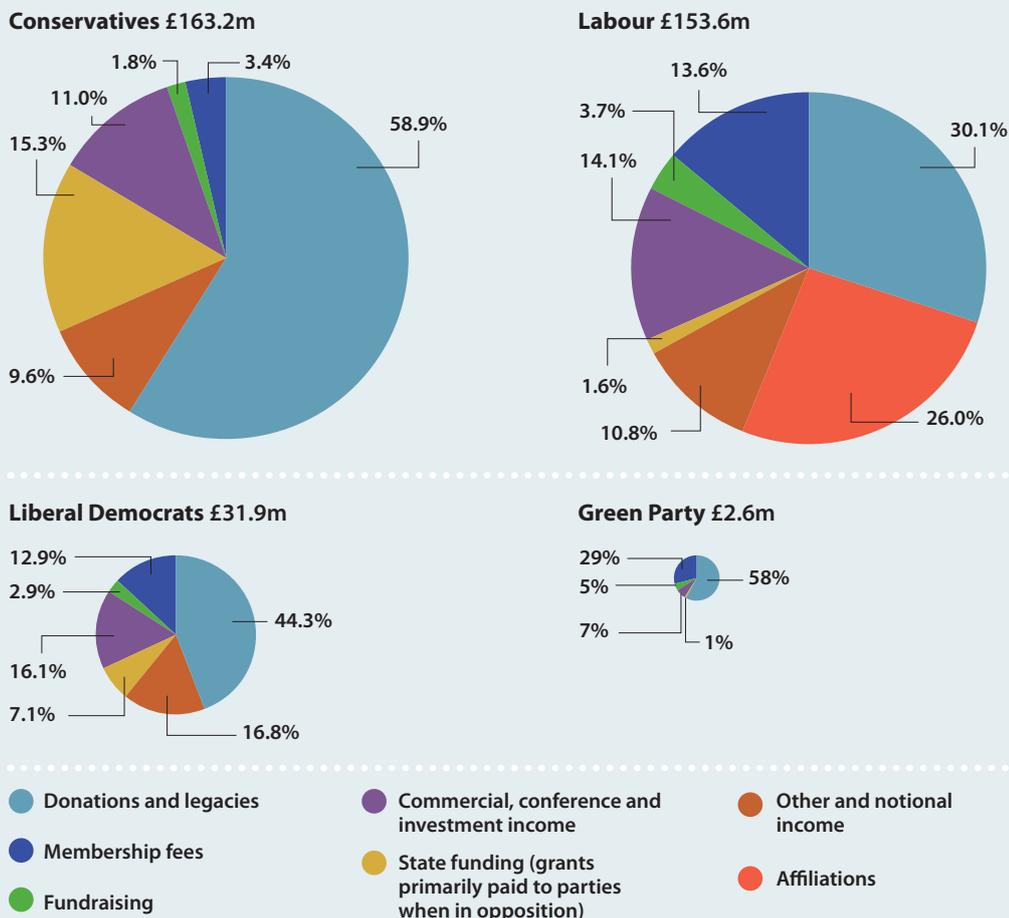
The major cause of these inequalities in party income relates to whether they can attract the large donations on which British political parties have long depended. Labour has traditionally relied on the trade unions, and the Conservatives on corporate funding. Since the early 1990s, however, large individual donations have grown in importance, accounting for between 25 and 60 per cent of the two larger parties' income over the last decade. This dependence on the patronage of wealthy individuals is particularly obvious during general election campaigns and is at the root of most concerns about 'sleaze'.

A varied funding base

While all the parties currently receive more income from donations than from any other source, there is also diversity in their respective funding bases (see figure 1). From 2005-09, donations accounted for 59 per cent of Conservative Party, 44 per cent of Liberal Democrat and 30 per cent of Labour Party income. Uniquely among the political parties, Labour derived a quarter of its income from fees paid by members of affiliated trade unions and socialist societies.³ For the Conservatives, government grants (made to them as an opposition party) were the second most important source of income in this period (15 per cent of the total), but these held lesser significance for the Liberal

³ There are 15 trade unions affiliated to the Labour Party (e.g. UNISON, ASLEF) and 15 affiliated socialist societies (e.g. the Fabians, the Socialist Health Association).

Figure 1: Sources of party income January 2005 to 31 December 2009



Democrats (7 per cent) and Labour (2 per cent). Conversely, both Labour and the Liberal Democrats received around 13 per cent of their income from membership fees, compared to just 3 per cent in the case of the Conservatives.

The myth of the golden age

It is often assumed that the reliance on big donations has arisen from a steep decline in party membership. It is true that parties once had far more members than they do now; one in 11 electors were party members in the 1950s, now the figure is closer to one in 100. But even at the zenith of party membership, ordinary members were never the principal source of income for parties – especially during election campaigns. UK political parties are not unique in this regard. Even in other European countries with higher membership

levels, most party income comes from other sources – in their case, generally the state.

The professionalisation of politics

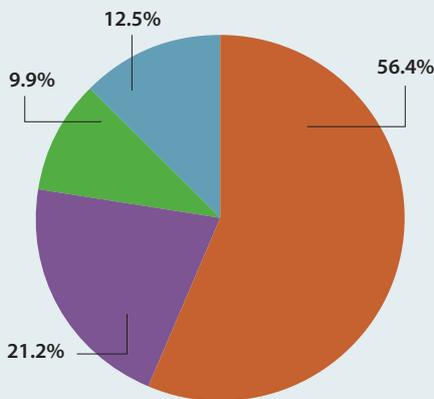
Party activism has declined in tandem with party membership, pushing many local party units close to extinction. At the same time, traditional labour-intensive, activist campaigns have increasingly been replaced by more capital-intensive, professionalised campaigns.⁴ This simultaneous process of downsizing and upskilling has been closely associated with the centralisation of party operations for fund-raising, election planning and media relations, as the parties have endeavoured to keep pace with the media and communications revolution. A key consequence of this trend

“A key consequence of the trend towards costly ‘permanent election campaigns’, is that the parties’ operational expenditures have risen threefold since the late 1970s”

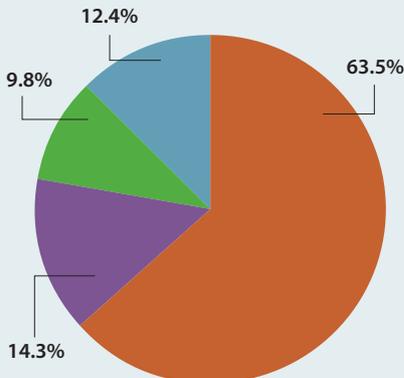
⁴ G. Stoker, *Why Politics Matters: Making Democracy Work*, (London: Palgrave Macmillan, 2006).

Figure 2: **Main categories of party spending**
1 January 2005 to 31 December 2009

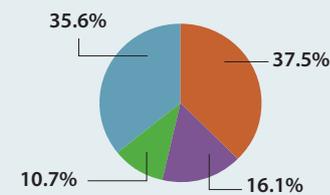
Conservatives £167.2m



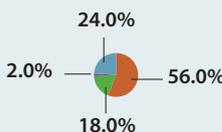
Labour £151.5m



Liberal Democrats £31.9m



Green Party £2.4m

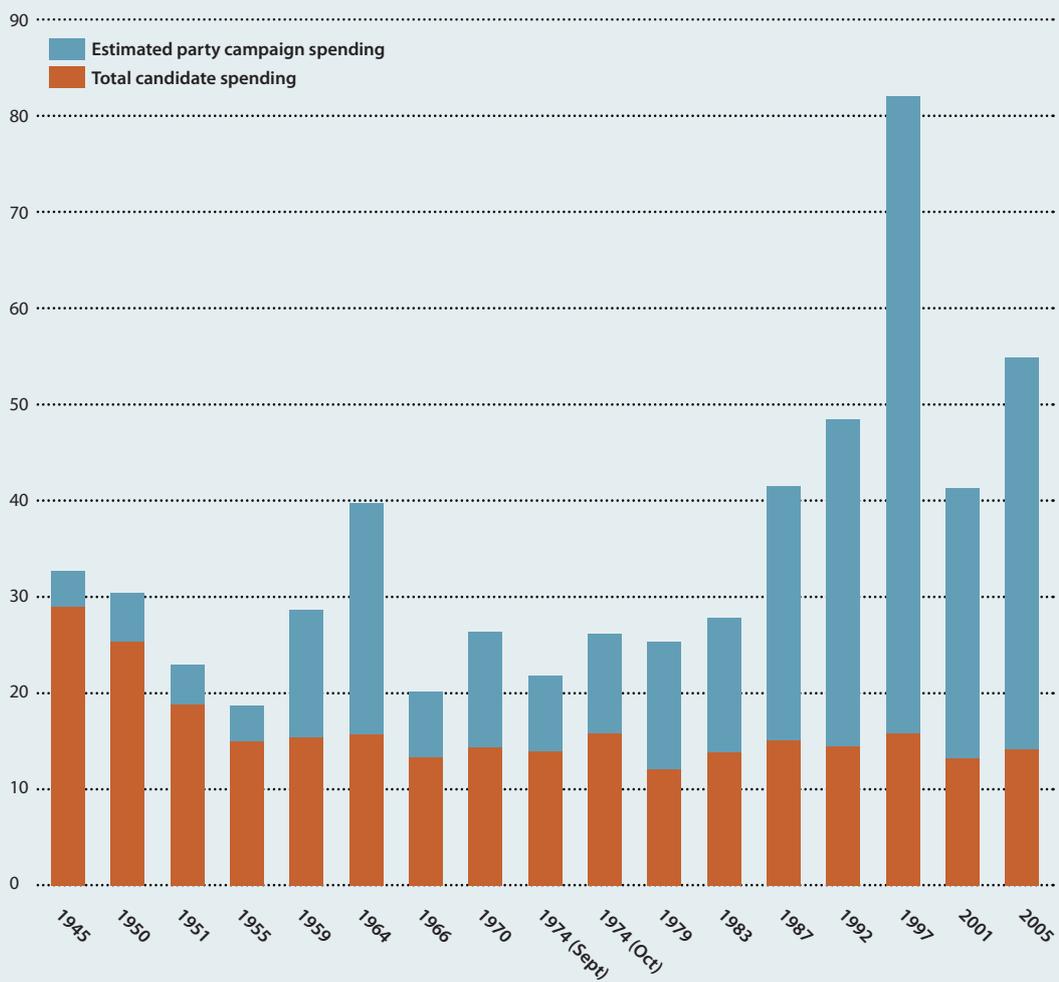


- Staffing, management and administration
- Campaign expenditure
- Conferences, commercial and fundraising
- All other expenditure

Notes: The data in figures 1 and 2 is derived from the parties’ consolidated income and expenditure accounts, which exclude details of loans taken out in this period. The charts refer to central party operations only.
Source: National party accounts, 2005-09

Figure 3: **Party spending at UK General Elections, 1945-2005**

Expenditure, £ million, 2005 prices



Source: S. Wilks-Heeg (2008) *Purity of Elections in the UK: Causes for Concern* (York: Joseph Rowntree Reform Trust), p.54.

Notes: (i) For 2001 and 2005, candidate spending figures relate only to the campaign period (in previous years they relate to the full period between general elections); (ii) data for the 2010 General Election are not available at the time of writing; (iii) see original source for additional notes and caveats.

towards costly 'permanent election campaigns',⁵ is that the parties' operational expenditures have risen threefold since the late 1970s – see table 1. Today, over half of Conservative and Labour Party expenditure is consumed by general operational costs – see figure 2 – which exceeds campaign expenditure by a ratio of 5:1.

A spending arms race?

Many observers suggest this professionalisation of party politics developed hand-in-hand with an 'arms-race' in election spending, peaking at the 1997 general election. Others challenge the arms-race thesis, seeing 1997 as an exception, with spending falling sharply in 2001. Sceptics also

Table 1: **Estimated expenditure of the three main parties during comparable parliamentary terms (£s, 2007 prices)**

1960-64	£125 million
1975-79	£121 million
2005-09	£351 million

Sources: 1960-64 and 1975-79 calculated from data provided in M. Pinto-Duschinsky, *British Political Finance 1830-1980*, (London: American Enterprise Institute for Public Policy Research, 1981); 2005-09 calculated from data contained in party accounts submitted to the Electoral Commission.

Note: Each five-year period includes one General Election. All figures have been converted to 2007 prices using the Retail Price Index.

point out that spending, in real terms, was as high in the 1964 election as it was in 1987 or 2001.

Figure 3 demonstrates that spending at recent elections dwarfs that typical of earlier decades. Expenditure caps prompted reduced spending after 1997, but the five most expensive post-war elections have all been fought

⁵ R. Heffernan, 'Political Parties', in M. Flinders, A. Gamble, C. Hay and M. Kenny (eds), *The Oxford Handbook of British Politics*, (Oxford: Oxford University Press, 2009), pp.441-460.

since 1987, and the 2010 General Election is unlikely to depart from this pattern. At the same time, the centralisation of political parties has prompted the balance of campaign spending to shift from local candidates to the parties at national level.

Whether or not we describe these trends as an 'arms-race', they cannot be divorced from the general rise in the parties' operational spending. Furthermore, the direct cost of election campaigns imposes considerable short-term financial pressures on the parties, with parties frequently encountering serious financial

difficulties immediately after general elections.

The indirect role of state subsidies

Unlike their counterparts in most of Europe, UK political parties do not receive direct state funding to resource election campaigns. However, a variety of indirect subsidies 'in kind' are available both to political parties and election candidates. All the major parties also receive government grants, specifically during periods in which they are in opposition in Parliament and for policy development (see Box 1). The notional monetary value of the



Allegations of impropriety are common and receive widespread media coverage ... the perception of corruption has a corrosive impact on public trust in politics



Box 1: State funding of UK political parties

Direct government grants to the three main UK parties represented between 2 and 15 per cent of their total income from 2005-09. In other Western European countries, the figures can be as high as 50-80 per cent. State funding in the UK is highly specific and plays a significant role in supporting the parties' parliamentary, policy development and campaigning roles. The key forms of state funding are:

1. 'Short' money: introduced in 1975 to assist parties with the costs of being in opposition in the House of Commons.¹ Short money allocated in 2009-10 amounted to £7 million, of which £4.8 million (69 per cent) went to the Conservatives and £1.7 million (24 per cent) to the Liberal Democrats.
2. 'Cranborne money': introduced in 1996 to assist parties with the costs of being in opposition in the House of Lords.² The Cranborne allocations for 2009-10 amounted to £727,000, of which £475,000 (65 per cent) was paid to the Conservatives and £237,000 (33 per cent) to the Liberal Democrats.
3. Policy Development Grants: created by PPERA 2000 to assist the formulation of party policy. The scheme provides for £2

million in grants to be allocated annually by The Electoral Commission on the basis of an agreed formula. In 2008-09, 69 per cent of this state aid went to the three main parties, which received £457,000 each.³

4. Assistance 'in kind': including free delivery of election communications by the Royal Mail, free use of public buildings during campaigns, and free party political broadcasts.⁴ The 'value' of these indirect subsidies exceeds £140 million over a parliamentary cycle.⁵
5. In most cases, eligibility for funding depends on the parties' representation in the House of Commons: i.e., it is measured by seats, rather than votes. Given the bias of the disproportional electoral system, this arrangement heavily favours the big parties.
6. A variety of public subsidies are also available to the parties represented in the devolved Parliaments/assemblies, local authorities and the European Parliament.

³ The remaining £628,000 was shared more or less equally between the Scottish National Party, Plaid Cymru, the Social Democratic and Labour Party and the Democratic Unionist Party. While the grants are intended to support parties in their development of manifestos at all types of election, only parties with at least two MPs are eligible to receive them. This condition can impact significantly on smaller parties, particularly in Northern Ireland.

⁴ Free postage is available to candidates at general, devolved and European elections. The value of this subsidy at a General Election alone amounts to around £20 million – see Pinto-Duschinsky, *Paying for the Party*, p.29. In the mid-2000s, the value of air time provided by broadcasters for party political broadcasts was estimated at £68 million during an election year and £16 million in non-election years – see H. Phillips, *The Review of the Funding of Political Parties: An Interim Assessment*, October 2006.

⁵ Pinto-Duschinsky, *Paying for the Party*, p.29.

¹ The scheme is named after Edward Short, Leader of the House of Commons during the Wilson government from 1974-76. Short's proposals provided for the employment of parliamentary assistants for opposition front-bench spokespeople, and were inspired by grants provided for such ends by the Joseph Rowntree Social Services Trust (part of the Joseph Rowntree Reform Trust) in the early 1970s. Currently, Short money also includes allocations for travel expenses and contributions to the office costs of the Leader of the Opposition.

² The scheme is named after Lord Cranborne, Leader of the House of Lords from 1994-97 and is similar to the Short scheme in the House of Commons.



During 2005-09, the combined total of £351 million spent by the three main parties, financed principally from non-state sources, represented about 13 per cent of the total spent on the UK democratic process



indirect subsidies, introduced during a period when election campaigns were very different in character,⁶ exceeds the value of government grants by a ratio of about 10:1.

Corruption: more smoke than fire?

By international standards, British politics is acknowledged to be relatively free from serious corruption, and criminal proceedings associated with party funding are rare. However, allegations of impropriety are common and receive widespread media coverage. Media investigations have shown that some large donations to political parties tend to coincide with nominations for peerages or specific policy decisions. The resulting perception of corruption undoubtedly has a corrosive impact on public trust in politics.

Democracy costs money

If political parties risk provoking media backlash from their fund-raising efforts, they largely do so because of their need for resources to finance their role in our political system.⁷ Political parties are one element of a wider democratic infrastructure, the total cost of which amounts to at least £2.6 billion over a parliamentary cycle and is overwhelmingly funded by the state.⁸ Among other things, this includes the costs of registering voters, administering elections, the salaries and allowances paid to all elected representatives and spending by the political parties. During 2005-09, the

combined total of £351 million spent by the three main parties, financed principally from non-state sources, represented about 13 per cent of the total spent on the UK democratic process.⁹

Public support for reform

While public understanding of the intricacies of party funding is modest, opinion polls suggest the issue ranks among the more pressing constitutional concerns. The Hansard Society recently found that 26 per cent of voters claimed to have discussed party funding with family or friends – ranking above issues such as the electoral system (19 per cent) and recall of MPs (5 per cent).¹⁰ The Joseph Rowntree Reform Trust's (JRRT) State of the Nation surveys consistently reveal clear majorities in favour of reform, including strong support for measures such as donation caps.¹¹ Importantly, the broad findings of such polls have also been replicated by in-depth deliberative research undertaken by the Electoral Commission.¹² The public recognise that party funding is a problem and, if engaged in a deliberative process, is likely to be realistic about possible solutions.

6 For instance, party political broadcasts were first made on BBC radio prior to the 1924 general election. Allocations of broadcasting time became formalised after 1947, including provisions for television broadcasts from 1951 onwards.

7 Ironically, the parties' need for highly professionalized media-response operations is also a key driver of their need for significant donation income.

8 We base this figure on Pinto-Duschinsky's estimate that around £1.75 billion is spent on grants to political parties, indirect subsidies to election candidates and various allowances to elected representatives, over a four-year electoral cycle. See M. Pinto-Duschinsky, *Paying for the Party*, p.29. We have scaled up Pinto-Duschinsky's estimate to a five-year cycle and added the expenditure of: a) The Electoral Commission; b) all local authority electoral registration officers and returning officers; c) the Electoral Office for Northern Ireland (EONI); and d) the three main political parties. We do not seek to include expenditure by media organisations, think tanks and polling agencies.

9 We disagree with Pinto-Duschinsky's view that allowances paid to elected representatives should be defined as a form of state funding for political parties.

10 Hansard Society, *Audit of Political Engagement 7*, (London: Hansard Society, 2010), p.80.

11 JRRT State of the Nation polls, 1991-2010. See: <http://www.jrрт.org.uk>.

12 The Electoral Commission, *Public Perspectives: The future of party funding in the UK* (London: The Electoral Commission/Ipsos MORI 2006).



The current system and its limitations

By the mid-1990s, media allegations of 'sleaze' in British politics had become commonplace. Political and public disquiet about sleaze, allied with record spending at the 1997 general election, created a powerful impetus for reform. Subsequently, the recommendations of the 1998 (Neill) Committee on Standards in Public Life report on party funding were swiftly translated into legislation. The Political Parties, Elections and Referendums Act (PPERA) 2000 established the current regulatory framework (see Box 2).

The long road to PPERA

The 2000 Act was long overdue. Although there had been no shortage of attempts to reform party finance in the UK,¹³ the consistent failure to secure cross-party agreement had left the

¹³ For example, the Electoral Conference of 1929, chaired by Lord Ullswater, and the Houghton Committee of 1976.

Box 2: The current regulatory framework

The current regulatory regime was established by PPERA 2000.¹ Additional regulations have since been added by the Electoral Administration Act 2006 and the Political Parties and Elections Act 2009. The main elements are:

Disclosure requirements

Donations and loans to national parties in excess of £7,500 must be disclosed, as must donations and loans to local party branches or associations in excess of £1,500.² Donations and loans must be disclosed to the Electoral Commission every quarter – and every week during a general election campaign. Parties are also required to submit an annual statement of accounts to the Electoral Commission.

¹ Political parties in Northern Ireland were initially exempted from the controls on donations introduced by PPERA 2000. While most of the Act's regulations were extended to Northern Ireland after 2006, donations to Northern Irish parties are not disclosed publicly.

² The permissibility and disclosure limits were increased in 2009.

Restrictions on sources of income

There are no restrictions on how much a party may raise, but only permissible (UK-registered) donors are allowed to donate more than £500. 'Foreign' and anonymous donations are specifically prohibited.

Spending limits

PPERA capped national expenditure in general election campaigns (currently around £20 million for each of the major parties). Limits on candidate spending, first introduced in 1883, are around £10,000-12,000 during the campaign period. Since 2009, pre-candidacy spending limits (maximum £30,000 approx.) also apply unless Parliament is dissolved before the 56th month.

The Electoral Commission

The Commission exists to ensure compliance with the PPERA regulations, to provide guidance to the parties, and to perform a wide variety of other administrative, investigative and advisory functions.

“The 2000 Act was long overdue ... consistent failure to secure cross-party agreement had left the legal framework virtually unchanged since 1883”



PPERA has brought a welcome accountability to the process of party funding (...) but it has not brought funding controversies to an end



legal framework virtually unchanged since 1883 when candidate spending limits were first introduced.¹⁴ PPERA 2000 was rooted in the efforts of the independent Neill Committee to secure cross-party agreement.

The impact of PPERA

The 2000 Act represented a step change in party funding regulation; the UK's political parties 'moved from being among the least to being among the most highly regulated political parties in the world'.¹⁵ Compliance with the legislation has generally been high, and the effect of PPERA in rendering party funding arrangements more transparent has brought a welcome accountability to the process of party-funding.

Inevitably, the Act did not achieve all that its authors intended. While more is now known about how parties are funded, disclosure requirements have not reduced their reliance on wealthy

14 Ministry of Justice, *Party finance and expenditure in the United Kingdom: The Government's proposals*, (London: Ministry of Justice, 2008), p.10.

15 K.D. Ewing and N.S. Ghaleigh, 'The cost of giving and receiving: donations to political parties in the United Kingdom', *Election Law Journal*, 6, 1, 2007, p. 56.

donors.¹⁶ Similarly, disclosure does not guarantee 'cleaner' funding of political parties (see Box 3).¹⁷ The evidence of the Act's impact on election spending also needs careful interpretation.

Adjusting for inflation, the combined election expenditure of the three main parties halved from 1997-2001. However, the precarious state of the parties' finances after 1997, rather than the spending cap, was the main driver of reduced spending. Spending grew again in 2005 – the second most expensive post-war election.

Party funding reform is rarely achieved in a single step; international experience suggests that regulation of party funding is usually achieved incrementally. A key outcome of PPERA is that it has provided a framework and the experience of operating within that framework has revealed where additional reforms are needed.

16 Disclosure rules may have discouraged some potential donors from making contributions to party funds, resulting in parties becoming more reliant on a smaller number of very wealthy donors.

17 The tendency for disclosure to generate funding scandals is unsurprising. Greater transparency invites greater scrutiny, with on-line registers of donations and spending providing journalists and researchers with a remarkable resource for identifying potential irregularities.

Box 3: Funding controversies before and after PPERA

The 2000 Act has not brought funding controversies to an end. The main difference the Act has made is to reveal a great deal more about the source of donations to political parties.

Before PPERA:

Before PPERA, it was exceptionally difficult to establish the sources of party income or the terms on which donations were accepted. In the 1980s and 1990s, controversy centred on claims that the Conservatives were raising significant sums from wealthy individuals and foreign businessmen, involving the trading of donations for honours. After 1997, Labour pledged to tackle 'sleaze', but quickly became blighted by the Ecclestone Affair (in which a £1 million donation to Labour from the former chairman and Chief Executive of Formula 1 allegedly led to a change in government policy). This event ultimately accelerated the arrival of PPERA.¹

1 The Ecclestone affair centred on accusations of a Labour policy 'U-turn' shortly after being elected in 1997, in which Formula 1 motor racing was to be exempted from a wider ban on tobacco advertising in sport.

After PPERA:

With party accounts exposed to greater scrutiny, the new regulatory regime gave rise to a series of party funding controversies. In 2002, the Labour Party suffered a series of media exposés of its funding; and in 2006, accusations surrounding 'Cash for Honours' scandal began. In 2009 and 2010 all three major parties came in for criticism: Michael Ashcroft's donations to the Conservatives were investigated by the Electoral Commission; the donations of Labour peer Lord Paul came under scrutiny; and the Liberal Democrats were chastised for accepting £2.4 million in donations from a company which did not appear to be trading in the UK.

This pattern is likely to continue while the parties continue to depend on large donors to fund their operations and election campaigns.

Unforeseen consequences

The Act inevitably contained unforeseen loopholes which parties and donors sought to exploit. Two key unintended consequences became apparent after 2000. First, the legislation did not specify the disclosure of loans. This omission was highlighted by revelations about substantial loans taken out during the 2005 general election campaign, and in subsequent accusations of 'loans for peerages'. Second, the 2000 Act inadvertently created the opportunity for long periods of unregulated spending by general election candidates at constituency level¹⁸ – a loophole exploited with particular effect by Michael Ashcroft's campaign to assist Conservative candidates in marginal seats.¹⁹

Strengthening the system

In the light of public concern about undisclosed loans, the Blair government moved swiftly to add loans to the disclosure requirements.²⁰ The second issue was more complex and the decision to tackle it more controversial. Ashcroft's policy of targeting donations to local parties – enabling candidates to conduct 'long campaigns' – became the subject of intensely partisan debate. An attempt to address this issue was made via the Political Parties and Elections Act 2009, which introduced supplementary 'pre-candidacy' spending limits in instances where Parliament is dissolved after 56 months or more.²¹ However, pre-

18 PPERA 2000 specified for the first time that candidate spending limits, originally established in 1883, were triggered by the dissolution of Parliament following an election being called. The previous assumption, that the limits applied from the point the candidate started campaigning, had proved unenforceable. But the PPERA definition made it possible for adopted candidates to spend unrestricted amounts outside the campaign period itself.

19 See M. Ashcroft, *Dirty Politics, Dirty Times: My fight with Wapping and New Labour*, (MAA Publishing, 2005).

20 The change was introduced via a late amendment to the Electoral Administration Bill during 2006.

21 The pre-candidacy expenditure limit for each constituency is based on a basic sum of £25,000 plus an allowance of 5p (in borough constituencies) or 7p (in county constituencies) for each entry on the electoral register. The full limit, typically £28-31,000 in 2010, is tapered depending on when Parliament is dissolved. Thus, 60 per cent of the total is available if dissolution in the 56th month, 70 per cent in the 57th month and so on, rising to 100 per cent if Parliament is dissolved in the 60th month. The limits do not apply at all if

candidacy limits have been criticised for imposing complex new rules which are likely to be ineffectual in relation to the loophole they were designed to close.²²

More teeth for the watchdog

The capacity of the Electoral Commission to enforce compliance and penalise non-compliance represents the other principal concern with the current arrangements. In 2006 the Constitutional Affairs Select Committee recommended bolstering the role of the Commission, as did the Phillips review in 2007. Provisions for some of these recommendations, particularly those relating to the Commission's scope to investigate breaches of the law and impose civil sanctions, were introduced through the Political Parties and Elections Act 2009.²³ Further additions to the regulatory framework will almost certainly require that the Commission is granted additional powers to investigate and to enforce compliance.

The real elephant in the room

Given the parties' need for resources, Phillips argued that any proposal to restrict donations could not ignore the question of how this lost income should be replaced. He concluded that additional state funding was inevitable. While all three main parties initially endorsed this view, the apparent consensus on this central issue was lost in the search for an overall settlement. Disagreements, often highly specific, about how trade union affiliation fees to the Labour Party should be handled scuppered the reform package.

The operation of the trade union levy

Parliament is dissolved before the 56th month.

22 Pre-candidacy limits do not re-establish the pre-2000 legal assumption that candidate spending limits were triggered by the actions of a candidate and therefore applied across a full electoral cycle. Instead, they introduce an additional regulated period (the 'long campaign') of up to 5 months, dependent on when Parliament is dissolved. The Fixed-term Parliaments Bill, which received its second reading in the House of Commons in September 2010, would offer grounds for removing the distinction between the 'long' and 'short' campaign.

23 The Act provides for these additional powers to be granted to the Commission via statutory instrument, and it is expected that they will be introduced via the Political Parties Elections and Referendums (Civil Sanctions) Order in December 2010.



The objective of having competent, effective political parties, untainted by funding scandals, cannot be met by simply closing off, avenue by avenue, the sources of funding and harking back to a mythical past of membership support



paid to Labour does raise important issues of principle – not least, the extent to which trade union members are aware of the levy and existing 'opt-out' entitlement. Yet such issues remain secondary to the need to address the central conundrum about party funding which Phillips identified and which was left unresolved in December 2007: if funding sources are to be restricted, how are the parties to fund their role in the democratic process in the twenty first century?

Conclusion

The enactment of PPERA 2000, with cross-party support, represented a significant achievement, particularly in the light of previous failures to achieve reform. However, disclosure requirements, spending limits and an electoral watchdog represent only a partial solution. As the Phillips review recognised, there remains an urgent need to address the issue of how the parties are expected to fund their campaigns and operations. The objective of having competent, effective political parties, untainted by funding scandals, cannot be met by simply closing off, avenue by avenue, the sources of funding and harking back to a mythical past of membership support. The final section of this pamphlet seeks to pick up where Phillips left off – by identifying a reform package which meets the requirements of both principle and pragmatism.



Towards a resolution

Political parties have effectively become a broken link in the chain which connects voters to their representatives. Reform of party funding is needed to help repair this link, as Phillips and others have recognised. But reform will only succeed if it is driven by clear principles, and arrived at through consensual, inclusive and pragmatic discussions (see Box 4).

Identifying common ground

The Phillips review demonstrated cross-party agreement on a number of specific reform proposals, most of which remains apparent (see Box 5 overleaf). Consensus effectively exists on the case for reduced expenditure caps during elections. Likewise, there is broad consensus on the principle of capping donations, with the coalition agreement between the Conservatives and the Liberal Democrats making a clear commitment to restricting donations.²⁴ Cross-party support for both a reduced cap on general election spending and a cap on

“Reform will only succeed if it is driven by clear principles, and arrived at through consensual, inclusive and pragmatic discussions”

²⁴ Labour's stance towards donation caps is sceptical, pointing to a danger that it will result in various forms of evasion, but not oppositional.

Box 4: Guiding principles for party funding reform

A remarkably consistent set of principles for party funding reform has been advocated in past reviews and academic research. The broad consensus is that reform should seek to:

- 1. Establish fairness:** by promoting equality of opportunity within the party system, and respecting human rights obligations (e.g., freedoms of expression and association).
- 2. Respect the diversity of parties:** taking into account the histories, traditions and cultures of the parties, their respective constitutional arrangements and support bases.
- 3. Promote public engagement in politics:** by deriving party funds from as broad a base as possible, with resources directed to reversing the

decline in public engagement with party politics, particularly at the local level.

- 4. Restore public confidence:** by minimising the potential, and the perception, that political influence, electoral success or honours can be bought.
- 5. Achieve sustainability:** by effectively resourcing parties to undertake the roles demanded of them; by reducing the pressures on parties to compete to spend more; and by enabling parties to adjust financially when moving between government and opposition.

Sources: Derived from: K.D. Ewing, *The Cost of Democracy*, (London: Hart, 2007); Electoral Commission, *The Funding of Political Parties: report and recommendations* (London: The Electoral Commission, 2004); H. Phillips, *Strengthening Democracy: Fair and Sustainable Funding of Political Parties*, (London: HMSO, 2007).



A reduced election expenditure cap would make little difference to the parties' need to generate income to cover their normal running costs



donations was reiterated at the one-day public hearing held by the Committee on Standards in Public Life (CSPL) on 8 July 2010.²⁵

Moving towards a reform package

Evidence of cross-party consensus on donations and expenditure is crucial. However, it is not enough. Donation and expenditure caps alone would have two key shortcomings when measured against our guiding principles. First, they would do nothing directly to promote public engagement in politics. At the same time, a donation cap of £50,000 would be certain to reduce the income of all three main parties quite dramatically – as table 2 illustrates. The likely implications of such a loss of income would be that the parties would have less scope to engage with the public. These consequences were implicitly recognised in Phillips' proposals for some state funding to be based on a matched funding scheme to encourage the engagement of the electorate.

Second, imposing caps in isolation would fail to meet the guiding principle of achieving sustainability. A reduced election expenditure cap alone would be insufficient as compensation for the income the parties would lose as a result of a donation cap – not least because there is scant evidence that the parties could easily broaden their funding base without some sort of structural reform. As noted in section 1, less than 15 per cent of spending by

²⁵ While the three main parties have indicated that they would be willing to countenance a £50,000 donation cap, they disagree over whether this would be enough to reduce the scope for donations to 'buy' influence. At the CSPL hearing, Jack Straw also emphasised the risk of wealthy individuals, families and organisations being able to evade the cap, possibly through 'front organisations' to sub-divide large donations and channel them to political parties.

the two largest parties actually goes on election campaigns; a reduced election expenditure cap would make little difference to their need to generate income to cover their normal running costs. This dilemma was explicitly recognised by Phillips in his advocacy of additional state contributions.

A changed political context

Changes to the political context since 2007 mean that there are two barriers to picking up where Phillips left-off. First, the combination of the MPs' expenses crisis and sharp cuts in public expenditure have left all three main parties reluctant to push for state funding as part of a reform package. Second, disagreements about trade union donations to Labour have intensified. The Conservatives' insistence that trade unionists be provided with the automatic ability to 'opt out' of the political levy was central to the collapse of cross-party talks in late 2007 and remains a 'deal-breaker' for Labour. If progress is to be made, a way forward on both of these issues needs to be found.

Aiming for consensus

In view of these constraints, it would notionally be possible for the Conservatives and Liberal Democrats to seek to fulfill the commitments made in the coalition agreement without the support of Labour or the smaller parties. For instance, the coalition could legislate to lower the caps on election spending, introduce caps on donations, and reform the political levy. Such an approach would, however, represent little more than

Table 2: Notional impact of a £50,000 cap on donations received by the political parties during the 2010 General Election campaign

Party	Total donation income	Value of donations above £50,000	% of donation income lost
Conservatives	7.3 million	2.5 million	35
Labour	5.3 million	4.1 million	79
Liberal Democrats	0.7 million	0.4 million	48

Box 5: **Options for party funding reform¹**

Reform Option	Key issues to resolve	Scope for agreement
Reforms securing provisional agreement during Phillips review (2007)		
1. Cap donations to political parties (e.g. maximum £50,000 per annum from any source)	<ul style="list-style-type: none"> ● Impact on party income? ● Level of the cap? ● Risk of increased regulatory burden? ● Need extra Electoral Commission powers? 	<ul style="list-style-type: none"> ● No fundamental opposition ● Small parties more enthusiastic ● Realistic if introduced with other reforms
2. Lower cap on national campaign spending at general elections	<ul style="list-style-type: none"> ● Realistic cost of fighting elections? ● Loopholes: 'non-campaign spending'? 	<ul style="list-style-type: none"> ● All parties likely to accept ● Viable without broader reform package
3. Introduce enhanced public subsidies for political parties	<ul style="list-style-type: none"> ● Public hostility ● Risk of parties becoming dependent on state 	<ul style="list-style-type: none"> ● Smaller parties supportive ● Now ruled out by main parties in short-term. ● Phased/future introduction possible
Reforms considered during Phillips review and at CSPL hearing (2010)		
4. Cap all party expenditure (all operational and election costs) over a full Parliamentary term	<ul style="list-style-type: none"> ● Need secondary caps for election spending? ● Contingent on fixed-term Parliaments 	<ul style="list-style-type: none"> ● Support untested ● Limited prospect for immediate agreement
5. Grant donations to political parties special tax status, such as would apply to charitable organisations	<ul style="list-style-type: none"> ● Exclusion of non tax-payers ● Disproportionate appeal to wealthy/high income earners ● Risk of public backlash: state funding 'via the back door'? 	<ul style="list-style-type: none"> ● Broad support from all parties ● Realistic element of a reform package ● More detailed proposals required

¹ For further analysis of the positions of the parties in relation to these five reform proposals, see our linked website: <http://partyfundingreform.wordpress.com>

short-term expediency. It would be unlikely to provide a solution that is either sustainable or fair, or which respects the diversity of the parties. Without a commitment to reviewing state funding arrangements, the introduction of donation caps would place a question mark over the parties' financial viability. Likewise, if reform of the political levy is passed without cross-party agreement, the widely-acknowledged principle of respect for party diversity and tradition will have been broken. There would be a real risk of party funding reform becoming a 'political football' for years to come.

Rethinking state subsidies

Public hostility, and party reticence, over additional and more explicit state support are both undeniable and understandable. Yet, inertia on this issue offers no answers to the core funding conundrum and the issues identified by Phillips. More broadly, assessment of international experience suggests that putting any revisiting of state support 'off limits' would dramatically narrow the range of available reform options (see Box 6).

There are two possible measures which offer a way forward on state funding in the short-term, as follows:



A short-term, 'big bang' approach to capping would carry enormous risks, not just to the viability of party finance, but also to the capacity of the parties to engage with the electorate



Box 6: International experience of party funding reform

While lessons can be learnt from other countries, international experience offers no 'magic bullet' for party funding reform in the UK.

The mainland European norm is to combine comprehensive restrictions on donations with heavy dependency on state funding. This would represent a radical change to the current 'mixed' approach to party funding in the UK and would be unlikely to be acceptable to either the parties or the public.

The regulatory framework in the United States uniquely restricts donations but not expenditure. This approach would sit uneasily with the UK's historical emphasis on expenditure limits. Within the US, the system is also the subject of considerable controversy for the distortions it

introduces to the democratic process, particularly at election time.

Widespread misgivings about UK party funding makes any notion of emulating the trust-based Nordic approach unrealistic (under the 'Nordic model', state funding is generous but neither donations nor expenditure, are regulated).

The most relevant lessons may come from other 'Westminster' democracies in the Anglo-Saxon orbit, where a broadly liberal approach to party funding dominates. Of particular interest are countries such as Canada, which have supplemented expenditure caps with other forms of regulation and a 'mixed' system of public and private funding.

1. Donations to political parties could become eligible for gift-aid and other forms of tax-relief, thereby enhancing their monetary value indirectly (see Box 5);
2. Some or all of the current in-kind subsidies, which are likely to have declining relevance to the operating reality of political parties or the conduct of election campaigns in the 21st century,²⁶ could be re-allocated to parties or candidates in other ways.²⁷

A long-term perspective

We have stressed that a short-term, 'big bang' approach to capping would carry enormous risks, not just to the viability of party finance, but also to the capacity of the parties to engage with the electorate. It was for this reason that Phillips proposed a variety of transitional arrangements, including a phased introduction of a donation cap, over a three-year period (2009-12). In view of the changed political context, there is a powerful argument for mapping out transitional arrangements

²⁶ For instance, in light of the impact of the televised leaders' debates in 2010, it seems difficult to justify the continuation of party election broadcasts in their current form.

²⁷ Given the value of the air-time which broadcasters are required to allocate for political broadcasts, there would seem to be obvious scope to review whether other alternatives might be better suited to the task of communicating with voters in a digital age.

over a longer time period than Phillips proposed. In particular:

1. The introduction of donation caps should be staggered across 2-3 parliamentary cycles alongside annual, independent monitoring of their impact on party finances. This would enable the parties to attempt to broaden their funding base, assisted by tax-relief provisions, without destabilising party finances in the short-term.
2. The timetable for this monitoring process should include a comprehensive review of the extent to which existing funding arrangements, including state support, are 'fit for purpose' for party politics in the 21st century and of possible means of re-allocating indirect subsidies.
3. As part of this review, detailed consideration should be given to a variety of other mechanisms which would help 'pump-prime' the efforts of the parties to broaden their funding base, and the regulatory structure that would push the parties to re-engage directly with electors.²⁸

²⁸ A variety of proposals already exist. Phillips advocated that £10 of state funding be provided to match each individual donation of £10 or more. The 'voter-voucher' proposed by the Power Commission in 2006 would provide voters at polling stations with an additional

Box 7: **A medium-term strategic approach: a pathway to party funding reform**

All party agreement would be sought on a reform package to create party funding arrangements over a 10-15 year period in line with the principles outlined in Box 4. The key elements of this reform package would be:

1. **A phased, independently-monitored, introduction of donation caps, set initially high and tapering down over 10-15 years** – restricting donations is crucial to the principle of restoring public confidence by ensuring the very wealthy cannot buy influence; a phased approach is consistent with the principle of achieving sustainability.
2. **The progressive reduction of election expenditure limits over three parliamentary terms** – lowering the cap on election spending would help reduce the short-term pressures on parties to secure large donations during general election years; this will help to restore public confidence and establish a more participatory system.
3. **The immediate introduction of tax-efficient options for donations to political parties** – this limited measure offers some, albeit insufficient,

scope to promote wider public engagement and move towards more sustainable funding arrangements.

4. **A detailed overhaul of the existing funding arrangements, including state support, to ensure they are 'fit for purpose' for 21st century party politics** – to ensure sustainability, a set of supplementary reforms, to be phased in over 10-15 years, will need to be identified as the impact of donation caps is monitored. This process must include consideration of current 'in-kind' support and piecemeal resourcing. It should respect party diversity by ensuring that reforms provide the parties, particularly Labour, with sufficient opportunity to bring about any necessary internal cultural and constitutional change.
5. **A parallel commitment to review a range of proposals for ways in which state funding could be allocated to increase democratic engagement** – a wider range of proposals for promoting public engagement already exist, some of which could be piloted in the short-term

“Only cross-party commitment to a phased, medium-term approach can realistically deliver the reforms to party funding which are recognised to be necessary”

Respecting party diversity

It is crucial that the question of trade union funding of the Labour Party be considered within the perspective of the guiding principle of respecting party diversity. Trade union (and socialist society) affiliation fees are at the heart of Labour's origins as a political party and its current constitutional arrangements. For these reasons, Phillips argued that affiliation fees should be seen as small individual fees or donations collected by an intermediary organisation, rather than as large institutional donations.²⁹

The collection and distribution of union affiliation fees raise important issues of transparency. However, the broader question about their role needs to be re-framed. Rather than being cast as a problem, union affiliation fees

could potentially be seen as a positive example of how political parties can be financed from a broader social base, including those on lower incomes.³⁰ At the same time, the relative significance of affiliation fees needs to be kept in proportion – they constitute around one-quarter of Labour Party income, and are one element of a balance of income sources, in which donations (30 per cent) and membership fees (14 per cent) also play an important role.

A viable reform package

Based on the analysis presented in this pamphlet, only cross-party commitment to a phased, medium-term approach can realistically deliver the reforms to party funding which are recognised to be necessary and which are consistent with the principles outlined in Box 4. The basis for such a pathway to reform is outlined in Box 7.

²⁹ 'ballot' used to direct £3 to the party of their choice. The US academic Erik-Olin Wright has suggested providing each registered elector with a 'democracy card' – a pre-loaded debit card of universal value, to be used exclusively for making donations to political parties.

²⁹ This interpretation rests on two important provisos: a) individuals clearly consent to the arrangement; and b) the total sum generated by affiliation fees should be equivalent to the amount paid by a trade union to Labour.

³⁰ J. Rowbottom, *Democracy Distorted: Wealth, Influence and Democratic Politics*, (Cambridge: Cambridge University Press, 2010).



Conclusion

Nobody denies the need for reforms to party funding. The experience of funding scandals over the past decade alone justifies reform. Without it, the prospects of restoring public confidence in this aspect of our political system will remain negligible. But, there is no short-term fix. Only longer-term strategic reforms offer any hope of inducing a revival in party membership and activism, and a shift away from the reliance of all parties on individual, wealthy donors. These goals require that reforms are rooted in a consensual approach and founded upon agreed principles and objectives.

Despite the breakdown of inter-party talks in 2007, there is sufficient common ground between the parties to serve as a foundation for such a funding settlement. Yet, if reform efforts are to succeed, the political parties must face up to the fundamental conundrum identified by Phillips – if their growing dependency on large donations is to be reversed, where else should they turn to for funding?

At the CSPL's July hearing, representatives of all three main parties showed a tendency to offer future developments as an answer, variously suggesting that: the Obama model of generating large sums via multiple small donations can be replicated; televised debates and internet campaigning will make future elections cheaper; and discussions about state funding of political parties will be easier post-2015.

Our analysis of past trends suggests that these are all 'false hopes'. Questions about party funding will be no easier to address at some future date, particularly if difficult choices are delayed. 'Big money' cannot be removed from UK politics overnight. Indeed, we suggest that transitional periods may need to be five times longer than Phillips envisaged. Equally, the role of the state in

supporting political parties cannot be avoided – however difficult the circumstances.

We therefore hope our proposals make a useful contribution to the task of identifying a pathway to reform that not only recognises the needs of political parties, but also rises to the challenge of reviving public confidence and public involvement in our democracy.



Funding Political Parties in Great Britain: a Pathway to Reform

“ Few voters would profess to know much about how political parties are funded, what they spend their money on, or how their income and expenditure are regulated. By providing a concise and accessible summary of trends in UK party finance, Wilks-Heeg and Crone not only fill an important gap – they also make a powerful case for reform ”

Jacob Rowbottom, University of Cambridge, author of *Democracy Distorted: Wealth, Influence and Democratic Politics* (Cambridge University Press, 2010)

“ Nobody who wants to revive popular participation and public confidence in our democratic system can afford to ignore the question of how political parties are funded. This timely report shows exactly why there is a problem with party funding and, just as importantly, sets out a viable route to achieving reform ”

Peter Facey, Director, Unlock Democracy

“ The Hansard Society's Audit of Political Engagement has found that party funding is one of the political reform issues that the public are most likely to have discussed with family and friends. Given evident public interest in the topic, this report is an excellent contribution to the debate about how party funding might be reformed in the future and is an invaluable guide to the issues for the expert and lay-reader alike ”

Dr Ruth Fox, Director, Parliament and Government Programme, The Hansard Society



© Democratic Audit, 2010

Designed by Tony Garrett

Advance copies printed by Ray Ross Print Factory