

Review of Party Funding

Committee on
Standards in
Public Life

Issues and Questions
September 2010

THE SEVEN PRINCIPLES OF PUBLIC LIFE

SELFLESSNESS

Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

INTEGRITY

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

OBJECTIVITY

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

ACCOUNTABILITY

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

OPENNESS

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

HONESTY

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

LEADERSHIP

Holders of public office should promote and support these principles by leadership and example.

INTRODUCTION

1. Political parties are an essential part of the sound operation of the democratic process. They offer individuals a way to participate directly in our democracy and are the means by which voters choose between alternative policies and candidates at elections. Through government and effective opposition, political parties shape public policy. If political parties are to operate effectively it is essential that they are adequately and appropriately funded but it is also important that the means by which this funding is provided commands public confidence.
2. It must be a matter of concern therefore that the current arrangements are widely regarded with considerable suspicion. In particular there is a common belief – whether justified or not - that through making donations of a significant size to political parties individuals or organisations can purchase influence or position. In response to these concerns a serious attempt was made in 2007 to reach agreement between the three main political parties on necessary reforms. These talks, which were brokered by Sir Hayden Phillips, ultimately broke down. But a commitment to reform was included in the manifestoes of all three parties for the 2010 election. The Coalition Agreement committed the new Government to pursuing *“a detailed agreement on limiting donations and reforming party funding in order to remove big money from party politics”*.
3. There currently exists therefore a widespread acceptance of the need for change, but as yet no agreement on many of the details. This is not, perhaps, very surprising. Some of the issues involved are both complex and sensitive. It is against this background that, following consultation with the Prime Minister, the Committee has decided to initiate an independent inquiry. The purpose of this paper is to set out some of the main questions which arise and to call for evidence from interested parties.

SCOPE OF INQUIRY AND SUBMISSION OF EVIDENCE

4. The Committee held an exploratory public hearing in July. On the basis of what was said then, as well as drawing on previous work by Sir Hayden Phillips and others, the Committee expects that the inquiry will cover a number of areas, including:
 - Donations to political parties and their regulation, including the desirability of imposing caps on individual donations.
 - Affiliation fees paid by trade unions.
 - Expenditure by political parties and its regulation.
 - Donations made to third parties and expenditure made by them in support of particular political activities.
 - The extent and desirability of state support for political parties
 - The funding of referendums
5. **The Committee is now inviting submissions on these or any other issue relating to the funding of political parties.** Wherever possible views expressed should be supported by appropriate evidence.

6. Submissions should be sent by email to inquiry@standards.x.gsi.gov.uk or by post to
Review of Party Funding
The Committee on Standards in Public Life
35 Great Smith Street
London, SW1P 3BQ

Any queries about submitting evidence can be made via the email address above or by telephoning the Committee Secretariat on 020 7276 2595.

7. The Committee will be holding a number of public hearings in the autumn and winter of 2010. **The closing date for written submissions is Friday 29 October.** Further details will be published on the Committee's website at www.public-standards.org.uk. It is unlikely to be possible to invite every respondent who expresses an interest in giving oral evidence to participate in a public hearing.
8. It is important for the evidence considered by the Committee to be open and transparent. All submissions will be published along with the identity of the person or organisation making the submission, unless the Committee is satisfied both that there is a compelling reason for an exemption to be granted and that the integrity of the process will not be undermined.
9. The rest of this paper sets out some of the background to the inquiry and suggests a number of the questions which arise.

HISTORY

10. The current legal framework for the funding of political parties dates back to the *Corrupt and Illegal Practices Act 1883*. It has been subject to a number of changes since then. In 1997 the issue was explicitly brought within the remit of this Committee and was addressed in our fifth report in October 1998 (Cm 4057). Most of that report's recommendations were subsequently incorporated into the *Political Parties and Referendums Act 2000* which became the most fundamental overhaul of election funding rules since 1883. Changes made then included:
 - The introduction of rules on public disclosure of donations.
 - A requirement on public companies to obtain the prior agreement of their shareholders to any donations made on their behalf. This does not apply to companies that are not publicly listed.
 - The banning of donations from foreign nationals and of anonymous donations over £200 (increased to £500 by the *Political Parties and Elections Act 2009*).
 - The creation of the Electoral Commission as a regulator to oversee rules on the preparation and audit of annual accounts and on national election expenditure.
11. The position was looked at again in 2006 by the Constitutional Affairs and Public Administration Select Committees of the House of Commons following revelations about the extent to which loans were being used in an apparent attempt to bypass the

controls on outright donations. Subsequently loans were made subject to the same controls as donations by the *Electoral Administration Act 2006*. Finally, the *Political Parties and Elections Act 2009* extended the time limits for controls on expenditure by individual candidates which had been exploited in the 2005 general election.

PRESENT ARRANGEMENTS

Funding

12. Political parties are now funded through a mixture of donations, fundraising by members and supporters, membership fees and public funds provided for particular purposes. The pattern for individual parties is naturally strongly influenced by their own histories and traditions. Any funding regime needs to recognise this diversity if it is to be sustainable.
13. For all the main parties the importance of membership fees has declined considerably. In the 1960s, one in eleven of the electorate was a member of a political party. The current figure is one in eighty eight. Donations from public companies have also apparently declined since the introduction in 2000 of the requirement for transparency and prior shareholder approval. The consequence has been markedly to increase the reliance of all the main parties on donations from wealthy individuals, leading to suspicion of honours or influence being granted in return.
14. There are currently no limits on the amount that a political party can receive from any individual, company or other organisation. But donations are subject to a number of reporting and other requirements:
 - Any donation over £500 to a party or over £50 to a candidate must be from a “permissible donor”. Permissible donors are an individual registered in an electoral register, a registered party, company, trade union, building society, limited liability partnership, friendly industrial or provident society or unincorporated association.
 - Any public companies wishing to donate to a political party must first obtain approval from their shareholders.
 - Trade unions are entitled to affiliate to a political party if the rules of that party allow it, and to pay an affiliation fee out of a political fund financed by members’ contributions. Trade Unions have to ballot their members every 10 years about whether or not to have a political fund and members can opt-out individually at any time.
 - Any single donation over £7,500 to a party’s HQ, or over £1,500 to constituency or local party offices must be reported to the Electoral Commission every three months or, in a general election campaign, every week. The Electoral Commission publishes this information.
 - Similar controls apply to loans, credit facilities and guarantees of parties’ borrowing.
 - Controls on donations differ slightly in Northern Ireland where parties may receive donations from certain sources in the Republic of Ireland and donations reported to the Electoral Commission are not published. The Northern Ireland Office is currently consulting on whether to retain confidentiality.

15. Public support for political parties is much more substantial than is often recognised. It is provided both in the form of direct grants and through benefits in kind.
16. Opposition parties with 2 or more sitting MPs who have taken the oath of allegiance receive so called “Short money” which has three components: general funding at £14,351 for every seat won at the last election plus £28.66 for every 200 votes gained by the party; travel expenses allocated from an overall pot of £157,651; and funding for the Leader of the Opposition’s Office at £668,606 per annum¹. A total of £5,640,142 Short money has been allocated for the period of 2010/11 following the general election. In addition, the Leader of the Opposition, the Opposition Chief Whip and a maximum of two Opposition Assistant Whips receive a salary from public funds on top of their parliamentary salary. Equivalent schemes operate for parties represented in the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly.
17. Sinn Fein MPs, who have not taken the oath of allegiance, are not entitled to Short money but do receive public funding under a similar scheme. Sinn Fein’s allocation for 2010/11 is £99,134.
18. In the House of Lords “Cranborne money” is provided on a similar basis to assist opposition parties and crossbenchers conduct parliamentary business. A total of £587,319 Cranborne money has been allocated for 2010/11.
19. The Electoral Commission administers Policy Development Grants – a £2million fund distributed annually to parties with 2 or more sitting MPs – to help parties prepare policies for inclusion in their manifestos.
20. Air time for party political broadcasts is available free to political parties who field candidates in at least one sixth of contested seats. For the first time at the 2010 general election, the three main political parties were in addition given substantial TV coverage during the Leaders’ debates.
21. Candidates in elections to devolved bodies, the European Parliament and general elections are entitled to one free election mailing to each elector in the constituency being contested. This support is not available for local government elections other than in Northern Ireland.

Expenditure

22. The rules governing campaign expenditure are complex and can lead to some confusion.
23. At national level expenditure is limited at general elections, European Parliamentary elections, Scottish Parliamentary elections, National Assembly for Wales elections and Northern Ireland Assembly elections, but not at other times. For a general election the

¹ 2010/11 rates.

regulated period begins 365 days before the date of the poll. The limit is set at the greater of £810,000 or £30,000 for each seat contested, subject to an overall limit for each party of £19 million if all seats are contested. The operation of the 365 day limit ought to become easier with the advent of fixed term Parliaments. The regulated period for devolved and European elections is 4 months prior to the poll date.

24. Campaign expenditure by individual candidates is limited to a maximum of £25,000 during a period which begins once Parliament has run for 55 months and ends on dissolution. The amount varies depending on the date of dissolution. There is a separate limit on spending by candidates during the election period of between £10,000 and £13,000 depending on the number of people eligible to vote in each constituency.
25. Lower limits apply to local and devolved elections.
26. Campaign expenditure is defined by the *Political Parties and Elections Act 2009* as any expenses incurred by a political party for electoral purposes, including any expenses incurred in disparaging another party. There are eight categories of reportable campaign expenditure – party political broadcasts, advertising, unsolicited material, market research, press conferences and media, transport and rallies and other events. Expenditure also includes the provision of goods or services free of charge. Candidates are individually responsible for the reporting of their own campaign expenditure as defined in the schedule to the *Representation of the People Act 1983*.
27. Expenditure by political parties other than on campaigning is not controlled. In its 2006 Report *Party Funding*, the Constitutional Affairs Select Committee found that the vast majority of spending by political parties was of a routine rather than campaign nature. Routine expenditure can, of course, still contribute to an election effort
28. Campaign expenditure by political parties can often be far exceeded by the amount spent by the media in endorsing or promoting particular political platforms.

Income

29. The income and expenditure of individual parties fluctuates with their levels of popularity and with the electoral cycle. Expenditure tends to be higher during election years. The table below provides income and expenditure figures over the recent past for the main parties and for a selection of smaller parties.² The expenditure figures include running costs as well as campaign expenditure. Figures for the recent election are not yet available. Those for the 2005 election year are given for comparison.

Party	Average income	Average expenditure	Expenditure
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² Figures taken from Electoral Commission analysis of political parties' accounts, www.electoralcommission.org.uk/party-finance/database-of-registers, and rounded to the nearest hundred.

	(£) 2003-2009	(£) 2003-2009	(£) 2005
Conservative Party	28,086,700	29,878,300	39,206,000
Labour Party	30,078,100	29,801,900	49,804,000
Liberal Democrats	5,858,700	5,794,000	8,783,500
Plaid Cymru	690,700	648,000	491,400
Scottish National Party	1,620,300	1,608,800	1,242,800
UK Independence Party	854,100	854,700	665,300
Co-operative Party	1,015,500	1,064,700	1,182,700

THIRD PARTIES

30. Third parties are individuals or organisations other than political parties that campaign at an election. They can have a significant effect on the electorate's perception of issues. Third parties that wish to campaign nationally must register with the Electoral Commission. Third parties may campaign for or against individual candidates, political parties or particular issues.
31. Party and issue-based campaigns in UK general and by-elections, European Parliament elections and elections to the devolved parliamentary and assembly elections are regulated under the *Political Parties and Referendums Act 2000*. Spending is regulated for the 365 days prior to the poll date for UK general elections and for the four months prior to the poll date for other regulated elections. The expenditure limits are set out in the table below.

	England	Northern Ireland	Scotland	Wales
UK Parliament	£793,500	£27,000	£108,000	£60,000
European Parliament	£159,750	£6,750	£18,000	£11,259
National Assembly for Wales				£30,000
Northern Ireland Assembly		£15,300		
Scottish Parliament			£75,800	

32. Candidate-based campaigns are regulated under the *Representation of the People Act 1983*. The limits are £500 at a UK general or devolved election, £5000 at a European election and £50 plus 0.5p per elector in the electoral area for local elections.
33. 24 third parties reported spending at the 2005 general election and the Electoral Commission noted that a number failed to register. None of the third parties registered came close to the spending limit.

REFERENDUMS

34. Prior to the planned referendum on changes to the voting system the only UK-wide referendum has been on membership of the European Community. But more localised referendums have been held in relation to devolution to Scotland and Wales, on an elected Mayor for London, a regional assembly for the North East of England and governance of Northern Ireland.
35. The Political Parties, Elections and Referendums Act 2000 gave responsibility to the Electoral Commission for regulating campaign spending and donations, as well as for giving grants to lead campaign organisations. For a UK-wide referendum, the level of expenditure for political parties is based on the proportion of the electorate that voted for the party at the previous UK general election.
36. From the first day of the referendum period the Electoral Commission begins to register 'permitted participants' – those who intend to spend more than £10,000 on campaigning. Once registered, campaigners can also apply to become the lead campaign group, the 'designated organisation' for one side of the campaign. After the first four weeks of the campaign, the Electoral Commission decides whether to designate organisations. They must designate lead campaigners for both sides or not at all. Permitted participants are required to submit expenditure and donation returns to the Electoral Commission following a referendum campaign. Audit is only required on expenditure above £250,000.
37. Designated organisations are subject to a UK-wide expenditure limit of £5million and qualify for publicly-funded assistance including free postal distribution of one piece of referendum literature to each household or elector, referendum TV broadcasts, grants of up to £600,000 and free use of public rooms for meetings (except in Northern Ireland).
38. The Government and other mainly publicly-funded bodies are prohibited from issuing any publicity material relating to a referendum in the 28 days before the poll. This does not relate to material specifically sought by a member of the public or to factual information relating to the conduct of the poll. The BBC and S4C are exempt from the restriction.
39. The Electoral Commission has no role in raising voter awareness in relation to referendums or for informing the electorate about how to participate in a referendum. The Electoral Commission in Wales does have a discretionary power to provide information to voters on referendum options if it is unable to appoint designated organisations.

QUESTIONS AND ISSUES

40. The Committee is interested in receiving evidence on any aspect of the funding of political parties, their income and expenditure, and on the current arrangements for regulating referendums. Respondents should not feel limited by the issues set out in this paper. But among the questions on which we are particularly interested in seeking views are the following:

- Do you believe that there are problems with the current arrangements for the funding of political parties? If so, what are these? What is the evidence to support your view? What changes would you like to see made?
- Is it problematic if political parties are reliant on large donations? If so, why?
- Should individual donations be capped? If so, what should determine the level of that cap and what level should it be set at?
- Are any changes necessary to the arrangements for donations made via trade unions? If so, what?
- Are any changes required to the current arrangements for regulating companies and associations? If so, what?
- If a cap on individual donations is introduced, what are likely to be the implications for individual political parties?
- What are the reasons for the decline in membership of political parties? How big is the consequent effect on their finances? Is the impact general and proportionate? What is the impact of falling membership on political engagement? Is there any prospect of the decline being significantly reversed?
- Is there a case for introducing a greater element of support to political parties from public funds as a necessary counterpart to limiting donations? If so, in what form should that support be provided?
- Are any changes necessary or desirable in the way in which the rules apply to the smaller parties?
- Are the differences in the rules applying to Northern Ireland still appropriate?
- Are any changes necessary in the controls applying to expenditure by political parties or to individual candidates? Should there be tighter controls or caps on expenditure by political parties? Should any aspects of campaign expenditure be banned altogether?
- To what extent, if any, is fundraising by political parties driven by an 'arms race' in expenditure?
- Do the actions of third parties affect electoral outcomes in any significant way? Would any changes to the existing rules increase that influence? Are any changes needed in the controls applying to them? If so, what?
- What impact does the media have, if any, on political parties in spending money to get their message across?
- Are any changes necessary in the rules relating to the funding of referendums?

