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**THE FINANCES OF THE THREE LARGEST BRITISH
POLITICAL PARTIES
2005 - 2010**

By

Michael Pinto-Duschinsky

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(1) INTRODUCTION

(A) Purpose and scope of this study

British political parties are independent organisations which draw up their financial accounts in different ways. Within each political party, accounting conventions change over time. Moreover, parties are decentralised. The accounts of local party branches are often the work of amateurs and are not necessarily transmitted to the party headquarters. For all these reasons, party finance statistics may be misleading. The rise or fall in the headline total of income or expenditure of a political party may either reflect a real change in fortunes or a change in accounting methods. The fact that parties follow different criteria in drawing up their accounts makes it misleading to compare the raw figures.

As a regulatory body, the Electoral Commission has no authority to instruct political parties to adopt common accounting conventions. Parties would have substantive reasons for resisting a demand to alter the manner in which they conduct their internal affairs for the sake of convenience of a common reporting format. For example, the Liberal Democrats do not have a single "central" party organisation. In keeping with its traditions (dating back to the split in 1916 between the Herbert Asquith and David Lloyd George factions of the Liberal Party) separate the accounts of the Parliamentary Office from those of the extra-parliamentary headquarters. Moreover, because of the party's political philosophy of federalism, it separates its central accounts into those of a "federal party" and of "state" parties in England, Scotland and Wales. For these reasons, the accounts of the "federal" headquarters of the Liberal Democrats are not equivalent to those of the National Executive Committee of the Labour Party or of the Conservative Central Office.

These distinctions tend to be ignored by commentators and, with less excuse, in official reports. For example, the Electoral Commission gives trend statistics on its web site of the finances of what it calls "central" party organisations even though there is no standardised definition of what constitutes these "central" accounts. The interim report of the Review of the Funding of Political Parties published by Sir Hayden Phillips in 2006 not only published non-comparable raw statistics of the central organisations of the three main parties in its key table titled "Political Party Income and Expenditure for the Last Four Years (2002-2005)"^X but, in addition, failed to distinguish between these national-level accounts and those of the each entire party (national and sub-national). Back in 1975, Lord Houghton's report failed to notice that the Liberal Party annual accounts of the time - unlike those of the Conservatives and Labour - excluded election costs.

The difficulty of adapting published party accounts to make them standardised over time and between different parties is increased by the fact that changes of staff mean that parties' organisations are sometimes unable to determine the basis on which figures were drawn up even for recent years.

Bearing these problems in mind, this report attempts to analyse the following:

- CENTRAL ROUTINE AND CAMPAIGN ACCOUNTS OF THE LABOUR AND CONSERVATIVE PARTIES 2005-2010.

The aim is to analyse these campaign and non-campaign accounts so that they are comparable to those for the previous parliamentary cycle given in the author's study *Paying for the party: myths and realities in British political finance* (London: Policy Exchange, 2008)

- CENTRAL AND LOCAL SPENDING ON THE 2010 GENERAL ELECTION

- CENTRAL LIBERAL DEMOCRAT ROUTINE AND CAMPAIGN ACCOUNTS 2005-2010.

These accounts pose special problems because of the complex internal accounting procedures of the party. There are significant transfers of money between separate accounts of the federal, parliamentary, English, Scottish and Welsh Liberal Democrat organisations. Moreover, the Association of Liberal Democrat Councillors carries out some of the functions which, in the other parties, are covered by their central organisations. The Liberal Democrats have been reluctant to draw up a consolidated set of central accounts for fear of impinging by implication on the autonomy of the different organs concerned.

The accounts which have been prepared are subject to error, though this is probably fairly minor. However, the consolidated statistics are not useful for purposes of historical comparisons since similar figures are unavailable for past years.

- ESTIMATED SPENDING BY LOCAL PARTY ORGANISATIONS, 2005-2010.

This crucial part of the picture is hard to research because (1) "accounting units" (mainly local party organisations) are required to submit accounts to the Electoral Commission only if their annual income of expenditure exceeds £25,000. Most accounting units fall short of the reporting threshold. (2) Although the Electoral Commission collected financial information for 2003 and 2006 on accounting units with below-threshold budgets, it has no information for such accounting units after 2006.

(B) Limitations

There are four significant limitations of this report. Three of them derive from the scale of the work commissioned by the Committee on Standards in Public Life and on the time available for the collection of materials. It does not reflect any political value-judgements.

First, the report is restricted to the three main national political parties.

Second, there is no attempt to draw up comprehensive total spending figures for each of the three political parties during the entire parliamentary cycle of 2005-2010 comparable with the totals prepared for the previous parliamentary cycle for *Paying for the party*. Such an exercise would make it necessary to calculate estimated transfers between central and local parties in order to avoid double counting.

Third, the estimates of routine spending by local party organisations have been drawn up on scantier evidence than that collected for *Paying for the party*.

Fourth, it would require detailed financial data and extensive labour by professional accountants to draw up authoritative accounts on a basis standardised for the three main political parties. This study does not pretend to be a surrogate for such an exercise. Nor is

there an implicit judgement about whether parties should be required to adapt their internal procedures for the convenience of political scientists and policy makers.

(C) Alternative measures of inflation

Statistics of trends in spend by political parties and parliamentary candidates clearly need to take account of inflation. Failure to do this creates a false impression of growing expenditure.

It is open to debate which measure of inflation needs to be used. This technical question turns out to be crucial to the interpretation of long-term trends, as work by a number of scholars including Karl-Heinz Nassmacher and the author of this study have argued. Since a high proportion of party spending is devoted to the costs of staff, there is a case for using average earnings as the measure of inflation. Earnings have regularly risen faster than consumer prices. Thus, neither the RPI (Retail Prices Index) nor the newer CPI (Consumer Prices Index) reflect the cost pressures on political parties. The trend statistics in *Paying for the party* used both the RPI and the AEI (Average Earnings Index) as measures of inflation. This report uses the RPI alone. (See *Paying for the party*, Appendix 3 and Nassmacher 2009, XX pg 161.)

(2) CENTRAL AND LOCAL SPENDING IN THE 2010 GENERAL ELECTION CAMPAIGN

Table 1 shows the total spent by each political party on the General Election of 2010. The figures constitute the returns of political parties to the Electoral Commission as the expense returns of parliamentary candidates.

Although the statistics of expenditure by parties theoretically covers local as well as national election spending in the 365 days prior to the poll, they are in reality the expenditure of the central party organisations (and their regional offices). Local campaign spending is covered by the returns of individual candidates even though the contributions to these expenses come overwhelmingly from local party organisations. Under the terms of the PPERA, parties are required to declare the notional value of services received. These notional expenditures are included in the totals in Table 1. Spending also is recorded net of these notional items. This is to allow comparison of campaign spending in 2010 with spending in a long series of general elections held before the enactment of the PPERA. For those general elections, parties were not required to declare their general election spending and the statistics drawn up from published and unpublished party sources in Table 2 do not include the value of services provided free or at below market rates.

Table 1
CENTRAL PARTY SPENDING IN THE GENERAL ELECTION OF 2010
(in pounds)

	Total reported spending	Notional spending included in total	Spending net of notional spending
Conservative	16,682,874	853,861	15,588,708
Labour	8,009,484	834,2340	7,131,811
Liberal Democrat	4,788,595	69,092	4,718,503

SOURCE: The Electoral Commission (EC)

Table 2 compares central party campaign spending in 2010 with previous general elections. To ensure comparability of the figures for 2001, 2005 and 2010 with elections held before the enactment of the PPERA, notional spending in the three most recent elections has been excluded from the totals.

When inflation is calculated according to the RPI, central election spending by all the three main parties was lower in 2010 than in the previous election. The decline in central campaign spending is even more pronounced when the comparison is with 1997, the last general election before the introduction of campaign spending limits for national parties under the terms of the PPERA. Taking account of inflation as measured by the Retail Prices Index, the combined spending of the three largest parties in the General election of 2010 was one-third as much as in 1997. The decline is even greater when inflation is measured by changes in average earnings.

If average earnings are used as the measure of inflation, the spending of the Conservatives, Liberal Democrats and Labour national party organisations in 2010 was less than a quarter of the amount spent by the three parties a century before in the General election of 1910. The comparison needs to be treated with caution since the main item of spending of the national parties in the 1910 election was assistance to parliamentary candidates. The demand for such assistance is explained by the statistics given in Table 3, which shows that spending by candidates for the House of Commons in the early twentieth century was huge by modern standards.

Table 2
CENTRAL PARTY SPENDING IN SOME GENERAL ELECTIONS SINCE 1910
(in millions of pounds, at current prices and at 2011 values measured by the Retail Prices Index
and Average Earnings Index)

	Conservative			Labour			Liberal Democrat		
	Current prices	2011 values RPI	2011 values AEI	Current prices	2011 values RPI	2011 values AEI	Current prices	2011 values RPI	2011 values AEI
1910 (Dec)	0.1	13.2	58.3	0.0035	0.3	1.5	0.2	17.7	78.4
1983	3.7	10.2	14.7	2.1	5.7	8.2	1.9	5.4	7.7
1987	9.0	20.8	27.0	4.7	10.9	14.1	1.8	4.2	5.4
1992	11.2	19.0	22.7	10.2	17.3	16.8	1.8	3.1	3.7
1997	28.3	42.3	47.3	26.0	38.8	43.5	2.1	3.1	3.6
2001	12.0	16.4	16.9	10.8	14.8	15.2	1.3	1.8	1.9
2005	17.7	22.0	21.5	16.9	20.9	20.5	4.2	5.3	5.1
2010	15.6	16.6	16.0	7.1	7.6	7.3	4.7	5.0	4.9

SOURCES: For years to 2005, Pinto-Duschinsky 2008, Table 6; for 2010, as for Table 1 above.

NOTES: (1) For 1910, the figures in the Liberal Democrat column are for the Liberal Party, for 1983 and 1987 they are for the Liberal/Social Democrat Alliance, for 1992 onwards, for the Liberal Democrats. (2) For 2001, 2005 and 2010, statistics exclude notional expenditures.

The fall in central party spending in general elections since 1997 is shown in Table 3.

Table 3
COMBINED SPENDING OF THE THREE MAIN PARTIES IN GENERAL ELECTIONS
SINCE 1997 AS A PERCENTAGE OF EXPENDITURE IN 1997
(At values measured by the Retail Prices Index)

1997	100
2001	37
2005	54
2010	33

Table 4 shows the average spending of candidates in the General Election of 2010 and in previous contests.

Changes in legislation about spending by parliamentary candidates meant that they were obliged to observe limits of expenditure both during the immediate period before the poll (between the dissolution of Parliament and the election) and also during an additional period starting 55 months after the previous general election. These two periods have become known as the "short" and "long" campaigns. Parliamentary candidates are required to provide expense returns both for the short and the long campaigns to show that they have not exceeded the permitted limits. For purposes of comparison with the two previous elections, only spending during the short campaign is directly relevant. Nevertheless, the change in legislation makes it harder to interpret the relevance of the trends revealed by the statistics. An additional problem of interpretation arises from the fact that the definition of "campaign" spending by parliamentary candidates had previously been altered by the Political Parties, Elections and Referendums Act 2000 (PPERA).

Table 4
AVERAGE SPENDING BY PARLIAMENTARY CANDIDATES IN SOME GENERAL ELECTIONS SINCE 1910

(in pounds, at current prices and at 2011 values measured by the Retail Prices Index and Average Earnings Index)

	Conservative			Labour			Liberal Democrat		
	Current prices	2011 values RPI	2011 values AEI	Current prices	2011 values RPI	2011 values AEI	Current prices	2011 values RPI	2011 values AEI
1910 (Jan)	1,109	107,000	480.00	881	85,000	380,000	891	104,000	465,000
1983	3,320	9,194	13,201	2,927	8,107	11,638	2,520	6,980	10,020
1987	4,400	10,158	13,139	3,900	9,004	11,646	3,400	7,850	10,154
1992	5,840	9,120	11,723	5,090	8,646	10,218	3,169	5,383	6,361
1997	6,211	9,278	10,158	6,011	8,979	10,179	3,144	4,696	5,324
2001	6,484	8,802	9,074	5,860	7,954	8,201	3,029	4,112	4,239
2005	7,384	9,052	8,885	6,662	8,165	8,017	3,961	4,855	4,767
2010 ("short" campaign only)	4,876	5,183	5,013	3,594	3,820	3,695	2,704	2,874	2,780

SOURCES: For years to 2005, Pinto-Duschinsky 2008, Table 8; for 2010, EC www.electoralcommission.org.uk/__data/assets/pdf_file/0011/109388/2010-UKPGE-Campaign-expenditure-report.pdf>

NOTE: In 2010, average additional expenditure by candidates in the period before the dissolution of the House of Commons (the "long" campaign) was as follows: Conservative candidates: 4,970, Labour candidates: 2,881, Liberal Democrat candidates: 2,345. At 2011

values (RPI), the values of these figures are: Conservative candidates - 5,283, Labour candidates - 3,062, Liberal Democrat candidates - 2,493. At 2011 values (AEI) the values are: Conservative candidates - 5,10 , Labour candidates - 2,962, Liberal Democrat candidates - 2,411. If declared average expenditures during both the "short" and "long" campaign periods are combined, the totals are as follows: Conservative candidates - 9,846. Labour candidates - 6,435, Liberal Democrat candidates - 5,049. Adjusted for inflation as measured by the RPI, the figures are: Conservative candidates - 10,471. Labour candidates - 6,882, Liberal Democrat candidates - 5,367. Adjusted for inflation as measured by the AEI, the figures are: Conservative candidates - 10,032. Labour candidates - 6,657, Liberal Democrat candidates - 5,191

Including spending both on the "short" and "long" campaigns, Conservative candidates spent a total of £6.2 million, Labour candidates £4.1 million and Liberal Democrat candidates £3.2 million.

(3) CENTRAL CONSERVATIVE PARTY AND LABOUR PARTY EXPENDITURE 2005 - 2010

The annual accounts of the two largest parties include costs legally declarable as campaign expenditures as well as the routine costs of maintaining their party organisations.

Labour and the Conservatives have varied in the past in the way they have treated the finances of regional offices and of their headquarters in Scotland in the national party accounts. In general, the Conservatives have consolidated the accounts of all of the organisations under the control of the Central Office in a single set of accounts. The accounts of the National Executive Committee of the Labour Party traditionally excluded certain funds raised and spent by its regional offices. In recent years, the accounts of the Conservative Central Office and of the National Executive Committee of the Labour Party include regional organisations in Great Britain.

There are, however, issues about the inclusiveness of the accounts which will not be touched upon here. The published accounts of both national parties have been unclear about the treatment of the finances of the offices of the party leader when the party is in opposition and about payments out of party funds for the employment of certain members of the political staffs within Number 10 Downing Street when the party is in government. Party leaders and other prominent politicians sometimes have raised funds for their own offices, for example the "blind trust" collected to finance the activities of Tony Blair's staff when he led the Labour Party while it was in opposition before the General Election of 1997. Moreover, the costs of campaigns for election to internal party offices are not included in the national party accounts.

Despite these reservations, the analysis of central Conservative and Labour expenditures in this report takes as its basis each party's published annual accounts and accepts them as inclusive of all the activities of their central and regional organisations. The analysis concentrates on expenditures since it was the reported escalation of spending that led to a political debate about an "arms race" and the resulting need - in the view of some - for a cap on permitted spending by parties throughout each complete parliamentary cycle, covering

both national and local, routine and campaign costs. The empirical basis for the "arms race" was disputed in the author's 2008 publication *Paying for the party*. There, the statistics for the 2001-2005 parliamentary cycle were covered. The statistics here cover the years of the most recent parliamentary cycle, 2005-2010.

The gross expenditure totals given in each central party's annual accounts needed to be adjusted in a number of ways to make them comparable with each other and with figures for past years. First, for purposes of consistency and realism, several items need to be adjusted so that they are expressed in net rather than gross terms. For example, where costs of fund raising are listed in the published accounts under expenditure and proceeds of fund raising are listed under income, the amount spent on fund raising has been subtracted so that the amount raised is expressed net of costs.

Second, the rules introduced under PPERA now require parties to include the notional value of services donated to them or provided at below market values. For the sake of consistency with the period before PPERA, these notional amounts need to be disregarded when a long-term comparison is being made.

Third, there is the issue of state grants. The main parties have treated them indifferent ways in their accounts. As mentioned, the Liberal Democrats exclude the "Short Money" from the accounts of their Federal Party because the money is earmarked for parliamentary purposes only. For the sake of clarity, this report shows total annual expenditure in two alternative forms: including and excluding expenditure financed by state grants. Since the "Short Money" is paid only when a party is in opposition, central party finances are significantly affected by the results of a general election.

Recent trends in the central spending of the Conservatives is shown in Table 5

Table 5
ANNUAL EXPENDITURE OF THE CONSERVATIVE CENTRAL OFFICE,
2005 - 2010 (in thousands of pounds)

	2005	2006	2007	2008	2009	2010
Gross expenditure	39,206	26,668	31,921	31,927	37,154	49,205
Expenditure net of costs of fund raising and expenses of commercial items	35,216	23,603	27,657	27,043	31,568	45,086
Expenditure also net of notional income	33,667	22,780	25,543	24,180	28,776	42,388
Expenditure also net of direct state grants	29,081	17,847	20,439	19,071	23,593	40,885

SOURCE: Published accounts (EC web site)

Table 6 shows central Labour Party spending since 2005. The statistics for Labour are not

directly comparable with those for the Conservatives in view of the differing conventions used concerning the inclusion of expenditure financed by Short Money. (See Note 2 of Table 6.)

Table 6
ANNUAL CENTRAL EXPENDITURE OF THE NATIONAL EXECUTIVE
COMMITTEE OF THE LABOUR PARTY,
2005 - 2010 (in thousands of pounds)

	2005	2006	2007	2008	2009	2010
Gross expenditure	49,804	26,637	24,848	26,202	24,732	33,840
Expenditure net of costs of fund raising and expenses of commercial items	44,668	23,408	22,914	21,926	22,707	31,663
Expenditure also net of notional income	44,323	23,256	22,804	21,260	22,071	31,630
Expenditure also net of direct state grants	43,883	22,836	22,436	21,017	21,076	29,191

SOURCE: Published accounts (EC web site)

NOTE: In keeping with historical practice when it has been in Opposition, the Labour Party accounts for 2010 appear to include only a part of its entitlement to Short Money. Some £2 million - £2.5 million of expenditure of these funds appears to be excluded.

(4) CENTRAL LIBERAL DEMOCRAT EXPENDITURE 2005 - 2010

The task of calculating central Liberal Democrat finances in a manner that permits comparison with those of the Conservatives and Labour requires an examination of several inter-connecting accounts. The main difficulty presented by this task is the lack of clarity in some of the accounts about movements of money between them. However, the two main features of Liberal Democrat finances are clear.

First, as mentioned, the Liberal Democrats maintain a Parliamentary Office which, until the party entered government after the General Election of 2010 received the Liberal Democrats' entitlement to public under the scheme introduced in 1975 by Edward Short on behalf of the Labour Government of the time. This "Short Money" became a significant source of funds for the party. its loss in 2010 created problems for its organisation, although the party became entitled to employ a number of special advisers to to its ministers.

Second, the Liberal Democrats' main office does not have the same authority over regional offices as those of its Conservative and Labour counterparts. some items which are included

in the national party accounts of the other parties are, in the case of the Liberal Democrats, covered by separate accounts of the English, Scottish and Welsh Liberal Democrats (the "state parties") and by the Association of Liberal Democrat Councillors, based in Hebden Bridge in Yorkshire.

If all these accounts are taken into consideration, the financial disadvantages of the Liberal Democrats, though considerable, are less than when the accounts of its Federal Party are considered in isolation (as they usually are by the Electoral Commission and by inquiries such as that of Sir Hayden Phillips). Moreover, the common assumption that the source of Liberal Democrat financial disadvantage is the lack of an institutional base of support (such as big business for the Conservatives and the trade unions for Labour) also needs caution. In recent years the Liberal Democrat membership has been about one third as large as Labour's. For most years, the Conservative membership advantage has been even greater.

One way to compare the size of the rival party organisations is to show their respective payrolls. The figures are given in Table 7. This shows that the payroll of the Liberal Democrats' "Federal Party" accounted for approximately half of the staff of its various central organs.

Table 7
NUMBER OF EMPLOYEES OF THE CENTRAL ORGANS OF THE THREE LARGEST
BRITISH POLITICAL PARTIES,
2005 - 2010

	2005	2006	2007	2008	2009	2010
Conservative	236	226	258	270	275	221
Labour	305 plus 71 part time	201 plus 39 part time	168 plus 25 part time	177 plus 38 part time	217 plus 60 part time	235 plus 52 part time
Liberal Democrat (total)	99	99	117	106	112	115
- Federal Party	41	41	46	41	46	56
- Parliamentary Office	38	38	43	44	44	28
- English Party	0.5	1.8	2.1	2.5	2.5	2.5
- Scottish Party	8	8	15	11	10	22
- Welsh Party	2.5	2.5	2.5	3	3	3
- Association of Liberal Democrat Councillors	9	8.2	8.25	6.7	6.4	6

SOURCE: Annual reports of parties and accounting units (EC web site).

NOTE: Statistics for the Welsh Liberal Democrats are estimates supplied by them and represent full time equivalent numbers.

As an indication of the size of the various central Liberal Democratic funds, their gross expenditures in 2010 were as follows:

Liberal Democrat Federal Party - £10.0 million,
Parliamentary Office of the Liberal Democrats - £1.7 million,
English Liberal Democrats - £2.0 million,
Scottish Liberal Democrats £0.5 million,
Scottish Parliamentary Group - £0.1 million,
Welsh Liberal Democrats - £0.2 million,
Association of Liberal Democrat Councillors - £0.4 million.

These separate totals overstate the amount of money at the disposal of the Liberal Democrats since £1.5 million was transferred between accounts. When these transfers are subtracted in order to avoid double counting, the combined gross expenditures of the different central organs of the party came to £13.4 million.

Thus, in 2010, the Liberal Democrats gross central spending came to over one-third more than shown in the budget of the Federal Party alone. A proportion of this consisted of spending from the Liberal Democrat allocation of the "Short Money".

Table 8 shows the consolidated central budgets of the central Liberal Democrat organs in a manner comparable to those of the other main parties shown in previous tables. There may be some fairly small inaccuracies in the totals stemming from difficulty in interpreting some of the categories. While the author is grateful to various party officials for help, those officials cannot by implication take responsibility for the statistics or errors in them, nor are they intended as surrogates for the work of professional accountants with access to detailed working papers.

Table 8
CONSOLIDATED ANNUAL EXPENDITURE OF CENTRAL ORGANS OF THE
LIBERAL DEMOCRAT PARTY,
2005 - 2010 (in thousands of pounds)

	2005	2006	2007	2008	2009	2010
Gross expenditure	12,168	8,180	9,892	9,782	10,877	13,380
Expenditure net of costs of fund raising and expenses of commercial items	11,101	7,223	8,737	8,580	9,738	12,248
Expenditure also net of notional income	10,913	7,085	8,458	8,361	9,567	12,068
Expenditure also net of direct state grants	8,847	4,703	6,105	5,846	7,045	10,934

SOURCE: Published accounts (EC web site)

NOTES: 1. The statistics include the Federal Party, the Parliamentary Office of the Liberal Democrats, the Scottish Parliamentary Group, the Scottish Liberal Democrats and the Welsh Liberal Democrats. 2. Gross expenditure excludes internal transfers of grants and income from recharges to other central party organs.

(5) COMPARISON BETWEEN THE CENTRAL EXPENDITURE OF THE THREE MAIN PARTIES, 2005 - 2010

Comparison between the central spending of the three main parties not only needs to consolidate the disparate central accounts of the Liberal Democrats, it also needs to consider the impact of direct state grants and of notional expenditures (that is, the stated value of services-in-kind).

Direct state grants included in various ways in the central party accounts consist, first, of grants to opposition parties in the House of Commons ("Short Money"), House of Lords ("Cranbourne Money") and the Scottish Parliament. In addition, there are small policy development grants provided by the Electoral Commission according to the provisions of the PPERA. The largest grants are provided by the "Short Money". Whether or not they should be considered as a form of public funding of political parties itself is a controversial matter since the grants are intended for the use of opposition parties for parliamentary activities alone. How the money actually is used is another matter and is beyond the remit of this study.

For all of the financial years from 2005 to 2010, the Conservative Central Office accounts include the party's share of the Short Money. The Liberal Democrat receipts of Short Money are covered by the accounts of the Parliamentary Office of the Liberal Democrats. When the Conservatives and Liberal Democrats formed a coalition government after the General Election of 2010, they lost their entitlements to Short Money and to Cranbourne Money while Labour started to collect a share of this money.

Given the uneven distribution of Short Money and Cranbourne Money between parties in government and in opposition, it is useful to consider the respective budgets of the parties both including and excluding expenditures financed by these grants. Expenditures including direct state grants are shown in Tables 5, 6 and 8. In Table 9, the central expenditures of the three main parties are shown net of expenditures financed by direct state grants. The table also excludes spending financed by "notional" income.

Table 9
NET CENTRAL EXPENDITURE OF THE THREE MAIN PARTIES,
2005 - 2010 (in thousands of pounds)

	2005	2006	2007	2008	2009	2010
Conservative	29,081	17,847	20,439	19,071	23,593	40,885
Labour	43,883	22,836	22,436	21,017	21,076	29,191
Liberal Democrat	8,847	4,703	6,105	5,744 [plus wales tba]	7,045	10,934

NOTE: 1. Statistics are net of commercial costs, spending related to the Westminster Foundation for Democracy, notional costs and expenditures financed from direct state grants. 2. Spending on election campaigns is included.

Once the financial advantages enjoyed by the Conservatives as the main party of Opposition from Short Money are stripped from the reckoning, the most striking feature of the spending of the two main parties in the years leading up to the last General election is their relative equality. In the years 2006 - 2009, Labour spent five per cent more than the Conservatives net of direct state grants and notional expenditures. During the 2010 election campaign, Labour drastically cut its spending. If spending in 2010 is added to that in the previous four years, the Conservatives spent six per cent more than Labour.

In the five years 2006 - 2010, central Liberal Democrat spending, calculated on the same basis, was 24 per cent as much as Conservative spending and 24 per cent of Labour spending. In those years, the Liberal Democrats made up some of the gap with the help of public funding in the form of Short Money and the Policy Development Grant.

The main item on which the Conservatives spent more than their political rivals in 2010 was on election advertising. But the importance of this was put in the shade by the newly-introduced prime ministerial debates on television.

What of trends in spending? When the central spending of the three parties in 2010 is compared with that in previous general election year of 2005, their combined expenditure on routine and campaigns items was very slightly lower (by 1 per cent) at current prices. Thus expenditure failed to keep pace with inflation. Taking account of inflation as measured by the RPI and by the AEI alike, spending was 15 per cent lower in real terms in 2010 than in 2005. These calculations are based on the definitions of central party expenditure used for Table 9.

(6) SPENDING BY LOCAL PARTY ORGANISATIONS

It has always been hard to make reliable estimates of spending by the many hundreds of

local organisations of the political parties. The method of sampling a cross-section of budgets of local parties is unreliable. Even if the local organisations chosen are typical in terms of their political and socio-economic characteristics, sampling methods are likely to be skewed by the reality that more efficient (thus, in all probability, higher-spending organisations) are more likely to respond to appeals for information. For the same reason, incomplete collections of local party budgets sometimes held by party headquarters are also likely to present an untypical picture.

Even if the problems of collecting a representative sample of local party accounts are resolved, there are further difficulties. There are no rules or templates for these accounts. Many of them are the work of amateurs. Categories of income and expenditure are not standardised and it can be hard to make head or tail of some of the returns. If the objective is to determine trends, there is the added difficulty of comparing budgets for current years with incomplete data for earlier electoral cycles.

If one of the objectives of estimating local spending is to derive an estimate of the overall amount of money (central and local) spent by a political party, there is yet another consideration. In order to do so accurately, it is necessary to find out how much money spent by local parties has been obtained from central party organisations and how much local parties have contributed to party headquarters. These internal party transfers must be eliminated in order to avoid double counting.

Partly for these reasons, this study does not examine local budgets in depth. It uses fairly crude and opportunistic methods of estimation.

One source of information about local party finances which has become available since 2001 under the terms of the PPERA is the collection of annual budgets of "accounting units" of political parties. These accounting units - most but not all of which are local constituency organisations of parties - are obliged to submit their accounts if either their annual income or expenditure exceeds £25,000. The number of accounting units in each political party which submit such accounts every year provides one crude indicator of local financial strength. Care is nevertheless required in interpreting the numbers. The accounting threshold set out in the PPERA is not linked to inflation. In real terms, £25,000 in 2010 was worth significantly less than in 2001. If local party finances increase in line with inflation, one would therefore expect the number of accounting units required to submit accounts to increase. An increase in the number of accounting units reporting to the Electoral Commission therefore does not in itself demonstrate an increase in the level of local party funding in real terms.

Against the background of these limitations, it nevertheless is worth recording the number of above-threshold accounting units in each of the three main political parties which submitted their annual reports to the Electoral Commission during the 2001 - 2005 and the 2006 - 2010 electoral cycles. Table 10 gives the number of accounting units in each of the parties which submitted reports in 2003 and 2008 - non-election years and in the years of the General Elections of 2005 and 2010. Accounting units which were part of the central organisation of the Liberal Democrats or which consisted of specialist or non-geographical party groups are excluded. The three main features of the statistics are (1) the relative

strength of of the Conservatives at the local level, (2) the weakness of Labour as compared with the Liberal Democrats and (3) the probability that the number of units reporting in the 2005 - 2010 electoral cycle over the number in 2005 - 2010 was largely or wholly a reflection of inflation.

Table 10
NUMBER OF ACCOUNTING UNITS SUBMITTING ANNUAL FINANCIAL REPORTS
TO THE ELECTORAL COMMISSION

	Conservative	Labour	Liberal Democrat
Non-election years			
2003	290	21	49
2008	339	43	88
General election years			
2005	332	66	98
2010	392	92	117

NOTE: 1. Accounting units are required to submit financial reports if their income or expenditure exceeds £25,000. 2. Excludes specialist and non-geographical accounting units and units of central party organisations.

For the years 2003 and 2006, the Electoral Commission conducted special investigations into the budgets of accounting units which had not submitted financial returns. the regulatory objective was to determine whether some local organisations were failing to submit returns even though their budgets were above the reporting threshold of £25,000. The incidental benefit of the inquiry was to throw considerable light on the budgets of below-threshold accounting units of the Conservative and Labour Parties. Few Liberal Democrat accounting units responded. The results of the Electoral Commission's inquiries are thus most useful for the Conservatives and Labour.

The author of this study used the findings of the inquiry, supplemented by information supplied by the political party organisations, to make an unusually detailed analysis of the finances of Conservative and Labour constituency organisations in 2003 (the only year in the 2001 - 2005 electoral cycle for which detailed information was available on the budgets of accounting units whose finances were below the formal reporting threshold). The results are given in *Paying for the Party*. The average expenditure of a Conservative constituency association in 2003 was estimated as £28,300 compared with an average for constituency Labour parties of £8,300. (See page 43, table 10.)

According to a comparison of 19 Conservative constituency budgets in 2003 and 2008, expenditure rose on average by nearly 13 per cent. This constituted a fall of some 5 per cent in real terms (with inflation measured by the RPI). Average expenditure of Conservative

constituency associations in 2008, on this rough method of calculation, was £33,560.

A similar comparison of the budgets in 2003 and 2008 of 33 Labour accounting units showed an increase in spending of over 14 per cent. This constituted a fall of 4 per cent taking into consideration inflation as measured by the RPI. This suggests that the average expenditure of constituency Labour parties in 2008 was £9,450.

For the Liberal Democrats, different sources have been used. The Liberal Democrat headquarters kindly made available on a strictly confidential basis the results of a thorough internal review of its local membership and funding for the years 2004, 2005 and 2006. Access to the data was conditional upon an agreement not to identify data on particular constituencies. The data constituted by far the fullest the author has seen on the local funding of the Liberal Democrats, though there are significant gaps. Using this source for 2006 and as a second step, comparing 35 Liberal Democrat the expenditures of 35 accounting units in 2006 and 2008, the average expenditure of the Liberal Democrats per constituency was £7,030 in 2006 and £9,410 in 2008. These figures assume that the accounting units which failed to provide figures for the internal Liberal Democrat study of 2006 had budgets at the same level as those which agreed to provide their budgets. If it is assumed instead that the non-responding accounting units tended to be those with relatively poor organisations, it probably is realistic to deduct some 10 per cent from the totals. Thus, average Liberal Democrat constituency spending in 2008 may be reckoned at about £8,500. (It should be noted that the problem of taking into account the issue Conservative and Labour Party accounting units which failed to respond to the Electoral Commission's survey of below-threshold accounting units in 2003 was resolved in another manner during the preparation of statistics for *Paying for the Party*. There, it was assumed that non-responding constituency parties had budgets similar to those in responding constituencies with a similar political complexion.)

In summary, the average spending of local party organisations in the non-election year of 2008 is given in Table 11. The statistics require a fairly serious health warning. Moreover, they report gross expenditures. Were the costs of fund raising and other relevant costs deducted (as for the central party accounts), and were notional items to be deducted, the totals possibly would be some 20 per cent lower.

Table 11
ESTIMATED AVERAGE SPENDING OF CONSTITUENCY PARTY ORGANISATIONS
IN A NON-ELECTION YEAR (2008)

	Average Spending in Pounds
Conservative	33,560
Labour	9,450
Liberal Democrat	8,500 - 9,410

(7) CONCLUDING COMMENTS

The objective of this study is to set out factual information and estimates which may be interpreted and used in different ways by readers.

Two points should be stressed. First, the figures given in the study give no indication of an "arms race" in political spending. Second, statistics of party political funds in Britain - national or local - are increasingly unsatisfactory as indications of political financing. When money is used to influence politics in Britain, it is not necessarily deployed through political party funds. some of the main resources used are benefits-in-kind such as free broadcasting time (the overwhelming importance in the General Election of 2010 of the party leaders' debates is the prime example), state funding of political life in the form of paid staffs of elected officials (local and national), the funding of Third Parties, and the funding of newspapers and other media. Without carrying out research into these forms of money in politics, there can be no responsible assessment of the role money plays in British political life.