



## In Focus

### Political Parties (Funding and Expenditure) Bill [HL] (HL Bill 26 of 2016–17)

#### Summary

The [Political Parties \(Funding and Expenditure\) Bill \[HL\]](#) is a private member's bill introduced by Lord Tyler (Liberal Democrat). The Bill received its first reading in the House of Lords on 6 June 2016 and is scheduled to receive its second reading on 10 March 2017. It aims to regulate both the funding and expenditure of political parties.

Setting out the purpose of the Bill, Lord Tyler stated:

This Bill is based on the cross-party draft published by Andrew Tyrie [Conservative MP for Chichester], Alan Whitehead [Labour MP for Southampton Test] and Lord Tyler in April 2013, and seeks to fulfil the objectives of the report on this subject by the Committee on Standards in Public Life published in November 2011. The current Bill updates the previous proposals to reflect the various 2015 manifesto commitments of all the main parties seeking to take the big money out of British politics and to regularise the constraints on both party donations and expenditure.<sup>1</sup>

In a debate in the House of Lords on the Queen's Speech in May 2016, Lord Tyler further explained why he was introducing the Bill:

I propose measures to deal with the current vagueness and confusion surrounding campaign expenditure—nominally part of the nationally controlled budget of the party—which is, in practice, targeted precisely to support a particular candidate in a particular constituency [...] Over the last two years or so, experience has dramatically demonstrated that these restrictions are now routinely circumvented by so-called national spending, under the very high Political Parties, Elections and Referendums Act 2000 (PPERA) limits. Unsolicited material—mailshots and other directly addressed material—costing millions of pounds has bypassed the constituency expense limit, which was first legislated for as long ago as 1883. The current inadequate investigations must obviously lead to careful clarification of the law.<sup>2</sup>

In response, the then Parliamentary Secretary at the Cabinet Office, Lord Bridges of Headley, stated that the Government:

[...] cannot impose consensus on the political parties, but we are open to debate and dialogue, including taking forward measures for discussion on promoting small-scale private fundraising.<sup>3</sup>

## Key Provisions

The Bill comprises of 28 clauses and three schedules. Clause 1 makes clear that the Bill would build on the requirements set out in the PPERA. Clause 2 would provide that ‘represented registered parties’ included in the Bill would be those with at least two members of the House of Commons, a devolved legislature or the European Parliament. Clause 3 details the maximum allowable amounts that a party could accept in a year from a single source. The cap would be phased in over a ten-year period, with the maximum amount decreasing each year as follows:

- 1 January 2017, £50,000
- 1 January 2018, £40,000
- 1 January 2019, £30,000
- 1 January 2020, £25,000
- 1 January 2021, £22,500
- 1 January 2022, £20,000
- 1 January 2023, £18,500
- 1 January 2024, £15,000
- 1 January 2025, £12,500

With regards to the year commencing 1st January 2026 and each year thereafter, the maximum allowable amount that a party could accept from a single source would be £10,000. At present, there is no limit for permissible donations.

Clauses 4 and 5 define what would be considered either a donation or loan. Clause 6 sets out the circumstances in which affiliation fees by trade unions and other membership organisations would be treated as individual funding. However, before this could happen, the Electoral Commission would have to issue a notice under clause 7 that it was satisfied the membership organisation had met the conditions outlined in clause 8 of the Bill. These conditions would include a requirement that members who contributed to an organisation’s political fund must be allowed to specify that their contribution could not be paid to a registered party as an affiliation fee. In addition, the conditions would include a requirement that members must be informed of their right to opt out of the political fund either in person or on the organisation’s website. This condition would apply both to trade unions and other membership organisations. Clause 9 relates to powers the Secretary of State would have with regard to written consents applicable to trade union members.

Clauses 10 to 18 seek to change the basis on which public funding is provided to political parties. Clause 10 outlines the amount-per-vote scheme. For each financial year, an amount would be paid to each represented registered party out of money provided by Parliament. The amounts would be: 50p per vote for candidates standing at the last general election; and 25p per vote for candidates and party lists standing in either the last European Parliament elections or devolved elections. Clause 11 would provide matched funding for registered supporters of a political party. The Bill specifies that the amount of the matched payment in any tax year would be limited to £5 in respect of each donation to a represented registered political party. Clauses 12 to 14 detail the application of gift aid to donations to political parties. Clause 15 outlines the spending restrictions that would apply to political parties, with funds only being able to be spent on: the development of policies for manifestos; the promotion of such policies; expenses incurred during elections; ensuring that public duties of elected representatives are carried out; and accommodation and administrative costs.

Clause 16 would repeal section 12 of PPERA, consequently ending the [Policy Development Grants](#) scheme, although no date is given as to when this would take place. Clause 17 would change the requirements on candidates to secure valid nominations at parliamentary and European parliamentary elections. As a result, the Bill would change the basis for securing a valid nomination from previously

requiring a £500 deposit to needing either 100 registered supporters for parliamentary elections or 1000 registered supporters for European elections.

Clause 18 would allow the Secretary of State to set a cap on the total amount of public funding available under the amount-per-vote scheme and the matched funding for registered supporters scheme outlined in clauses 10 and 11 of the Bill. The Secretary of State could reduce the sums specified in these schemes (ie 50 pence/25 pence per vote and matched funding of up to £5 per donation) in order to ensure that the total amount of funding did not exceed the overall cap. The level of the cap and reductions to the sums specified in the schemes would have to be approved by a resolution of each House. The Secretary of State could also vary the sums specified in the amount-per-vote scheme and the matched funding scheme to take account of inflation. This would be subject to annulment in either House.

Clause 19 would provide for an annual limit on non-election expenses incurred by political parties. It would also stipulate that no more than one percent of the limit—set by the Secretary of State—could be spent communicating directly with electors in any one constituency in any given year. The clause also mentions schedule 1, which details the qualifying expenses. Clause 20 would bring into effect schedule 2 of the Bill. Schedule 2 would decrease existing limits on campaign expenditure by 15 percent by amending schedule 8 of PPERA. Clause 21 seeks to remove restrictions on pre-candidacy election expenses for certain general elections by amending the Representation of the People Act 1983. Clause 22 and schedule 3 would provide for free delivery of candidate election addresses for each candidate or party list in elections to either the UK or European Parliaments compiled into one booklet.

Clause 23 would provide for the Secretary of State to give more functions to the [Electoral Commission](#), an independent body which regulates political finance in the UK, that the Secretary of State considers necessary to give effect to the Bill. Clause 24 outlines that a review of the effects of the Bill would take place no later than 1st January 2019, and then every two years from that date. Clauses 25 to 27 set out a number of general matters, including interpretations and order and regulation-making powers. Lastly, clause 28 contains the commencement provisions and states that the Bill would extend to the whole of the United Kingdom.

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## Background

Party political funding comprises of many different forms. Firstly, eligible political parties are entitled to public funding. This is usually in the form of Policy Development Grants, which are designed to assist parties with the development of policies for inclusion in a manifesto. Under the Policy Development Grants scheme, a total of £2 million is shared equally among the eligible parties. To be eligible for the grant, a party must have at least two sitting MPs in the House of Commons, with those MPs having taken the oath of allegiance provided by the Parliamentary Oaths Act 1866.<sup>4</sup> Other examples of public funding include both Short Money and Cranborne Money.

Political parties are also funded by donations. However, donations over £500 to political parties can only be accepted from “permissible donors”, for example, individuals on the UK electoral register or most UK-registered companies.<sup>5</sup> It is the responsibility of political parties to report certain donations to the Electoral Commission and make them public. Some of the donations that must be reported by political parties include: all impermissible donations; all permissible donations over £7,500; and all permissible donations and loans that total £7,500 from the same source in the calendar year.

According to the Electoral Commission, political parties received a total of £77.2 million in donations in 2016.<sup>6</sup> The figure represents an increase on 2015 figures, with a total of £51.25 million donated to political parties. The Electoral Commission also reports that during the 2015 general election campaign,

political parties spent a total of £37.6 million.<sup>7</sup> This included spending £15.2 million on unsolicited material to the electorate, £7 million on advertising and £2.5 million on overheads and general administration.

In November 2011, the Committee on Standards in Public Life published its report into political party finance. The Committee found the current party funding arrangements “unsustainable”.<sup>8</sup> As a result, the Committee made a number of recommendations. These included the introduction of limits of £10,000 on donations from any individual or organisation in any year to any party with two or more elected representatives; and cutting party spending on election campaigns by 15 percent.<sup>9</sup>

In addition, the Committee recommended supplementary public funding to political parties, based on the number of votes secured in the previous election. The funding would be at a rate of approximately £3 per vote in Westminster elections and £1.50 per vote in devolved and European elections.<sup>10</sup> The Committee on Standards in Public Life calculated that the cost of the additional support might total approximately £23 million a year.<sup>11</sup> Clauses 10 to 18 of the Political Parties (Funding and Expenditure) Bill [HL] follow on from the recommendations of the Committee. However, they do not replicate them exactly.

Responding to the Committee on Standards in Public Life’s report, the then Deputy Prime Minister, Nick Clegg, told the House of Commons that:

The Government believe that the case cannot be made for greater state funding of political parties at a time when budgets are being squeezed and economic recovery remains the highest priority.<sup>12</sup>

In February 2012, Nick Clegg invited representatives from the Conservative, Labour and Liberal Democrat parties to participate in cross-party discussions regarding the reform of political party funding, as recommended in the Committee’s report. However, the parties could not reach an agreement.<sup>13</sup>

In May 2013, Andrew Tyrie (Conservative MP for Chichester) and Alan Whitehead (Labour MP for Southampton Test), along with Lord Tyler, published a draft bill on party funding, based on some of the recommendations made by the Committee on Standards in Public Life. The draft bill included similar provisions found in the Political Parties (Funding and Expenditure) Bill [HL], such as a cap on donations and changes to the public funding of political parties.<sup>14</sup>

On 28 January 2016, the Trade Union Political Funds and Political Party Funding Committee was appointed by the House of Lords to examine party funding in the context of the Trade Union Bill which was then before the House, including the recommendations made by the Committee on Standards in Public Life into the issue. The Committee published its report on 1 March 2016. In its report, it called on political parties to “give effect to their manifesto commitments on party funding”.<sup>15</sup> In addition, it urged the Government to “convene cross-party talks with a view to making a renewed and urgent effort to reach agreement”.<sup>16</sup>

In its response to the Committee’s report, the Government stated that:

Despite a decade of talks, there is still no cross-party consensus on the separate and broader issue of party funding at this time. This is ultimately a matter for the political parties—the Government cannot impose consensus from Whitehall [...] More broadly, the Government wants a democracy that works for everyone, and is committed to taking steps to further increase transparency and accountability.<sup>17</sup>

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## Further Information

- House of Lords Library, [Party Funding: Summary of Developments in 2016](#), 28 October 2016
- House of Commons Library, [Political Party Funding: Controversies and Reform Since 1997](#), 24 March 2016; and [Political Party Funding: Sources and Regulations](#), 8 January 2016

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<sup>1</sup> Text provided by Lord Tyler on request from the Library.

<sup>2</sup> [HL Hansard, 24 May 2016, col 312](#).

<sup>3</sup> *ibid*, col 379.

<sup>4</sup> Electoral Commission, [‘Public Funding for Parties’](#), accessed 1 March 2017.

<sup>5</sup> Electoral Commission, [Overview of Donations to Political Parties](#), September 2010, p 6.

<sup>6</sup> Electoral Commission, [‘Overview of Donations and Loans Since 2001’](#), accessed 3 March 2017. Please note that sums have been rounded.

<sup>7</sup> Electoral Commission, [‘Spending’](#), accessed 1 March 2017. Please note that sums have been rounded.

<sup>8</sup> Committee on Standards in Public Life, [Political Party Finance: Ending the Big Donor Culture](#), November 2011, Cm 8208, p 8.

<sup>9</sup> *ibid*, pp 8–9.

<sup>10</sup> *ibid*, p 9.

<sup>11</sup> *ibid*, p 10.

<sup>12</sup> [HC Hansard, 23 November 2011, col 26WS](#).

<sup>13</sup> [HC Hansard, 4 July 2013, col 62WS](#).

<sup>14</sup> Andrew Tyrie, Alan Whitehead and Lord Tyler, [Funding Democracy: Breaking the Deadlock—A Draft Bill for Consultation](#), May 2013.

<sup>15</sup> House of Lords Trade Union Political Funds and Political Party Funding Committee, [Report](#), 2 March 2016, HL Paper 106 of session 2015–16, p 34.

<sup>16</sup> *ibid*.

<sup>17</sup> Cabinet Office, [Memorandum to the House of Lords Select Committee on Trade Union Political Funds and Political Party Funding](#), December 2016.

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