



BRIEFING PAPER

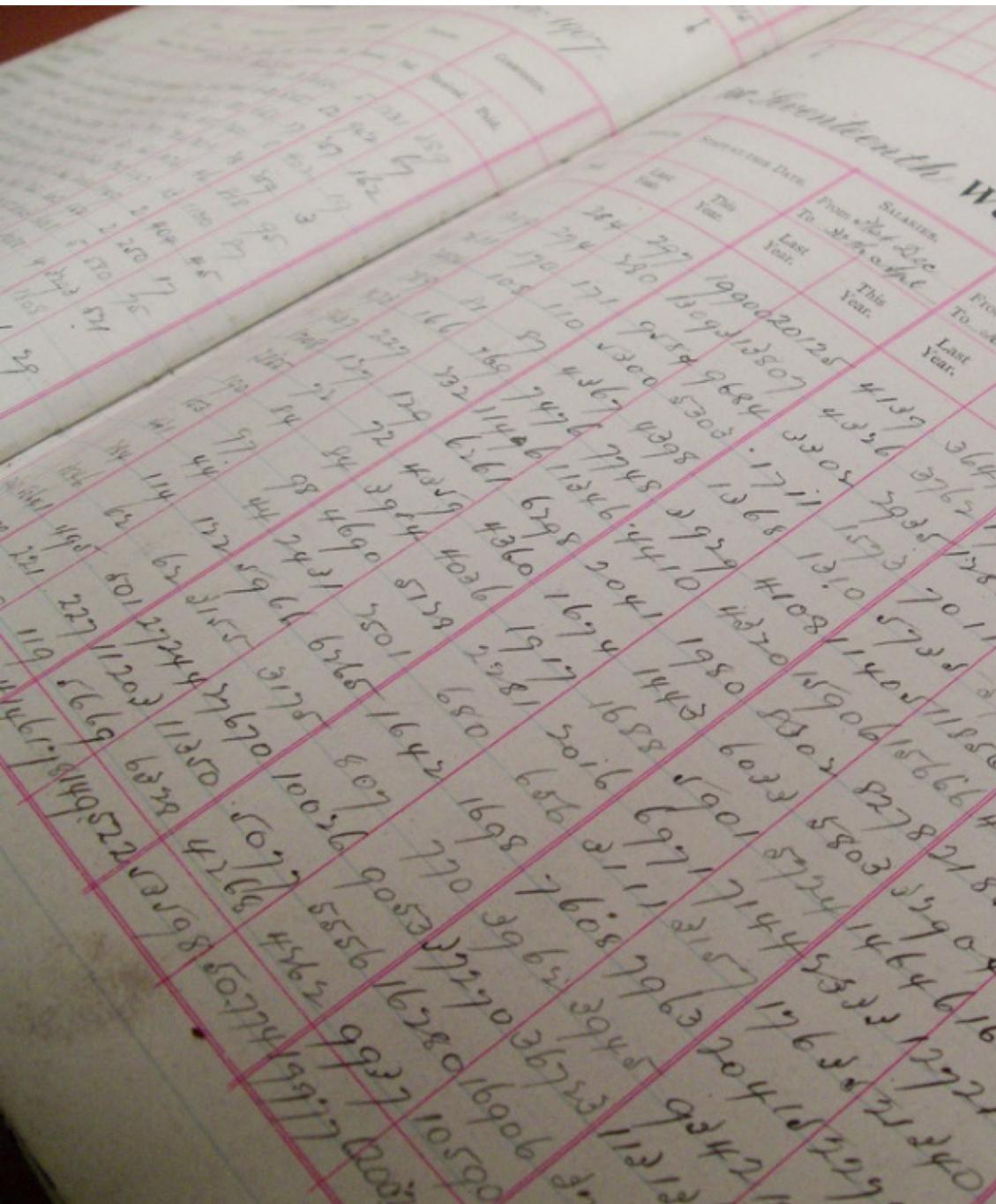
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Political party funding: controversies and reform since 1997

By Elise Uberoi

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Contributing Authors:

Richard Keen, party funding statistics

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Summary

This note gives background to the main controversies around, and attempts to reform, political party funding since 1997.

Political parties contribute to the UK's representative democracy but require income to fund their activities. Private funding of political parties is associated with the risk and perception of improper influence. Reform proposals have focused on a cap on donations and an increase in public funding. However, it has proven difficult for the parties to agree on the level of a cap on donations, and there is some resistance to increasing public funding whilst there are pressures on public spending.

The finances of British political parties were largely unregulated before the Labour government that came to power in 1997 passed the *Political Parties, Elections and Referendums Act 2000* (PPERA). PERA was based on the report on party funding by the Committee on Standards in Public Life published in 1998. It regulates the funding and spending of political parties, candidates and certain others, and created the Electoral Commission to monitor compliance.

During the Labour Governments in power between 1997 and 2010, party funding reviews were carried out by the Electoral Commission (2004), the Constitutional Affairs Select Committee (2006) and Sir Hayden Phillips (2007). PERA was modified by the *Electoral Administration Act 2006* that subjected loans to the same rules as donations, and the *Political Parties and Elections Act 2009* that introduced new spending limits and altered donation reporting thresholds.

The Coalition Government in office from 2010 until 2015 included a commitment to party funding reform in its coalition agreement. Reports on party funding were published by the Committee on Standards in Public Life (2011) and the Electoral Commission (2013). Cross-party talks broke down in 2013. The *Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014* restricted the funding and spending of non-party campaigners during election periods.

The Conservative Government elected in 2015 reduced the public funding available to opposition parties. The *Trade Union Bill 2015-16* introduced on 15 July 2016 includes provisions that could have implications for the funding the Labour Party receives from trade unions.

1. Introduction

The funding of political parties in the UK has been a source of controversy for decades. This Briefing Paper explains why party funding is contentious, and discusses the main developments, controversies and attempts at reform since 1997. For more information on the rules that apply to different forms of party funding, see Library Briefing Paper 7137 [Political party funding: sources and regulations](#).

In the 1990s, several scandals connecting donations and loans made to political parties to particular policy decisions and nominations for peerages created pressure for reform. The *Political Parties, Elections and Referendums Act 2000* (PPERA) introduced a regulatory framework that controls party funding and expenditure (PPERA has subsequently been amended by other legislation). PERA also made political parties' reliance on donations more transparent, although this has not necessarily led to an increase in public trust.¹

Cross-party talks about party funding reform broke down in 2013. There was some pressure to revive them after the 2015 general election. During a debate in the House of Lords on 10 December 2014, the Liberal Democrat peer Lord Dykes said:

This matter really needs to be dealt with very urgently indeed now. [...] Presumably, alas, we cannot do it before the general election, for obvious reasons, but we must surely return to it after the election.²

Similarly, the Labour peer and former Electoral Commissioner Lord Kennedy of Southwark emphasised that:

It is important that we have healthy political parties that can function properly and that the political system is free from the suspicion of acting improperly in relation to party funding matters. While we often sit and watch the TV or see in the newspapers an opponent's party getting caught up in all sorts of funding nonsense ... in the end we all lose because people begin to think that all the parties are at it. They think that the system is corrupt and we all suffer as a result. It is really important that we get this right. There should be no winners or losers, but a fair, functioning system that actually respects everyone.³

Lord Wallace of Saltaire, speaking for the Coalition Government, concluded the debate by stating that party funding "is an issue to which we will all have to return after the next election".⁴ The Conservative Party, the Labour Party and the Liberal Democrat Party stated a commitment to party funding reform in their manifestos for the 2015 general election.

This Briefing Paper explains why party funding is contentious; discusses the situation before the Labour Party gained power in 1997 and the main developments under the Labour governments of 1997-2010, as

¹ Constitutional Affairs Committee, *Party Funding*, 13 December 2006, HC 163 2006-7, para 51

² Lord Dykes, HL Deb 10 Dec 2014 cc GC512

³ Lord Kennedy of Southwark, HL Deb 10 Dec 2014 cc GC518

⁴ Lord Wallace of Saltaire, HL Deb 10 Dec 2014 cc GC522

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well as under the Coalition Government of 2010-2015, and the current Conservative Government. It concludes by analysing the main options for reform.

2. Why is party funding contentious?

This section explains why parties need income, and discusses the issues that arise in relation to public funding and private funding, respectively. Finally, it provides statistical information on party funding.

2.1 The need for party funding

Political parties play an important role in modern mass democracies. The late political scientist Peter Mair explained that parties serve several functions: they “are seen to integrate and ... mobilize the citizenry; to articulate and aggregate interests, and then to translate these into public policy; to recruit and promote political leaders, and to organize the parliament, the government and the key institutions of the state”.⁵

To perform these functions, political parties need money. They need to pay the rent on their offices, hire staff, research policy alternatives, and produce campaign material. Electoral campaigns in particular can be expensive. Campaign spending can have an impact on electoral success, along with factors such as campaign strategy and volunteer activity.⁶ Campaigns inform the public of the different options available to them and have a positive effect on voter turnout.⁷

2.2 Public funding

Across Europe, states have increasingly provided public assistance to political parties. The UK is no exception, and expanding public funding has continually been proposed as an avenue for party funding reform. The arguments for and against increased public funding of political parties will be analysed in section 7.2.

2.3 Private funding

Political parties can raise funding from individuals, companies or organisations. Such private funding can be considered to be an expression of political engagement, a way for people to participate in democracy by enabling parties to carry out their functions. It can also be seen as an expression of preferences: people indicate which policies they prefer by donating to the party that advocates these.

Yet private funding also raises concerns. There is a concern that money can buy influence in politics, so that the wealthy have an opportunity for influence that is not open to others. Some suspect that those who donate to political parties are able to influence policy decisions in their favour.

⁵ P Mair, *Ruling the void*, 2013, pp89-90

⁶ J Fisher et al, ‘You get what you (don’t) pay for: the impact of volunteer labour and candidate spending at the 2010 British General Election’, *Parliamentary Affairs*, Vol 67, 2014, pp804-824

⁷ J Fisher, ‘[In a close contest, will money make the difference?](#)’, *Hansard Society Blog*, 5 December 2014

If voters think election outcomes and policies can be ‘bought’, they may have less confidence in the integrity of the political system and may be less likely to engage and participate in it. As Sir Hayden Phillips, who led an influential cross-party inquiry into party funding, states: “public concern over the integrity of party finance corrodes trust in politics”.⁸

2.4 Party funding statistics

Political parties differ in the extent to which they rely on different sources of income. To give an indication, figure 1 shows the total income per party in 2013, broken up by source type. Figure 2 shows the relative importance of different sources of funding for the overall income of political parties in 2013.

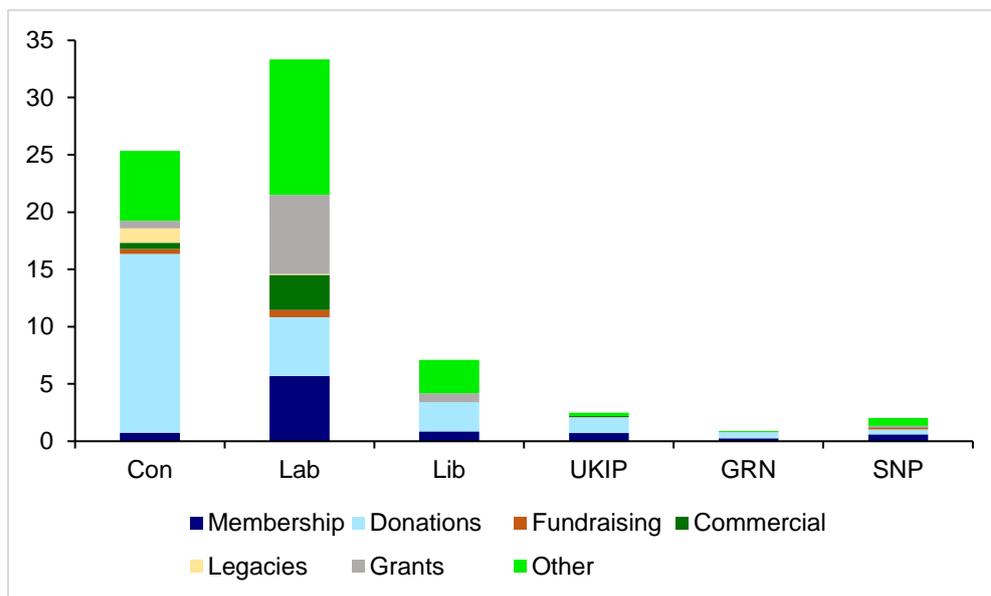


Figure 1. Total income by source type (£ millions), 2013. Source: Party annual accounts submitted to the Electoral Commission, House of Commons Library calculations

⁸ H Phillips, ‘The funding of political parties’, *Political Quarterly*, Vol 83 No 2, 2012, p323

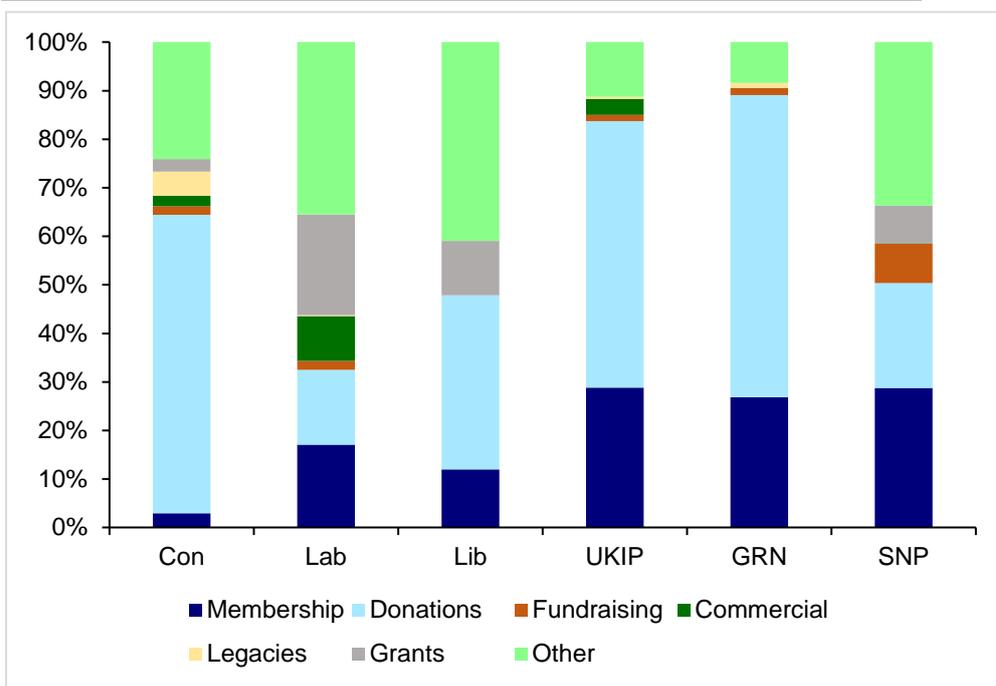


Figure 2. Relative importance of income sources, 2013. Source: Party annual accounts submitted to the Electoral Commission, House of Commons Library calculations

The category 'other' in these figures refers to miscellaneous funding streams that are not easily comparable between parties, such as income from investments and conferences (Conservative Party), affiliations (Labour Party), and newspaper income (Liberal Democrats).

3. The situation before 1997

The finances of British political parties were largely unregulated before the Labour government that came to power in 1997 passed PPERA in 2000. This section introduces the situation before 1997.

3.1 Public funding

The House of Commons' Short Money scheme, adopted in 1975, and the House of Lords' Cranborne Money scheme, adopted in 1996, provide public funding to opposition parties in support of their parliamentary activities.⁹ Both schemes are still operating today.

The Labour Government in power after the 1974 elections created the Committee on Financial Aid to Political Parties, led by Lord Houghton. The Committee reported in 1976 and advocated annual funding to central parties. The Labour government approved this recommendation but did not legislate before the 1979 election, when the Conservatives, who opposed it, gained power.

3.2 Private funding

For the remainder of their income, political parties relied on private sources. As Professor Keith Ewing (King's College London) and Navraj Ghaleigh (University of Edinburgh) note, it was well known that the Labour Party depended on the trade unions and the Conservative Party on corporations: Labour and the Unions published accounts, and companies were required to declare donations.¹⁰

In addition, Members of Parliament were required to declare donations to the Registrar of Members' Interests following a 1974 Resolution of the House.¹¹ Funding patterns changed in the 1990s. Despite some existing restrictions on spending, parties increasingly sought to attract very large donations from wealthy individuals.¹²

⁹ See [Short Money](#), Commons Library Standard Note 1663, 8 July 2014

¹⁰ K Ewing and N Ghaleigh, '[The cost of giving and receiving: donations to political parties in the United Kingdom](#)', *Edinburgh Law School website* (accessed on 19 March 2015), 19 July 2006, pp4-5. The latter requirement was introduced with the *Companies Act 1967*

¹¹ See [Donations to Members of Parliament](#), Commons Library Standard Note 1119, 17 December 2009

¹² K Ewing and N Ghaleigh, '[The cost of giving and receiving: donations to political parties in the United Kingdom](#)', *Edinburgh Law School website* (accessed on 19 March 2015), 19 July 2006, pp4-6

4. Party funding: 1997-2010

In the run up to the 1997 elections, it was alleged that the Conservative Party had accepted donations from overseas funders.¹³ The Labour Party made a manifesto commitment to require political parties to declare the sources of their donations and to ban foreign donations. Following their election victory, it emerged that the Labour Party had accepted a £1 million donation from Bernie Ecclestone. He was the head of Formula 1 racing, which was subsequently exempted from the ban on tobacco advertising in the *Tobacco Advertising and Promotion Act 2002*.¹⁴ The Labour Party subsequently returned his donation. This section discusses the main developments around party funding during the Labour governments of 1997-2010.

4.1 The Committee on Standards in Public Life (1998) and PPERA (2000)

Then Prime Minister Tony Blair asked the Committee on Standards in Public Life to study the funding of political parties. In 1998, the Committee presented its report, which Professor Justin Fisher (Brunel University) described as “radical”, suggesting wide-ranging “proposals for the most fundamental reform in British party finance since the *Corrupt and Illegal Practices Act 1883*”.¹⁵ The report met with broad support and many of its proposals found their way into the *Political Parties, Elections and Referendums Act 2000* (PPERA).

The Act established a regulatory agency, the Electoral Commission, to monitor elections. Political parties were required to register with the Electoral Commission and provide it with their accounts. Donations could only be accepted from permissible donors and had to be declared if they surpassed specified thresholds. Parties could receive public assistance for policy development activities through the newly created Policy Development Grant. The Act also restricted election campaign expenditure.

Further information on the background to and the provisions of PPERA are discussed in three Library Research Papers that were produced in advance of the second reading of the Bill.¹⁶

¹³ D Butler and D Kavanagh, *The British General Election of 1997*, 1997, pp24-45

¹⁴ K Ewing and N Ghaleigh, '[The cost of giving and receiving: donations to political parties in the United Kingdom](#)', *Edinburgh Law School website* (accessed on 19 March 2015), 19 July 2006, p7; J Fisher, 'The political parties, elections and referendums act 2000', *Representation*, Vol 38 No 1, 2001, p12

¹⁵ J Fisher, 'The political parties, elections and referendums act 2000', *Representation*, Vol 38 No 1, 2001, p13

¹⁶ [Political parties Elections and Referendums Bill – electoral aspects. Commons Library Research Paper 00/1, 6 January 2000; Political parties Elections and Referendums Bill – donations. Commons Library Research Paper 00/2, 7 January 2000; Political parties Elections and Referendums Bill – referendums and broadcasting. Research paper 00/3, 7 January 2000](#)

4.2 The Electoral Commission review (2004)

In 2003 the Electoral Commission launched a review of the funding of political parties. It published a paper inviting views on a number of issues including the public funding of parties and the capping of political donations. The Commission took evidence from trade unions, political parties, think tanks and others.¹⁷

The Electoral Commission's report, published in 2004, recommended:

- a reduction in the national spending limit for general elections;
- no cap on donations, but if one were to be adopted, for the level to be set at £10,000 per donor per year;
- an increase in public funding, in the form of an expansion of the policy development grant scheme from £2 million to £3 million, to be made available also to parties with seats in the European Parliament and devolved legislatures, an extension of the free post system to local elections, and tax relief on donations under £200, with an equivalent scheme for non-taxpayers.¹⁸

The Government did not produce a formal response to the report and these recommendations were not implemented.

4.3 'Cash for honours' (2006) and the Electoral Administration Act 2006

Before the 2005 general election press reports exposed that the Conservative, Labour and Liberal Democrat parties had been receiving extensive funding in the form of loans (rather than donations).¹⁹ Unlike donations, loans given at market rate did not need to be reported to the Electoral Commission.

The controversy intensified when the House of Lords Appointments Commission blocked the appointment of three nominees. This was because the loans they had made to political parties had not been disclosed to the Commission.²⁰

An extensive criminal investigation was launched and senior politicians were interviewed, including Michael Howard, former leader of the Conservative Party, Lord Rennard, the Liberal Democrats' Chief Executive, and then Prime Minister Tony Blair.²¹ The 'cash for honours investigation' received intense media interest but despite several arrests did not result in any prosecutions.²²

¹⁷ Electoral Commission, [The funding of political parties](#), Background Paper, May 2003

¹⁸ For a more detailed discussion, see [The Funding of Political Parties](#), Commons Library Research Paper 07/34, 11 April 2007

¹⁹ 'Blair bypassed committee to accept secret election loans', *Times*, 20 March 2006; '[Election watchdog to investigate party loans](#)', *The Guardian*, 21 April 2005

²⁰ For further information about the allocation of honours, see [Honours](#), Commons Library Standard Note 2832, 2 February 2012

²¹ 'Blair Questioned by police over loans for peerages', *Times*, 15 December 2006; 'Howard questioned by police', *Daily Telegraph*, 24 October 2006; 'Detectives interview Lib Dem chief over £2.4m party donation', *Times*, 21 November 2006

²² See [Loans to Political Parties](#), Commons Library Standard Note 3960, 27 February 2007

Following this scandal, the Government introduced amendments to the *Electoral Administration Act 2006* to make it compulsory for political parties to disclose loans in a similar way to donations and for disclosure of loans for relevant political purposes for party members, holders of certain elected offices and party members associations. The Act amended PPERA to enable the Government to introduce similar controls on loans made to election candidates and non-party and referendum campaigners. This Act also abolished the requirement for MPs to report donations to the Electoral Commission, as they already reported them to the Register of Members' Interests (this section did not come into force until 2009).

4.4 Inquiries: Constitutional Affairs Select Committee (2006) and Phillips (2007)

Two inquiries into party funding were launched in 2006. The Government waited to respond to both reports at the same time, and responded by instigating inter-party talks in 2007.

The Constitutional Affairs Select Committee (CASC)

The CASC report was initiated before the loans scandal and published in December 2006.²³ It noted that the increased transparency introduced by PPERA had not restored faith in the political system, but had instead fuelled public concern.

The report recommended:

- a reduction of national expenditure limits that would take into account the practice of constant campaigning;
- a voluntary but binding cap on large donations;
- an increase in state funding, subject to strict rules and focused on the local level. Such public funding would take the form of matched funding for membership fees, a fixed annual amount based on votes won in the previous election, and tax relief for small donations limited to £250 per donor per year.

Sir Hayden Phillips

Following media speculation about loans made to political parties, the then Prime Minister appointed the retired senior civil servant Sir Hayden Phillips to lead a cross-party review of party funding, looking specifically at public funding, a cap on donations, and transparency. He was asked to "produce recommendations as much as possible agreed between the political parties with a view to legislation as soon as Parliamentary time allows".²⁴

The Conservatives expressed support for a cap on donations and increasing public funding, along with a reduction in spending limits. These and other proposals were set out in a pamphlet entitled *Clean Politics* by the Conservative MP Andrew Tyrie who had been given a

²³ Constitutional Affairs Committee, *Party Funding*, 13 December 2006, HC 163 2006-7

²⁴ Lord Falconer's letter to the leaders of all political parties represented at Westminster, 20 March 2006

brief from David Cameron to develop policy on party funding.²⁵ The Liberal Democrats largely agreed, but the Labour Party opposed a cap on donations as this would affect its historical ties to the trade union movement. Labour instead emphasised reducing election expenditure, so as to reduce the demand for large sums of money to run increasingly expensive campaigns.²⁶

The Phillips report was published in March 2007.²⁷ It suggested a reform package based on a substantial level of agreement between the main political parties on the necessity of, among other things:

- a reduction of campaign expenditure;
- a £50,000 cap on donations and loans;
- an increase in public funding. Phillips recommended a scheme combining a fixed amount, based on the number of votes given to a party at the previous general election, and a form of match funding where the state would match £5 donations to political parties by registered supporters. Parties receiving public funds should demonstrate their use of these funds and their accounts should be audited.

The report also argued that the Electoral Commission would need the “powers, the capacity and the practical experience” to oversee the new rules.²⁸ Finally, the report noted two potential obstacles to agreement: the need to design a cap on donations taking account of the Labour Party’s structure (Phillips suggested that trade union donations be counted as aggregated individual donations); and the difficulty of regulating spending before the election period.

Following publication of the report, the Government heeded its call for talks with independent oversight between the three main parties. These talks were suspended without agreement in October 2007 and no action was taken at this time.²⁹

4.5 The Political Parties and Elections Act 2009

Further reforms to party funding were made by the *Political Parties and Elections Act 2009*. This Act introduced spending limits for candidates in constituency campaigns when a Parliament lasts beyond 55 months. Parliaments will now last five years (60 months) unless an early general election is triggered under the *Fixed-term Parliaments Act 2011*. The *Political Parties and Elections Act 2009* also increased the thresholds above which donations or regulated loans must be reported, introduced a regular review of these thresholds to match inflation, and included a

²⁵ A Tyrie, *Clean Politics*, 20 March 2006.

²⁶ For a more detailed discussion, see [The Funding of Political Parties](#), Commons Library Research Paper 07/34, 11 April 2007, pp38-40

²⁷ H Phillips, [Strengthening Democracy: Fair and Sustainable Funding of Political Parties](#), March 2007

²⁸ *Ibid*, p13. This was also suggested in the report on the Electoral Commission by the Committee on Standards in Public Life: *Review of the Electoral Commission Eleventh Report* January 2007, Cm 7006, paras 2.18-2.26

²⁹ For an account of why the talks broke down see: H Phillips, ‘The funding of political parties’, *Political Quarterly*, Vol 83 No 2, 2012

provision to ban donations from people not resident in the UK for tax purposes (this provision, however, has not yet come into force).³⁰

³⁰ See [Progress of the Political Parties and Elections Bill 2008-2009](#), Commons Library Standard Note 4967, 27 July 2009, and [Non-Domiciled donors – Political Parties and Elections Act 2009](#), Commons Library Standard Note 6435, 10 October 2012

5. Party funding: 2010-2015

Prior to the 2010 general election, all three main parties made manifesto commitments to reform party funding. Following the election, the Conservatives and Liberal Democrats stated in their Coalition Agreement that they would “pursue a detailed agreement on limiting donations and reforming party funding in order to remove big money from politics”.³¹ Attempts at finding a consensus on reform have not succeeded. Meanwhile, a number of party funding scandals and allegations have been reported in the press. This section discusses the developments around party funding from 2010-2015.

5.1 The Committee on Standards in Public Life (2011)

The Coalition Government asked the Committee on Standards in Public Life (CSPL) to review the issue of party funding. The Committee published a discussion paper and took evidence, and reported in 2011.³² The report proposed a reform package, including:

- a reduction of campaign spending limits of 15 per cent,
- a cap on donations of £10,000,
- an increase in public funding of £23 million (or 50p per voter) per year. This funding would take the form of an annual amount based on the number of votes attracted at the previous election, and a tax relief on all donations, membership and affiliation fees up to £1,000.

The Committee further argued that trade union donations could only be treated as aggregated individual donations if members made a conscious decision to opt in to, rather than out of, the affiliation fee.

In response, the Government opposed any increase in public funding at a time of budget reduction.³³ The Political and Constitutional Reform Committee published a report urging the parties to take the reform proposals seriously and come to an agreement on a comprehensive reform package that would not favour any one party.³⁴ Cross-party discussions about the suggestions for reform – excluding the issue of public funding – were initiated in February 2012. However, they failed to achieve consensus. In July 2013, the Deputy Prime Minister Nick Clegg announced that the three main parties had not reached an agreement on party funding and that it was “clear that reforms cannot go forward in this Parliament”.³⁵

³¹ HM Government, *The Coalition: our programme for government*, May 2010, p21

³² Committee on Standards in Public Life, *Political party finance: Ending the big donor culture*, November 2011, Cm 8208. Note that the report was published with dissent notes for Rt. Hon. Margaret Becket MP and Oliver Heald MP (appendix 8)

³³ Deputy Prime Minister Nick Clegg, HC Deb 23 November 2011 c25WS-26WS

³⁴ Political and Constitutional Reform Committee, [Political Party Finance](#), 29 January 2012, HC 1763 2012-13

³⁵ HC Deb 4 July 2013 c62WS

5.2 The Electoral Commission review (2013)

The Electoral Commission published a review of existing regulations on political party and election finance, supported by evidence taken from political parties, in June 2013.³⁶ The report did not suggest major reforms but recommended changes to improve existing rules on the registration of political parties, campaign spending, controls on donations and loans, and enforcement.

The recommendations on donations and loans to political parties focused on reducing the regulatory burden on parties, simplifying existing rules and clarifying their meaning and underlying policy intention. The Electoral Commission also recommended that an Order should be introduced to bring relevant loans to election candidates and non-party and referendum campaigners under similar controls as loans made to political parties.

There was no government response to this report. However, some of the recommendations were addressed in the *Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014*.

5.3 The Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 and other developments

The Coalition Government introduced legislation in an effort to regulate the influence of third parties on political decision-making. The *Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014* introduced a statutory register of lobbyists, regulates election campaign spending by third parties more strictly, and requires trade unions to keep their membership lists up to date.³⁷ Critics have argued that the Act targets charities and trade unions while failing to regulate certain categories of corporate lobbyists.³⁸ Some charities have reported a 'chilling effect' on their campaign activities.³⁹

In January 2015, the Government appointed Lord Hodgson to review the working of the Act.⁴⁰ The Review asked third parties and others, candidates, and returning officers to complete surveys by 7 June 2015,

³⁶ Electoral Commission, '[A regulatory review of the UK's party and election finance laws: recommendations for change](#)', June 2013

³⁷ See [Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Bill](#), Commons Library Research Paper 13/51, 27 August 2013; [Campaigners and Part 2 of the Transparency of Lobbying etc Act 2014](#), Commons Library Standard Note 6827, 18 February 2014

³⁸ '[The lobbying bill will save corporate PRs but silence the protesters](#)', *The Guardian*, 3 September 2013; Political and Constitutional Reform Committee, [Introducing a statutory register of lobbyists](#), 13 July 2012, HC 153 2011-12

³⁹ Commission on Civil Society and Democratic Engagement, [Impact of the lobbying act on civil society and democratic engagement](#), September 2014

⁴⁰ '[Lord Hodgson appointed official reviewer of Lobbying Act](#)', *Civil Society Governance*, 28 January 2015

and published a call for evidence on 16 June 2015 (the deadline for receiving written evidence was 31 July 2015).⁴¹

The report was published on 17 March 2016.⁴² It suggested a package of changes, including:

- limiting the scope of the activities covered by financial restrictions;
- shortening the regulated period before general elections to four months;
- clarifying how staff costs should be counted towards regulated expenditure;
- clarifying the rules on joint campaigning;
- requiring greater transparency;
- a more proactive role for the Electoral Commission;
- and monitoring the use of social media for campaigning purposes.

Draft Bill

In May 2013 backbenchers Andrew Tyrie (Conservative), Alan Whitehead (Labour) and Lord Tyler (Liberal Democrat) introduced a draft bill on party funding, based on the scheme recommended by the CSPL and drawing on the reports by Phillips and the CASC. While the signatories to the draft Bill did not agree with every word of it, they were “all agreed in the need to stimulate renewed commitment to reform”.⁴³

The draft Bill included a cap on donations and loans gradually decreasing from £50,000 to £10,000. It also included provisions for the pence-per-vote scheme suggested by the CSPL, the match funding scheme suggested by the Phillips Review, and tax relief for donations up to £1000 and membership fees. To pay for this public funding, the draft Bill abolished the Policy Development Grant and replaced the existing, individual freepost election addresses arrangement with a single booklet for all candidates.⁴⁴

Labour Party reform

Labour Party leader Ed Miliband introduced reforms to the relationship between the trade unions and his party in early 2014. Affiliation fees will in future only be accepted on behalf of individual levy payers who have consented to their payment.⁴⁵

5.4 Allegations and scandals reported by the press

During this period a number of stories in the press have alleged improper activities relating to party finance:

⁴¹ Third Party Campaigning Review: Terms of Reference, [GOV.UK](http://gov.uk), 21 April 2015

⁴² Cabinet Office, *Third Party Election Campaigning – getting the balance right: review of the operation of the third party campaigning rules at the 2015 General Election*, Cm 9205, 17 March 2016

⁴³ Andrew Tyrie, Alan Whitehead, Lord Tyler, *Funding Democracy: Breaking the deadlock – A Draft Bill for consultation*, May 2013, Foreword

⁴⁴ See *Election addresses*, Commons Library Standard Note 6434, 28 July 2014.

⁴⁵ ‘Labour union reforms backed by 86%’, *The Independent*, 1 March 2014

- In the 'cash for access' controversy of March 2012, the Sunday Times alleged that Conservative Party co-treasurer Peter Cruddas had offered access to the Prime Minister in exchange for cash donations of £250,000.⁴⁶
- In 2014, the press reported on an email sent by a Labour Party staff member to lobbyists offering access for donations, as well as advice on how to avoid reporting rules.⁴⁷
- A Labour Party analysis showed that half of the UK's richest hedge fund managers donate to the Conservatives. The Labour Party connected this to the exemption of hedge funds from stamp duty introduced in 2013.⁴⁸
- Labour Party leader Ed Miliband linked Conservative Party donors to the practice of tax evasion in HSBC's Swiss branch, calling Prime Minister David Cameron a "dodgy Prime Minister surrounded by dodgy donors".⁴⁹
- Ibrahim Taguri stood down as Liberal Democrat candidate for Brent Central after a media sting appeared to show him offering a journalist posing as an Indian businessman access to leading figures in the party in return for donations.⁵⁰
- A former hedge fund manager posing as a potential donor approached the Labour, Conservative and Liberal Democrat parties as part of a media sting. He met senior figures from all parties, and was offered advice on how to avoid being named as a donor by the Liberal Democrats.⁵¹

5.5 The 2015 General Election

Political parties addressed party funding in their 2015 election manifestos.

- The Conservative Party said they would "legislate to ensure trade unions use a transparent opt-in process for union subscriptions" and "continue to seek agreement on a comprehensive package of party funding reform."⁵²
- The Labour Party stated: "Labour remains committed to reforming political party funding and taking the big money out of politics by capping individual donations to parties."⁵³
- The Liberal Democrat Party said they would:

Take big money out of politics by capping donations to political parties at £10,000 per person each year, and introducing wider reforms to party funding along the lines of the 2011 report of the Committee on Standards in Public Life, funded from savings from existing government spending on politics.⁵⁴

⁴⁶ ['Tory Peter Cruddas sold access to PM, Sunday Times alleges'](#), BBC, 25 March 2012

⁴⁷ ['Labour lobbying access row'](#), *Public Affairs News*, 2 December 2014

⁴⁸ 'Conservative party "bankrolled by hedge fund managers"', *The Guardian*, 5 February 2015

⁴⁹ ['Miliband attacks "dodgy" PM in HSBC donor row'](#), BBC, 11 February 2015

⁵⁰ ['Lib Dem Ibrahim Taguri quits party amid donation claims'](#), BBC, 12 March 2015

⁵¹ 'Lib Dem leader in funding scandal', *The Sunday Times*, 22 March 2015

⁵² [Conservative Party Manifesto 2015](#), pp17, 49

⁵³ [Labour Party Manifesto 2015](#), p63

⁵⁴ [Liberal Democrat Party Manifesto 2015](#), p131

6. Party funding in the 2015 Parliament

The Conservative Government that took office after the 2015 general election has introduced two measures that relate to party funding: a proposed reduction of Short Money and the Policy Development Grant, and provisions in the *Trade Union Bill 2015-16* that could have implications for the funding the Labour Party receives from trade unions.

6.1 Short Money and the Policy Development Grant

The Government announced its intention to reduce Short Money allocations by 19% in the Spending Review and Autumn Statement 2015, and said that “Policy Development Grant allocations will also be reduced by a similar proportion”: (emphasis in the original)

Reducing the cost of politics

1.308 The government has taken a series of steps to reduce the cost of politics, including cutting and freezing ministerial pay, abolishing pensions for councillors in England and legislating to reduce the size of the House of Commons. However, since 2010, there has been no contribution by political parties to tackling the deficit. Indeed, taxpayer-funded Short Money has risen year-on-year from £6.9 million in 2010-11 to £9.3 million in 2015-16.

1.309 Therefore, subject to confirmation by Parliament, the government proposes to **reduce Short Money allocations by 19%, in line with the average savings made from unprotected Whitehall departments over this Spending Review**. Allocations will then be frozen in cash terms for the rest of the Parliament, removing the automatic RPI indexation. Policy Development Grant allocations will also be reduced by a similar proportion, ensuring that political parties in receipt of taxpayer-funding contribute to the savings being asked of local and central government.⁵⁵

On 12 February 2016, the Government laid before Parliament a Statutory Instrument (subject to the negative resolution procedure) that changed the parties eligible to receive the Policy Development Grant (in line with the 2015 General Election results).⁵⁶

Following concerns about the reduction in Short Money, the Government published a consultation document on 18 February 2016, inviting the views of political parties in the House of Commons and the Clerk of the House.⁵⁷ The deadline for written responses was 7 March 2016.

⁵⁵ HM Treasury, *Spending Review and Autumn Statement 2015*, November 2015, Cm 9162

⁵⁶ *The Elections (Policy Development Grants Scheme) (Amendment) Order 2016*, Made 10 February 2016

⁵⁷ Cabinet Office, ‘Short money allocations: request for views’, GOV.UK, 18 February 2016

The Government issued a written statement on 21 March, outlining proposals for a new formula for Short Money and a freeze of the Policy Development Grant, which would result in a 10.6% expenditure cut (compared to forecast levels) over the course of the Parliament, as well as the introduction of new transparency requirements.⁵⁸ The proposals were agreed on 23 March 2016.⁵⁹

More information is provided in Library Briefing Paper 1663 [Short Money](#).

6.2 Trade Union Bill 2015-16

The *Trade Union Bill 2015-16* was introduced on 15 July 2015 and received its Second Reading on 14 September 2015. More information on the provisions of the Bill is included in Library Briefing Paper 7295 [Trade Union Bill](#); information about the progress of the Bill through Parliament is provided in Library Briefing Paper 7369 [Trade Union Bill – Committee stage report](#).

Clause 10 of the Bill (as introduced and current) requires trade union members to opt-in to payments to trade unions' political funds, rather than opt-out, as is currently the case. Clause 11 (as introduced and current) requires trade unions to publish detailed information about how they spend their political funds.

The House of Lords voted on 20 January 2016 to establish a Select Committee to scrutinise the effect of these two clauses on political party funding.⁶⁰ The Committee reported on 2 March.⁶¹ The report found that requiring trade union members to opt-in to paying into unions' political funds was likely to lead to a significant reduction in these funds; that this reduction was likely to affect the amount the Labour Party receives from trade unions; and that reforms to political party funding should preferably be made on a cross-party basis. The recommendations of the report are summarised on the Committee's webpage:

- On joining a union with a political fund, new members should be asked to make an active choice about whether or not to opt in to the fund. This should be possible on paper or electronically, rather than on paper only as proposed in the Bill.
- The proposed transition period to an opt-in system for new union members should be increased from 3 months to a minimum of 12 months.
- Trade union members should not be required to renew a decision to opt in every 5 years as proposed in the Bill. The members should continue to contribute to the political fund unless they take a conscious decision to opt out.
- The Certification Officer should be required to issue a statutory code of practice setting out how unions should communicate with their members about their right to opt

⁵⁸ [HCWS634](#)

⁵⁹ House of Commons Votes and Proceedings, [Wednesday 23 March 2016](#)

⁶⁰ [HL Deb 20 January 2016](#), cc764-86

⁶¹ Select Committee on Trade Union Political Funds and Political Party Funding, [Report](#), HL 106, 2015-16, 2 March 2016

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out of contributing to the political fund, and to monitor compliance with it.

- New reporting duties in clause 11 of the Bill which require unions to report on all spending from their political funds should be revised in consultation with the Certification Officer to ensure they are not overly burdensome.
- The parties should give effect to their manifesto commitments on party funding, and the Government should convene cross-party talks with a view to making a renewed and urgent effort to reach agreement.

The majority of the Committee supported the following recommendation:

- The question of whether to extend the opt-in to existing union members must only be considered as part of the cross-party discussions on party funding reform which we have recommended, and should not be dealt with in this Bill. The discussions should be convened as soon as possible.

A minority of the Committee supported an alternative recommendation:

- The Government should apply the proposed opt-in system to existing union members, but perhaps on a longer transition period than for new members.⁶²

The Bill had its report stage in the House of Lords on 16 March 2016. Lord Burns (Cross Bench), who had chaired the select committee, moved an amendment that would have the effect of implementing the recommendations summarised above. The Lords defeated the Government in agreeing to the amendment (contents: 320, not contents: 172).⁶³

⁶² <http://www.parliament.uk/business/committees/committees-a-z/lords-select/trade-union-party-funding/news-parliament-2015/report-published/>

⁶³ [HL Deb 16 March 2016, cc1871-97](#)

7. What next for party funding reform?

Since the introduction of PPERA, the main recurrent themes in proposed reform packages have been a cap on donations; an increase in public funding; and a limit on expenditure. As the latter option does not strictly concern the way in which parties fund their activities, this section will focus on the first two options.

7.1 A cap on donations

Arguments for and against a cap on donations are summarised below, followed by the difficulties involved in deciding the appropriate level of such a cap.

To cap or not to cap?

The main arguments for introducing a cap on donations are:

- A cap could contribute to tackle any perceived link between money and influence, but this might depend on the level of such a cap (see below).
- The CASC stated in its report that a cap could “greatly increase the incentive for parties to widen their support base to a larger number of small donations.”⁶⁴
- The CASC also reported that opinion poll data collected between 2003 and 2006 consistently found public support (with levels ranging from 59% to 79%) for a limit on private donations to remove the risk of wealthy individuals buying influence.⁶⁵
- Phillips reported in 2007 that most political parties were in favour of a cap on donations.⁶⁶

But there are also arguments against introducing a cap on donations:

- A cap could be seen as an infringement of the freedom of expression of citizens who choose to support political parties they believe in.
- A cap could prove disruptive to the way parties function and finance their activities.
- A cap could lead to a need for greater public funding, and a dependence on that funding.
- A cap could result in attempts to evade the cap, with the consequent risk of more scandals corrosive of public trust.

Setting a level

Although there has been some level of agreement that a cap would be appropriate, there is no such agreement on the level of such a cap. The reports discussed above disagree whether a cap should be set at £10,000 (the Electoral Commission 2004, CSPL 2011) or at £50,000 (Phillips Review 2007). The CSPL used the national average annual wage

⁶⁴ Constitutional Affairs Committee, *Party Funding*, 13 December 2006, HC 163 2006-7, para 109

⁶⁵ *Ibid*, para 97

⁶⁶ H Phillips, *Strengthening Democracy: Fair and Sustainable Funding of Political Parties*, March 2007, p9

as a benchmark to make sense of any proposed level for a cap on donations, and noted the difficulties involved in arriving at an appropriate level:

On the one hand, it should not be so high that it fails to convince people that the concern about big money in politics has been properly addressed. On the other, it should not be so low that it leaves the parties with no incentive to raise funds for themselves and risks a new form of dependency, on the State. It also needs to be seen to be reasonably fair between the parties, and not set at a level which manifestly favours one of them because of the economic circumstances of their supporters.⁶⁷

The CSPL considered that the main political parties would have lost the average annual amounts (in £ million) given in the table below in the 2001-2010 period if a cap on donations had been in place. The difference for the Labour Party concerns whether affiliation fees are counted as a large organisational donation or as aggregated individual donations.

	£10,000 cap (% of reported donations lost)	£50,000 cap (% of reported donations lost)
Conservative Party	-12.7 (76%)	-8.1 (48%)
Labour Party	-14.7 (91%)	-3.0 (81%)
Labour Party (no cap on affiliation fees)	-7.3 (45%)	-5.9 (36%)
Liberal Democrats	-1.6 (57%)	-1.1 (38%)

Source: CPSL, *Political party finance: Ending the big donor culture*, November 2011, Figure 22

Note, however, that these predictions do not take into account behavioural changes likely to result from a cap: big donors might give smaller amounts and parties might focus on attracting more smaller donors.

7.2 Public funding

The reform packages discussed above recommend that the expected shortfall in income resulting from a cap on donations should be offset by an increase in public funding. This section summarises arguments for and against increasing public funding, and different ways in which such funding could be provided with different associated costs.

⁶⁷ Committee on Standards in Public Life, *Political party finance: Ending the big donor culture*, November 2011, Cm 8208, para 11.8

Increasing public assistance?

As mentioned above, political parties already receive some public funding and the debate has focused not on whether they should receive this, but on whether such public assistance should be extended. The main arguments for increasing public funding are:

- Political parties perform an important enough function to warrant financial support;
- The CSPL argued that an increase in public funding reduces the risk of improper influence associated with private funds.⁶⁸
- A match funding scheme where the state matches contributions by citizens could encourage political engagement and could encourage recruitment by political parties.
- The CSPL report stated that while the evidence on public opinion is inconclusive, more respondents agree than disagree with the notion that public funding should replace the current dependency on large private donations.⁶⁹

There are also reasons to reject an increase in public funding:

- Additional public funding could lead to greater regulation of political parties' activities which could affect their decisions, outlook and behaviour.
- Public funding could make political parties less active in attracting and representing citizens, making them less attuned to voters' needs.⁷⁰
- During times of continued pressure on public spending, funding political parties may seem an inappropriate use of taxpayers' money.

Public funding schemes and costs

Public funding can take different forms. The reports discussed above advocate the introduction of one or more of the following options:

- A pence-per-vote scheme, where political parties receive an annual amount based on the number of votes attracted in the previous general election (50p per vote for Phillips; £3 for the CSPL) and in elections for the European Parliament and devolved legislatures (25p for Phillips; £1.5 for the CSPL).⁷¹
- A match funding scheme, in which the state matches contributions from private sources, in the form of:
 - Tax relief on small donations to political parties (up to £200 for the Electoral Commission or £250 for the CASC).⁷²
 - Matched membership fees, either matching the full amount (for the CASC, or up to £1000 including small donations for

⁶⁸ Ibid, para 10.6

⁶⁹ Ibid, para 10.8

⁷⁰ See J Hopkin, '[The problem with party finance: theoretical perspectives on the funding of party politics](#)', *LSE Research Online*, 2004, pp14-15

⁷¹ H Phillips, *Strengthening Democracy: Fair and Sustainable Funding of Political Parties*, March 2007, p18; Committee on Standards in Public Life, *Political party finance: Ending the big donor culture*, November 2011, Cm 8208, para 11.71

⁷² Electoral Commission, *The funding of political parties*, December 2004, Executive Summary; Constitutional Affairs Committee, *Party Funding*, 13 December 2006, HC 163 2006-7, para 139

the CSPL) or, as in the Phillips Review, a specific amount (£5) per registered supporter.⁷³

Another way to administer public funding was suggested by the Power Inquiry. This inquiry was established and funded by the Joseph Rowntree Charitable Trust and the Joseph Rowntree Reform Trust to investigate why there has been a decline in participation in formal politics and to make proposals to reverse this trend. The report of the Power Inquiry was published on 27 February 2006. It suggested a tick-box form to allow voters, at each general election, to indicate whether to allocate £3 annually to a political party of their choice, to be used for local activities.⁷⁴

Different combinations of funding schemes result in different costs to the taxpayer. For example, the Phillips Review recommended a combination of a pence-per-vote scheme plus match funding for registered supporters, in addition to granting the Electoral Commission additional powers to ensure compliance, and the cessation of the Policy Development Grant scheme. This would result in an expected increase in public spending of £23.4 million.⁷⁵ Alternatively, the CSPL recommended a combination of tax relief on small donations and membership fees, and a pence-per-vote scheme with an estimated cost of £23 million per year. In addition, they recommend an extension of the existing Policy Development Grant scheme for which no cost estimate was given.⁷⁶ Both reports emphasise that this is only a small amount compared to the total cost of running a democracy.

⁷³ Constitutional Affairs Committee, *Party Funding*, 13 December 2006, HC 163 2006-7, para 131; Committee on Standards in Public Life, *Political party finance: Ending the big donor culture*, November 2011, Cm 8208, para 11.64; H Phillips, *Strengthening Democracy: Fair and Sustainable Funding of Political Parties*, March 2007, p18

⁷⁴ The Power Inquiry, [Power to the People](#), February 2006, pp212-213

⁷⁵ H Phillips, *Strengthening Democracy: Fair and Sustainable Funding of Political Parties*, March 2007, p29

⁷⁶ Committee on Standards in Public Life, *Political party finance: Ending the big donor culture*, November 2011, Cm 8208, Figure 28, para 13.11

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