



House of Commons
Constitutional Affairs
Committee

Party Funding

First Report of Session 2006–07



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Report, together with formal minutes, oral and written evidence

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The Constitutional Affairs Committee

The Constitutional Affairs Committee (previously the Committee on the Lord Chancellor's Department) is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Constitutional Affairs and associated public bodies.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House.

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The current staff of the Committee are Roger Phillips (Clerk), Dr Rebecca Davies (Second Clerk), Maïk Martin (Committee Legal Specialist), Richard Poureshagh (Committee Assistant), Chryssa Poupard (Secretary), James Clarke (Senior Office Clerk) and Jessica Bridges-Palmer (Committee Media Officer).

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Summary

Our inquiry into the funding of political parties took place against a backdrop of significant controversy in several areas. While not the cause of our inquiry, those controversies gave our investigation a new urgency and a specific context. However, these problems and issues are not unique to the UK; other countries have experienced similar problems, and have passed significant and sometimes radical legislation in order to address these issues.

The present system of party financing in the UK is unstable. Unless this instability is addressed, it is likely that dependence on large donations, and consequent negative impact on public confidence in the system, will increase. This report addresses two key questions therefore: a) what changes to the system of party financing would be acceptable to the public and would facilitate the restoration of public confidence in the system; and b) what can the political parties realistically achieve?

Political parties are key institutions in any system of representative democracy. The report outlines the case for their renewal as a vehicle for the promotion of democratic engagement. The report recommends the strengthening of the Electoral Commission and the development of a robust regulatory framework as a starting point for a new funding regime and renewal of the parties. The report then considers the arguments in favour and against caps on expenditure, caps on income and the extension of state funding.

The report concludes that a package of proposals is required: to contain the growth of and, where possible, reduce the amount of money in the system; to eradicate the possibility of buying political influence; and to guarantee an appropriate level of funding to enable political parties to function. Our report proposes that an increase in state funding for political parties should only follow an agreed and comprehensive framework for the limitation of expenditure and donations. It recommends that any proposed extension of state funding in the UK should seek to achieve consensus amongst the political parties; encourage broad public acceptance of any scheme and support transparent and robust regulatory arrangements. It should be workable, focused towards the local level and should be based on the principle that the main purpose of political parties is to be a vehicle for public activism and engagement.

It would be unrealistic to expect the parties to complete the changes immediately. We therefore recommend a transition period to enable parties to adjust and minimise the scope for a financial disadvantage.

Our examination of the systems in Canada, Germany and the U.S.A suggested that, given time, parties respond positively to changes in the funding regime. For most parties, new legislation had provided new opportunities to broaden the party support base. The package of reforms proposed in this report offers a stable route for parties. It provides a basis for a transparent funding regime and a significant step towards the restoration and renewal of the relationship between political parties and the public.

1 Background

1. Political parties form the bedrock of the system of representative democracy in the UK. Even when scepticism is expressed about the current nature and configuration of political parties, there are calls for their regeneration and renewal.¹ Political parties mobilise voters to participate in elections at all levels and make possible the conduct of effective government at the national, devolved and local level. They recruit and select candidates who become leaders of our democratic institutions and fulfil a key role in making and implementing public policy.² Survey evidence suggests that public opinion recognises and values the role played by the political parties: 71% of respondents agreed that political parties give ordinary voters the chance to choose between different sets of policies and 64% agreed that the parties represent strands of public opinion, both in government and opposition.³ The Electoral Commission concluded that “it is difficult to visualise a parliamentary democracy...without the role played by political parties”.⁴

2. There is general agreement with the Electoral Commission’s statement that political parties require sufficient funds to fulfil their democratic functions.⁵ However, a paradox currently exists at the heart of party politics in the UK: while there is recognition that political parties are key in mobilising local political activity and a central vehicle in promoting civic engagement, membership of political parties, turnout in elections and trust and confidence in politicians are at an all time low.⁶ This has major implications for the financial management of political parties. Modern, centralised campaigns have resulted in escalating campaign costs, while at the same time the financial impact of the decline in party membership has resulted in increasing reliance on large donations and loans to fund political parties: a situation which appears to have eroded public confidence still further.⁷ The New Policy Network warned that without an accepted system of adequate funding for political parties “we risk the health of our democratic system”.⁸

3. Problems with the funding of political parties are not exclusive to the UK. Our inquiry found that in Canada, Germany and the U.S steps had been taken and legislation passed, in order to stabilise funding arrangements for the political parties. The current system in the UK is unstable and likely to become more so unless key issues are addressed. Keeping the current system is therefore not an option. This report considers the potential route maps for reform of the party funding system. In considering the merit of any proposed reform two key questions were at the forefront of our mind a) what do the public want, and b) what can the political parties realistically achieve?

1 For example see *Power to the People: The Report of Power: An Independent Inquiry into Britain’s Democracy*, (March 2006), page 19 and page 22, which called for “the regeneration of parties”

2 Electoral Commission (2004), *The Funding of Political Parties: Report and Recommendations*, p. 7

3 Ev 63 and 64. ICM POLL State of the Nation 2004, for the Joseph Rowntree Reform Trust

4 Electoral Commission 2004, p. 7

5 Electoral Commission 2004, p.7

6 See the British Election Study at www.essex.ac.uk/bes/

7 For example see media reports at <http://politics.guardian.co.uk/funding/0,,685279,00.html>

8 Ev 57

4. We decided to investigate this important area before the controversy relating to loans to political parties which emerged in March 2006. However these, and subsequent developments, made our inquiry even more necessary. The allegations relating to circumstances surrounding major loans to all of the major political parties, whether substantiated or not, were bound to have an effect on public confidence in the workings of one of the most important parts of our political system. We immediately took evidence from the Lord Chancellor, who had announced at the end of March 2006 in a letter to all political parties which were represented at Westminster that he was going to seek to amend the law by way of an amendment to the Electoral Administration Bill (which was then in the House of Lords) to make it compulsory for all political parties to disclose any loans they received.⁹

5. Soon after our decision to start an inquiry we were contacted by Deputy Assistant Commissioner John Yates, the senior police officer in charge of an investigation into allegations made under the Honours (Prevention of Abuses) Act 1925. We made clear to him that we would ensure that nothing that we did in the course of our inquiry would in any way obstruct the police investigation. We wish to emphasise that we have focused on the principles behind the broader issue of party funding rather than on any particular cases or allegations. Because we were examining party fundraising, it was necessary for us to take evidence from fundraisers from all three major parties, including persons who either had been or might be involved in the police inquiry. This evidence was taken in private.

6. The question of how the political parties are, and should be, funded is not new, and has been the subject of several reviews, for example the Home Affairs Committee Inquiry of 1993-94 and the Hansard Commission Report of 1982.¹⁰ The most notable in recent years was the Fifth Report of the Committee on Standards in Public Life Report, *The Funding of Political Parties in the United Kingdom* (October 1998), which followed a Labour Party manifesto pledge in 1997 to require donations to be declared and to ban foreign donations.¹¹ The recommendations of the Neill Committee included: the public disclosure of donations over £5000, but no cap on the size of a permissible donation; a review of the Short and Cranborne monies and the introduction of tax relief for donations of up to £500 per annum.¹²

7. The Government welcomed all of these recommendations with the exception of tax relief for small donations. The majority were implemented through the Political Parties Elections and Referendums Act 2000 (PPERA) which came into force in February 2001.¹³ The Act established the Electoral Commission, set down accounting requirements for political parties, introduced controls on donations and on campaign expenditure, and rules

9 See also Ev 48

10 Hansard Commission Report on the Financing of Political Parties 1982

11 The Committee on Standards in Public Life, Fifth Report, *The Funding of Political Parties in the United Kingdom*, Cmnd 4057, October 1998

12 Short money is named after Edward Short, Leader of the House in 1975, when it was introduced. The money which is to be used for parliamentary business, has been a source of dispute in recent years, particularly over the definition of "parliamentary business".

13 Ev 46

for the conduct of referendums.¹⁴ However, only four years after its implementation, the Electoral Commission recommended a series of changes to the current party funding regime in the UK and called for a debate of the difficult and sensitive issues associated with the funding of political parties.¹⁵ Subsequently, in its 2005 General Election manifesto, the Labour party made a commitment to work with the Electoral Commission to explore how best to support political parties in their democratic role.¹⁶ In evidence to us the Department for Constitutional Affairs expressed the Government's recognition that "issues need to be looked at afresh".¹⁷

8. On 17 March 2006, it was announced that Sir Hayden Phillips would be carrying out an independent review of the party funding system. In oral evidence to us Sir Hayden indicated that he would work closely with stakeholders including the political parties and the Electoral Commission. He had been asked to aim to produce recommendations which are agreed between the political parties with a view to new legislation as soon as parliamentary time allowed.¹⁸

His terms of reference were as follows:

- i. To examine the case for state funding of political parties including whether it should be enhanced in return for a cap on the size of donations;
- ii. To consider the transparency of political parties' funding.

9. An interim report was published on 19 October.¹⁹ The interim assessment set out four different scenarios for the future of party funding in the UK. The first scenario was based on minimal change, and on the assumption that the impact of the change in regulation brought about by the Political Parties, Elections and Referendums Act (PPERA) 2000 required more time to bed in. The second scenario envisaged increased transparency and greater spending control, and the third proposed a cap on donations. Scenario four proposed greater levels of public funding in addition to the proposals outlined in scenarios two and three.²⁰ The Phillips review is due to present its recommendations for the future of party funding to the Prime Minister early in 2007.

10. We wished to contribute to the widening and important debate, not least because in some quarters there were concerns that the process would not be subject to democratic input or public debate: a "stitch-up" between the parties was seen as an undesirable

14 PPERA in effect grew out of the Committee on Standards in Public Life. The Act also charged the Electoral Commission with overseeing many aspects of party funding and elections. The Act amends previous rules on election expenditure found in the Representation of the People Act 1983

15 Electoral Commission Press Release 16th December 2004 available at www.electoralcommission.org.uk/media-centre/newsreleasereviews.cfm/news/406

16 Alan Grant (2005) 'The Reform of Party Funding in Britain', in *The Political Quarterly*, pp. 381-392, p.390

17 Ev 50

18 Q 132 See also www.dca.gov.uk/pubs/statements/2006/st060320a2.pdf. On 8 May 2006, the Department for Constitutional Affairs notified the Committee that Rt Hon Jack Straw MP, Leader of the House of Commons, would be taking the lead on Lords Reform and Party Funding issues. The Department said that despite this change, DCA officials will work to Mr Straw on party funding and House of Lords reform and the DCA team supporting Sir Hayden Phillips' Review would continue as before

19 Sir Hayden Phillips (October 2006), *The Review of the Funding of Political Parties, An Interim Assessment*, (October 2006)

20 pp. 13-22

outcome. We were able to put most of the evidence received by us on public record; the terms of reference for our inquiry were as follows:

- i. To consider the current system of party funding and to establish how well it is working and what reforms are required;
- ii. To consider whether any further safeguards are necessary to ensure transparency and propriety in party funding;
- iii. To consider possible alternative funding methods.

11. During the course of our inquiry we received written evidence from the witnesses listed on page 63. We visited: Berlin; Ottawa; Hartford, Connecticut; Boston and Washington, DC. A list of the people we spoke to is appended to the report.

12. At the heart of our inquiry was the question of who should pay for party politics. This report provides an overview of the issues, potential problems and proposed solutions that are relevant in answering that question, whilst at the same time providing for the effective functioning of political parties as a crucial element in an efficient parliamentary democracy in the UK. It explores the purpose of political parties and the efficacy of current funding arrangements and considers what kind of reform is required to the system of party funding in order to help parties fulfil their role. In welcoming the Committee's inquiry, the Electoral Commission stated that there is "a clear need to examine the operation of the current system and to consider the desirability and practicability of any possible reforms".²¹

13. Party funding and the maintenance of a system of parties that compete fairly within the British polity is an issue of central political importance. It is imperative that the Government take a considered and measured view of any proposals for reform and that reforms command a wide consensus among political parties. Failure to undertake reform, or the promulgating of reforms which are seen to be of a partisan nature, will serve only to alienate the public and damage rather than revive political parties in the eyes of the electorate.

2 The Funding of Political Parties in the UK

The Regulatory Framework: The Political Parties, Elections and Referendums Act (PPERA) 2000

14. A “nonsensical, loophole ridden patchwork”, is how Navraj Singh Ghaleigh, Lecturer in Public Law, Edinburgh Law School, described the system of party funding in the UK before the Political Parties, Elections and Referendums Act (PPERA) was passed in 2000.²² During the late 1990s, this was illustrated by allegations of “sleaze”²³ and by claims from the parties themselves that they operated under “such constraints of debt and uncertainty of income as scarcely to be able to perform their constitutional functions”.²⁴ PPERA was intended to address this and established a regulatory framework for party finance at national level for the first time in the UK.²⁵ Rt Hon Jack Straw MP, Leader of the House of Commons, who gave evidence to us as the Minister responsible for overseeing party funding issues, and also on behalf of the Labour party, hailed PPERA as “the most significant improvement in the regime of party funding” since the Second World War, but he conceded that “it has left some quite big gaps”.²⁶

15. The Act required registered political parties to submit an annual statement of accounts to the Electoral Commission, by a particular date and in a specified format. Furthermore, under PPERA donations to parties in excess of £5000 nationally or £1000 locally must be publicly declared with the details of the donor and the amount. This included ‘in kind’ as well as cash donations. Contributions may only be from permissible donors; foreign donations were banned and anonymous gifts in excess of £200 were also prohibited.²⁷ Under PPERA, party spending at the national level in general elections was capped. A new agency, the Electoral Commission was established to oversee the working of the Act and ensure compliance with the new rules.²⁸

Party Income

16. Despite the requirement under PPERA 2000 that all political parties must submit annual accounts to the Electoral Commission, it has remained difficult to obtain a precise picture of the total income and expenditure of political parties. The Electoral Commission does not at present provide significant analysis of the statistics it collects. This is required, because partly the internal structures of all the main political parties incorporate a degree of local autonomy in both fundraising and spending and for the distribution of funds at the

22 Navraj Singh Ghaleigh ‘Expenditure, Donations and Public Funding under the United Kingdom’s Political Parties, Elections and Referendums Act 2000’ pp. 35-56 in KD Ewing and S Issacharoff (eds.) (2006) *Party Funding and Campaign Financing in International Perspective* (Hart, Oxford), p.36

23 For further detail see Ghaleigh ‘Expenditure, Donations and Public Funding under the United Kingdom’s Political Parties, Elections and Referendums Act 2000’ pp. 35-56 in KD Ewing and S Issacharoff (eds.) (2006) *Party Funding and Campaign Financing in International Perspective* (Hart, Oxford), p.36

24 Paul Webb, (2000), *The Modern British Party System*, (Thousand Oaks, Sage), p. 238-9

25 Alan Grant, (2005), ‘The Reform of Party Funding in Britain’, in *The Political Quarterly*, pp. 381-392, p. 381

26 Q 262

27 Permissible donors under PPERA 2000 are listed at Ev 46

28 Ev 46

local and national level.²⁹ While PPERA bought a degree of regulation, transparency and conformity to the way party accounts are laid and scrutinized, it did not alter the different historical pattern of how the main parties in the British political system have raised funds. Indeed, any proposals for further reform to the system of party funding in the UK will eventually meet the obstacle of the plethora of historical traditions and relationships in the funding of political parties in the UK.

17. In the period 2001-2005 the Electoral Commission reported that the main parties income figures were as indicated in the table below.³⁰ This income is made up of several sources.

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------|--------|--------|---------|--------|----------------------|
| Labour | £35.5m | £21.2 | £26.9m | £29.3m | £35.3m ³¹ |
| Conservative | £23.3m | £ 9.9m | £13.6m | £20.0m | £24.2m ³² |
| Liberal Democrats | £ 5.0m | £ 3.7m | £ 4.1m. | £ 5.1m | £8.6m ³³ |

Membership Fees

18. Membership fees have historically been a key component of the income of all major political parties. However, for various reasons (not least that the parties did not necessarily keep central membership lists) it is unclear how reliable figures given for membership of political parties actually were. Both the Conservative and Labour parties affiliated on estimated local numbers – the Conservatives based on local figures with no central records, and Labour on the basis of a minimum of one thousand members per constituency affiliation. In the UK, it is estimated that party membership as a proportion of the voting-age population declined from reported figures of 10% in 1960-64, to 5.9% in 1975-79 and 2.6% in 1985-89, a particularly stark decline compared to other western democracies.³⁴ However, political parties were not alone in having experienced a decline in membership. The Hansard Society's Report *Neglecting Democracy*, re-published in March 2006, noted that:

“...traditional structures and networks-trade unions, working clubs, church groups and so on- that used to be facilitators of political debate and organisation have

29 Q 232-234

30 Electoral Commission (2004), *The Funding of Political Parties: Report and Recommendations*, pp. 27-33. However, these figures are those reported to the Electoral Commission and may not be accurate. See paragraph 39

31 www.electoralcommission.org.uk/files/dms/LabourSOA31-12-2005_22475-16688_E_N_S_W_.PDF

32 www.electoralcommission.org.uk/files/dms/ConservativeSOA2005_22685-16891_E_N_S_W_.PDF

33 [www.electoralcommission.org.uk/files/dms/TheLiberalDemocrats\(TheFederalParty\)SOA31-12-2005_22454-16670_E_N_S_W_.PDF](http://www.electoralcommission.org.uk/files/dms/TheLiberalDemocrats(TheFederalParty)SOA31-12-2005_22454-16670_E_N_S_W_.PDF)

34 Kevin Casas-Zamora, (2005), 'Party Membership Trends in Western Europe 1960-1989' in *Paying for Democracy: Political Finance and State-funding for Parties*, (ECPR Press), p.48

declined and that this has caused a shift in the way people understand themselves and their place in the political community”.³⁵

19. The Power Inquiry agreed with this, but added that in the realm of political campaigning outside formal electoral or parliamentary politics, involvement was still healthy. They explained that:

“The Citizen’s Audit of Britain found that over a twelve-month period 62 per cent donated money to a political or campaigning organisation, 30 per cent helped raise money for a political or campaigning organisation, 42 per cent signed a petition, 25 per cent contacted a public official, and 13 per cent contacted a politician in an effort to change laws or policies. Only one person in twenty took part in a public demonstration or attended a political meeting, but in terms of the numbers willing to participate this remains highly significant”.³⁶

20. The evidence suggested that while there may never have been a ‘golden age’ in party membership, there is no doubt that membership has declined, and that this has had an impact on political parties. One impact, as illustrated by a recent study, was that from the 1970s onwards the balance between income from membership fees and income from donations has changed. It is estimated that the share of membership fees in the central income of both major parties in the UK decreased from 49% in 1975-9 to 25% in 1993-7, while the proportion of donations grew from 49% in 1975-9 to 63.7% in 1993-7.³⁷ By 2005, membership fees accounted for only 10% of Labour party income and only 3.5% of Conservative party income.³⁸ The New Policy Network concluded that “the systems that have kept political parties running over the past century are breaking down. As membership has fallen, political parties have become increasingly dependent on large donations from individuals to fund their election campaigns”.³⁹

21. Another traditional source of funding for parties was provided by locally organized events and social activities, but this income stream has been affected by the decline in membership. Parties also organise larger scale fundraising events at national level; some of these are in part a vehicle for donations and corporate sponsorship, while others have given rise to issues about and restrictions on the use of Downing Street and parliamentary facilities.

22. Furthermore, a decline in party membership has altered the campaigning profile as well as the income profile of the main political parties, as both campaigning and fundraising have become increasingly centralised. The New Policy Network argued that in marginal constituencies in particular, parties often compensated for a lack of activists by using direct mail or national advertising, which may possibly be an effective campaigning mechanism but does not provide personal contact between the public and their representatives. They

35 hansardsociety.org.uk/assets/Neglecting_democracy_Feb_2006.pdf

36 The Power Inquiry, available at www.powerinquiry.org/report/documents/PowertothePeople_002.pdf

37 Kevin Casas-Zamora, (2005), ‘Party Membership Trends in Western Europe 1960-1989’ in *Paying for Democracy: Political Finance and State-funding for Parties*, (ECPR Press), p.48 This is a broad analysis, as the Conservative party for instance, only begun to publish full accounts from 1992-1993

38 See Party Accounts available at www.electoralcommission.org.uk

39 Ev 57

further warned that if over successive election campaigns a person has never been canvassed personally and has not met either the candidate or a representative of the party, then the likelihood of their having a positive view of politics and politicians and consequently of turning out to vote tends to drop significantly. A study by Denver, Hands, Fisher and MacAllister found that at best (i.e. in marginal target seats) only 50% of the electorate was canvassed in the 2001 General Election campaign.⁴⁰ In non-target seats, this figure fell to 18% for the Labour and Conservative parties and 8% for the Liberal Democrats.⁴¹ However, it is widely accepted that the contact between elected Members of Parliament and their constituents has increased significantly over recent years.⁴²

23. Decline in party membership has altered the income profile of the main political parties. However, more significantly, it has altered campaigning strategies, led to a reduction in the number of local activists and subsequently reduced the direct contact that parties have with members of the public.

Trade Union Funding

24. In their written evidence, the National Trade Union and Labour Party Liaison Committee (TULO) outlined the origins of the Labour party. The Party was founded by the trade unions on the 27th of February 1900, in order to reverse a judgement of the House of Lords and secure “better representation of working people in parliament”.⁴³ While the Labour Representation Committee changed its name to the Labour party in 1906, the Party maintained the structure of an organisation of affiliated trade unions and societies; it was not possible for an individual to become a member of the Labour party as such. Labour party membership was only opened to individuals as well as organisations in 1918.⁴⁴

25. In addition to the regulation under PPERA 2000, the relationship between the trade unions and the Labour party is subject to additional legal regulation under the Trade Union and Labour Relations (Consolidation) Act 1992. The rules were summarised by TULO as follows:

“Trade unions may only promote political objects after a ballot of the members approves a political resolution. Thereafter the union must adopt political fund rules by which political expenditure is financed from a separate political fund, which in turn is financed by a separate political levy of the members. The rules must also provide that every member of the trade union has a right not to pay the political levy, and that there should be no discrimination against non contributors (except in

40 D. Denver, G. Hands, J. Fisher,, I. MacAllister (2002), ‘The Impact of Constituency Campaigning in the 2001 General Election’, in L. Bennie, C. Rallings, P. Webb (Eds), *British Elections and Parties Review* 12, Frank Cass, London, pp.80-94

41 Ev 58

42 Rt Hon Jack Straw MP, Fabian Society Lecture ‘*The Future for Democracy: politics in a spectator society*’ delivered on 28th June 2006. Full text available at www.lse.ac.uk/collections/LSEPublicLecturesAndEvents/pdf/20060628-JackStraw.pdf

43 See www.unionstogether.org.uk/articles/article13.html and www.unionstogether.org.uk/documents/LabourPartySubmissiontoHaydenPhillips.pdf. The decision was the Taff Vale Railway Company v Amalgamated Society of Railway Servants [1901] AC 426 and was included in TULO’s submission to the Electoral Commission’s Review in 2003

44 www.unionstogether.org.uk/articles/article13.html

relation to the control and management of the fund). Members may opt out of paying the political levy at any time⁴⁵.

26. In 2001 there were 4,419,165 levy payers in 35 trade unions, and 643,000 trade union members who had opted out. According to the 2005 British Election Study, 45.7 % of current trade union members voted Labour in the 2005 General Election, 22.1 % Liberal Democrat and 19 % Conservative.⁴⁶ The law relating to trade union political expenditure was comprehensively examined by the Committee on Standards in Public Life in 1998. The Committee recommended that there should be no change to the existing position on the grounds that the existing law appeared to be working well.⁴⁷

Donation Income

27. In reviewing the income profiles of the three major political parties in the UK in 2005, based on analysis of Electoral Commission registers of donations, Ewing and Ghaleigh found that a total of £148.2m was donated to the political parties between the 5th April 2001 and the 5th May 2005.⁴⁸ A further source of donation income was local donations. However, this was difficult to quantify, in part because donations to local party structures were more likely to fall beneath the threshold and in part due to specific local arrangements which relied on voluntary disclosure by local volunteers.⁴⁹

28. The Labour party was the largest single beneficiary of donation income, which totalled £65,980,846 during this period: 64% of this donation income was provided by trade unions. Ewing and Ghaleigh found that 37 donors provided a further 25% of the Labour party's total donation income.⁵⁰ Given the constitutional position of the trade unions within the Labour party there is a question as to whether trade union funding should be categorized as donation or as a membership/affiliation fee. However, regardless of its classification, there has been a decline in trade union income as a proportion of the Labour party's overall income. The Lord Chancellor and Secretary of State for Constitutional Affairs, told us that donations from the trade unions currently provided 25-26% of the Labour party's total income, compared with 92% thirty years ago.⁵¹ However, other estimates suggested that trade union income to the Labour party still accounted for over 64% of its total donation income.⁵²

45 www.unionstogether.org.uk/articles/article13.html

46 N 621. House of Commons Library, analysis of 2005 British Election Study dataset

47 www.unionstogether.org.uk/articles/article13.html

48 Keith Ewing and Navraj Singh Ghaleigh (2006) Political Finance and Government Advertising Workshop (Australian National University) 25 February 2006. *Donations to Political Parties in the UK*, available at http://democratic.audit.anu.edu.au/papers/20060321_fin_ewing.pdf

49 David Hencke, Friday August 18, 2006, The Guardian

50 Keith Ewing and Navraj Singh Ghaleigh (2006) Political Finance and Government Advertising Workshop (Australian National University) 25 February 2006. *Donations to Political Parties in the UK*, available at http://democratic.audit.anu.edu.au/papers/20060321_fin_ewing.pdf

51 Q 36

52 Keith Ewing and Navraj Singh Ghaleigh, (July 2006). *The Cost of Giving and Receiving: Donations to Political Parties in the United Kingdom*, p. 17. Available at www.law.ed.ac.uk/file_download/publications/2_31_thecostofgivingandtaking.pdf

29. Historically, the Conservative party has relied on local constituency associations, individual and corporate donations for much of its income. Again, between April 2001 and May 2005, the Conservative party received a larger average of individual donations than the other parties, with high value donations (over £100,000 including aggregated donations) accounting for 43% of its donation income. A further 29% of its income came from state funding in the form of Short money and Policy Development Grants.⁵³

30. The Liberal Democrats have never received funding on the scale of the Labour and Conservative parties, but in recent years the party has received significant and regular funding from a few sources, notably the Rowntree Reform Trust. Ewing and Ghaleigh stated that until just before the 2005 General Election these sources accounted for 38% of Liberal Democrat funds, but a series of large donations from one source radically altered their income profile⁵⁴ and, in 2005, 25% of the Liberal Democrats donation income came from these sources. Three companies accounted for more than 30% of all donation income and a further 44% of all donation income came from private sources.⁵⁵

31. As the figures above illustrate, a significant proportion of these donations were large donations. It was pointed out to us in private session that all organisations, whether charities, political parties or others which are engaged in fundraising, find it much more efficient and cost effective to target a few large donors, rather than to pursue a wide range of donors of small sums. This situation makes it inevitable that large donations be targeted, unless specific steps were taken to discourage this.⁵⁶

32. Several parties have made increasing use of donations from elected representatives and local councillors, who in some cases are asked to give a suggested percentage of the allowance they receive as councillors to support the running of the party groups on the local council, the production of literature in order to communicate with voters and for local campaigns. These are payments to councillors who are free to treat them as income. Their support constitutes donations and is currently legal. Questions have been raised about whether it is proper to make a commitment to payments a condition of selection or re-selection as a council candidate and, in at least one case, about the use of council payroll systems for these payments. Some parties have made individual arrangements for their MEPs, MSPs and AMs to make regular contributions.

Public Funding

33. Short money was first introduced in 1975 in order assist parties with representation in Westminster with the costs of parliamentary business.⁵⁷ The current scheme is administered under a Resolution of the House of 26 May 1999. Short money is paid to opposition parties in the House of Commons, based on a formula on number of seats won and number of votes gained. The opposition parties receive additional payments for travel

53 As above

54 The single source is given as 5th Avenue Partners Ltd providing £2.42m

55 Keith Ewing and Navraj Singh Ghaleigh (2006) Political Finance and Government Advertising Workshop (Australian National University) 25 February 2006. *Donations to Political Parties in the UK*, available at http://democratic.audit.anu.edu.au/papers/20060321_fin_ewing.pdf

56 Jean Pierre Kingsley, Elections Canada

57 Ev 47

by front bench spokesmen, and the largest opposition party receives additional assistance for its Leader and Chief Whip's Offices.⁵⁸ The allocations in 2005-6 were as indicated in the table below.⁵⁹

| | Short Money | Cranborne Money |
|-------------------|-------------|-----------------|
| Conservatives | £4,206, 058 | £426,351 |
| Liberal Democrats | £1,536,221 | £212,873 |

34. Cranborne money was introduced on 27 November 1996 to fund opposition parties in the House of Lords. In 2005-06 the Conservative received £426,351, and the Liberal Democrats £212,873.⁶⁰

35. Under PPERA 2000 an additional sum of £2 million per annum was to be paid to all eligible parties via the Electoral Commission in the form of Policy Development Grants, "to assist the parties with the development of policies for inclusion in any manifesto",⁶¹ for all parties with two or more sitting MPs.⁶² The money was shared between the parties, based on a formula (which takes into account the different nature of party politics in England, Wales, Scotland and Northern Ireland and the size of the electorate) and then the results adjusted at the UK level.⁶³ Plaid Cymru described these grants as having a "major beneficial impact".⁶⁴

36. The following table sets out the exact allocations of the Policy Development Grants for 2006-2007 to those parties that were eligible to receive the funding.⁶⁵

58 The Leader of the Opposition, the Opposition Chief Whip and the Assistant Opposition Chief Whip receive a salary from public funds on top of their parliamentary salary. For 2005-6, the levels were £68,662; £38,854; and £25,005 respectively. The Leader of the Opposition is also provided with a car and driver by the Government Car Service

59 Ev 47

60 HoC Library Standard Note: SN/PC/1663 *Short Money* (22 September 2005). See also Ev 47

61 Political Parties, Elections and Referendums Act 2000, chapter 41, s12

62 Ev 48

63 See Library Standard Note (SN/PC/3138, November 2005) *Funding of Political Parties- A Brief Overview* for more detail

64 Ev 85

65 Ev 48

| Party | Total allocation 2006-7 | Actual allocation 2005-6 | Net gain 2005-2007 |
|------------------------------------|-------------------------|--------------------------|--------------------|
| Labour Party | £457,997 | £440,394 | £17,603 |
| Conservative and Unionist Party | £457,997 | £440,394 | £17,603 |
| Liberal Democrats | £457,997 | £440,394 | £17,603 |
| Scottish National Party | £162,542 | £145,828 | £16,714 |
| Plaid Cymru | £151,894 | £134,393 | £17,501 |
| Ulster Unionist Party | £0 | £132,866 | n/a |
| Social Democratic and Labour Party | £155,786 | £132,866 | £22,920 |
| Democratic Unionist Party | £155,786 | £132,866 | £22,920 |
| Total** | £1,999,999 | £2,000,000 | £132,864 |

** Discrepancies in totals are due to rounding of figures.

37. Furthermore, political parties along with independent candidates retain state assistance in kind in elections: for example, candidates' entitlement to free postage for one election communication, free use of local authority-owned meeting rooms and an entitlement to party election broadcasts if fielding candidates in more than one-sixth of the seats at an election.⁶⁶ Parties also have an entitlement to broadcasts outside election periods, and to broadcasts following ministerial broadcasts and the budget broadcast. Their entitlements are limited to air time and studio facilities, and do not extend to the cost of filming. Further assistance in kind is extended by the Electoral Commission who provide some support for party staff and officials.⁶⁷

38. The Westminster Foundation for Democracy, an independent political foundation sponsored by the Foreign and Commonwealth Office (FCO), also provided funding to the political parties for the promotion of democracy overseas. In 2005-06, the foundation received £4.1 million from the FCO, half of which was distributed between the three major UK parties, and to smaller UK parties on a proportional basis, for activity designed to "support the development of 'sister' parties in emerging democracies".⁶⁸

39. Political parties receive income from a variety of different sources. Despite the introduction of a duty to produce accounts under PPERA, a lack of common accounting practices makes it difficult to compile a comprehensive account of the income profiles of the political parties. The Government should ensure that the

66 Ev 48

67 See www.electoralcommission.org.uk/about-us/annualreport.cfm

68 See www.wfd.org

Electoral Commission produce more digestible, thorough and transparent figures of both the private and public sources of party income.

Party Expenditure

40. In the period 2001-2005 the three main parties represented at Westminster declared expenditure figures as follows:⁶⁹

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-------------------|--------|---------|--------|--------|--------|
| Labour | £44.5m | £22.1m | £24.3m | £32.1m | £49.8m |
| Conservative | £25.0m | £ 10.5m | £16.0m | £26.2m | £39.2m |
| Liberal Democrats | £ 5.2m | £ 3.4m | £ 4.0m | £ 4.6m | £8.8 |

41. In 2004, running costs were the largest expenditure item for the three main parties; £16.2 million for the Conservatives, £22.5 million for Labour and £2.3 million for the Liberal Democrats.⁷⁰ In 2005, a general election year, running costs remained the largest single expenditure item for both the Labour and Conservative parties.⁷¹ A survey of the accounts revealed that, over a five year period, 80% of the costs incurred by political parties were for routine expenditure.⁷² While much of the debate has focused on the escalation of costs in the context of campaign spending, the significant majority of party expenditure is spent on the day to day running of the parties.⁷³ This includes membership administration, handling inquiries, candidate selection and training, internal democracy and governance, fundraising, financial management, legal advice and the increasingly significant compliance costs arising from regulation and transparency.

Campaign Spending

42. Under PPERA 2000, campaign spending was capped at the 2001 General Election. It was set at £24,000 per contested constituency, or a total of £15.8 million in the year before the poll. In 2001 the Electoral Commission reported the following spending in the UK: Conservatives £12.8 million; Labour £11 million and the Liberal Democrats £1.4 million.⁷⁴ These limits were significantly increased to £30,000 per constituency or a total of £19.4 million in the year leading up to the 2005 General Election. The Electoral Commission

69 Electoral Commission (2004), *The Funding of Political Parties: Report and Recommendations*, pp 27-33, and latest submission by political parties of their accounts. These figures are a best estimate and include all expenditure, including campaign costs

70 Party accounts submitted to the Electoral Commission 2004

71 See the latest edition of the party accounts as submitted to the Electoral Commission. The figures for the Liberal Democrats are not included here for comparison, as a difference in accounting practices mean the figures are not directly comparable with the other two parties.

72 Professor Justin Fisher, *Party Funding: The Future Options*. House of Commons Library talk. 9 November 2006

73 See Party accounts submitted to the Electoral Commission

74 Dawn Oliver (2003), *Constitutional Reform in the UK*, (OUP, Oxford), p .151

reported that during this period the Conservatives spent £17.85 million; Labour £17.94 million and the Liberal Democrats £4.32 million.⁷⁵

43. In the run up to the 2005 General Election, all political parties and campaign groups spent a total of £42.3m (Labour and Conservative party expenditure accounted for £84.6% of this total), an increase of over 50% when compared with expenditure in the 2001 General Election. However, this reflected an extension in the regulated period from 111 days in 2001 to 365 days in 2005.

The Arms Race: the Cost of Campaigning

44. The Labour party's national campaign expenditure increased by more than five times in real terms between 1983 and 1997 and the Conservative party's by more than three times, giving rise to the argument that there was an 'arms race' between the parties, each under pressure not to be outspent by the other.⁷⁶ Again, this problem was not unique to the UK. Peter Kelly, former treasurer of the Democrat National Committee in the United States, told us that in 1978 the annual budget of the party was \$3 million. By 2004, however, the parties had spent \$3 billion on federal elections alone. He argued that there was "no limit to the hunger of the political system for money".⁷⁷ Jack Straw told the Committee that despite the fact that caps on campaign spending had been introduced, one of the biggest gaps in the PPERA legislation was that "the controls on spending are inadequate".⁷⁸ The New Policy Network agreed, and argued that while the spending cap introduced had lessened the 'arms race' of increasing spending during the 1990s, "substantial sums of money continue to be spent on election campaigns".⁷⁹ Jack Straw concluded: "my principal concern...was to see the total amount of money spent by political parties reduced, because it is essential that we end the arms race".⁸⁰

Conclusion: So What's the Problem?

45. The increased cost of campaigning has had a significant dual impact on the political parties. First, the Electoral Commission review of the impact of the PPERA legislation on party funding in the UK identified that "it is clear from these accounts that the main parties are having difficulties meeting their day-to-day costs, let alone campaigning costs, with some relying heavily on borrowing to fund their operations".⁸¹ This was graphically illustrated by the party accounts. In 2004, the Labour Party ran a deficit of £2.8 million in 2004, the Conservatives a deficit of £6.2 million and the Liberal Democrats a surplus of £0.445 million.⁸² In 2005, a general election year, the Labour party ran a deficit of £14.5

75 Electoral Commission (2006), *Election 2005: Campaign Spending*, pp. 51-59

76 Alan Grant (2005), 'The Reform of Party Funding', in *The Political Quarterly*, p 389 and Paul Webb (2000), *The Modern British Party System*, (Thousand Oaks, Sage) p. 240

77 However, these figures also indicated reallocation of funding within the party structures, and are subsequently slightly misleading

78 Q 262

79 Ev 57

80 Q 267

81 Electoral Commission (2004), *The Funding of Political Parties: Report and Recommendations*, p.3

82 Party accounts submitted to the Electoral Commission, year ended 2004.

million, the Conservatives of £14.9 million and the Liberal Democrats £0.207 million.⁸³ While PPERA introduced a cap on election spending, the legislation did nothing to address the financial burden that the political parties face between elections; that of maintaining and operating large organisations which deliver public goods.

46. Second, Ghaleigh claimed that this “unseemly dash for cash followed by the regular campaigning binges”, which characterised the increase cost in campaign spending, “created the impression (however inaccurate) of parties and governments being in hock to their wealthy benefactors (whether trade unions or off-shore potentates)”.⁸⁴ The requirement under the Political Parties, Elections and Referendums Act 2000 (PPERA) to publish all significant donations seeks to prevent corruption by requiring transparency. Furthermore, the amendment to the law in the Electoral Administration Act 2006, which brought the requirement to declare loans into line with the requirement to declare gifts, significantly strengthens the protection afforded by the law.⁸⁵ However, this legislation has not dispelled the public’s perception of “sleaze” or restored faith in the political system.⁸⁶ Furthermore, the financial position of political parties is still very far from transparent. It is still impossible accurately to gauge party income or the level of support in cash or other benefits given to political parties from particular sources. This can only contribute to public dissatisfaction with the current system of the funding of political parties.⁸⁷

47. The current situation has a considerable negative impact on public opinion with regard to politicians and political parties more broadly. In seeking to tackle the issue, the Lord Chancellor acknowledged that party funding was only one issue that had an impact on public confidence and public confidence would not be wholly restored “just by sorting out party funding”.⁸⁸ However, he told the Committee “one of the critical issues is what is the best source of funding for political parties in a way which most enhances public confidence”.⁸⁹ Sir Hayden Phillips concurred and stated that “any changed system of party funding should try to bolster public confidence and help recapture the true mission of party politics as serving the public”.⁹⁰

48. The current system of party financing in the UK is unstable and, unless key issues are addressed, it is likely that these problems will increase further. Not addressing the financial predicament of the parties at this stage could lead to increased dependency on large donations, ever increasing amounts of money being spent between elections and the subsequent further erosion of public confidence due to the increasing appearance of money buying power and influence.

83 As above

84 Navraj Singh Ghaleigh (2006), ‘Expenditure, Donations and Public Funding under the United Kingdom’s Political Parties, *Elections and Referendums Act 2000*’ pp. 35-56 in KD Ewing and S Issacharoff (eds.) (2006) *Party Funding and Campaign Financing in International Perspective* (Hart, Oxford), p.41

85 Ev 49 and 50

86 Ev 57

87 Ev 87

88 Q 74

89 Q 68

90 The Phillips Interim Report, p 4

49. We believe that there are problems, both actual and perceived, with the current arrangements for party funding in the UK. While parties struggle with escalating costs and a reduction in the traditional financial support base, public confidence is damaged by the fear that donors may be able to buy political influence. While the PPERA 2000 introduced closer regulation and some improved transparency, it has not finally resolved problems with the system; if anything, increased transparency, by revealing the extent of and dependency on donations from a few rich individuals, corporations and trade unions, has increased the negative impact on public confidence.

50. We agree with the Lord Chancellor that party funding is only one issue that has an impact on public confidence and resolving this issue alone will not fully restore this confidence. However, if handled well, the process could contribute to the restoration of public confidence. If handled poorly, regardless of the merits of any proposals for reform, public confidence and engagement will be further undermined.

3 Potential Solutions: Regulation and Spending Control

Regulation and Transparency

51. In his interim report, Sir Hayden Phillips proposed the development of transparency arrangements as a means of improving public confidence in the system.⁹¹ However, he pointed out that evidence from other jurisdictions suggested that “greater transparency can result in public confidence decreasing”.⁹² Indeed, the New Policy Network told us that since PPERA 2000 came into effect, the transparency in political donations may have actually increased suspicions of political parties and may have undermined trust.⁹³ Justin Fisher suggested that this apparent paradox is in no small part due to the way in which party finance is reported and commented upon in the press, which he described as “nothing short of scandalous”.⁹⁴

52. The public are entitled to transparency. However, greater visibility of donations and loans reveals problems without in itself solving them. Transparency is useful only to the extent to which it allows us to address the issues that the searchlight of transparency shows up. Indeed, our visit to Germany suggested that transparency alone was not enough. In Germany, all parties were required to submit their public accounts on an annual basis for independent auditing. While there were no caps on either spending or donations, all donations over €10,000 must be reported alongside the name and address of the donor, and donations over €50,000 must be reported immediately. It was suggested that this transparency resulted in a degree of self-regulation amongst the parties, but this had not prevented several high profile scandals, which had served to undermine public confidence.⁹⁵ However, those to whom we spoke emphasised the importance of the principle of transparency and while it was acknowledged that this could not completely prevent abuses of the system, the party treasurers argued that the solution was a strong transparency framework where abuses could be quickly identified, and the offending party penalised.

53. While we endorse a transparent system, transparency does not solve problems, but draws attention to them. It also invites “sniping” between opponents. It must be based on readily identifiable risks so that audit functions have a clear overall purpose.

54. We welcome the changes and transparency that have come about as a result of the PPERA. We agree with the basic principles of the current system. We note that the system of regulation has largely developed as a response to specific problems which

91 The Phillips Interim Report, p.15. He listed the potential areas where transparency could be increased. This included both individual and corporate donations and an increase in the frequency of reporting to allow “real time scrutiny by the public.”

92 The Phillips Interim Report, p.16

93 Ev 58

94 Professor Justin Fisher, *Party Funding: The Future Options*. House of Commons Library talk. 9 November 2006

95 See text box for more details

have emerged, and emphasise the need for constant review and flexibility in what is a very fluid and dynamic environment.

55. However, we recognize that current reporting methods fail to provide adequate transparency in the way accounts are presented by the Electoral Commission. We urge the Electoral Commission and the Government to work together to improve and strengthen these processes.

Regulation and Transparency: Party Funding in Germany

The Parties Act lays down strict rules and operates a policy of publicity of party financing. Parties are obliged to present a certified full annual financial report to the President of the Bundestag, irrespective of a party claiming (or intending to claim) state grants. These reports have to contain a detailed account of a party's income and expenditure over the last financial year.

In this annual report, parties are obliged to publish the names and addresses of donors who have made donations exceeding €10,000 per person per calendar year. Donations exceeding €50,000 have to be reported to the President of the Bundestag immediately upon receipt, he or she then causes notice of these donations to be published in the federal gazette (Bundesanzeiger).

The sanctions regime for breaches of the party funding publicity rules under the Parties Act is strict. A breach of the funding publicity rules (e.g. by incorrect reporting of a party's income in the annual financial report) will, as a rule, result in the imposition by the President of the Bundestag of a fine of twice or three times the amount of the incorrectly reported amount. This fine can only be avoided by the affected party's reporting to the President of the inaccuracies prior to them becoming public or known to the President. Furthermore, where a party's annual report is found to be inaccurate and that party fails to provide, upon request, a corrected report, the President will not issue this party the element of the grant which 'doubles' that party's income in membership fees, contributions by elected representatives and donations by natural persons, so that a party's final grant allocation may, in effect, be severely reduced. This is what happened to the CDU in 2000 when that party failed to reveal the identity of donors for an amount in excess of DM 18 Million (= €9 Million).

Enforcement and Practicality

56. In his written evidence to the Committee, Michael Pinto-Duschinsky argued that there were "significant areas of inconsistency as well as a considerable number of legal loopholes" in the PPERA 2000.⁹⁶ He explained that the Act created 75 new offences in a previously unregulated area, and that this had resulted in "too much law, too little

enforcement”.⁹⁷ He concluded that there was little point in proposing a new set of laws until the existing ones are seriously enforced.⁹⁸ The Electoral Commission emphasised that “any system for the funding of political parties should be fully open to public scrutiny, simple and practicable in terms of implementation”.⁹⁹ Its Chairman, Sam Younger, confirmed to the Committee that in its role as regulator the Electoral Commission should look at “how we can make sure that whatever we come up with at the end is practicable, can be implemented and can be policed”.¹⁰⁰

57. Representatives from the political parties agreed with this. The Democratic Unionist Party asserted that “workability will be a fundamental aspect of any arrangements which are put in place and the success of any set of arrangements will depend on the detail of them”.¹⁰¹ In Germany, a rigorous and comprehensive system had been developed, and we were impressed by the fact that all of the party representatives we met were in support of this regime. While it was a complex system, the principles and guidelines were clear and considered fair. The penalties were also clearly understood and fairly operated.

58. A further key issue in regulation and compliance was the capability of parties, particularly at the local level to administer and guarantee compliance. The President of Plaid Cymru explained the situation: “currently resources that we have raised from our members to campaign are being diverted into ensuring compliance with the PPERA. We have three members of staff who have taken on various responsibilities in relation to compliance matters, but we do not have the financial capability to fund a full time compliance officer...the only way by which we could ensure that the Party and particularly our volunteer officers across the country are fully compliant with the PPERA”.¹⁰² Indeed, he argued that “sufficient resources must be made available for compliance”.¹⁰³

59. Our inquiry found a variety of schemes of compliance and sanctions currently in operation. For example, in Germany, the authorities have the power to charge significant fines for any breach of the regulations, whereas in Massachusetts the Electoral Commissioner seeks to negotiate fines and sanctions, with recourse to the Attorney General for prosecution only considered as an option of last resort. A common feature of the regulatory bodies, including Elections Canada and the Federal Election Commission in the U.S, was not to seek prosecution, but to promote understanding of the statute and to help the parties to be compliant. They therefore emphasised the importance of having the capacity to ‘warn’ parties in the event of minor violations of compliance regulations.

60. There needs to be a fine balancing act between regulation and providing the parties with adequate resources to ensure compliance. It would be counter-productive to increase further the financial burden on the political parties by requiring them to re-direct resources in order to assure compliance.

97 Ev 77

98 Ev 78

99 Ev 65

100 Q 197

101 Ev 84

102 Ev 85

103 Ev 86

61. We acknowledge the difficulties with regulation, especially its application at the local level. However, these obstacles should not prevent the pursuit and development of a robust, transparent, workable and enforceable regulatory framework.

The Electoral Commission

62. On the 29 November 2005, the Committee on Standards in Public Life announced that the topic of their 11th Inquiry would be a Review of the Electoral Commission.¹⁰⁴ A wide ranging issues and questions paper was published in February 2006, but the focus of the inquiry was to be a review of the mandate, governance and accountability of the Electoral Commission.¹⁰⁵ Between June and October 2006, the Graham Committee held a series of public hearings throughout the UK. On the 30 October 2006, an article in the Times newspaper reported that the Committee on Standards in Public Life's Review was expected to recommend that the Electoral Commission should become more pro-active and that its powers should be strengthened. Sam Younger's admission of a failure to be proactive in the light of the loans scandal led Sir Alistair Graham, Chairman of the Committee, to describe the Electoral Commission as a "pretty ineffective regulator". He added that what was needed was a slimmed-down watchdog with greater powers, including being able to fine political parties that do not submit their accounts properly.¹⁰⁶

63. One issue which the inquiry focused on, particularly in the context of the funding of the political parties, was the current ban on party activists being on the staff of the Electoral Commission and the statutory barrier to appointment on Commissioners of people with past experience of party political activity. When giving evidence to the Committee on Standards in Public Life, the Rt Hon Alan Beith MP (also Chairman of this Committee) said that the Commission had "been undermined...by the lack of political experience amongst the commissioners themselves, or indeed at any other level, because it is precluded by statute". He added "it would have been better and would still be better if the statutes allowed for some people experienced in politics to be a minority among the commissioners".¹⁰⁷ This view was also shared by many other Members of this Committee who also gave evidence to the Committee on Standards in Public Life.¹⁰⁸ The Lord Chancellor supported a change in the existing arrangements and told the Committee on Standards in Public Life that representatives of the political parties should sit on the Commission. He said:

"I have never known an organisation that is supposed to be regulating somebody that keeps off the person or people they have most got to deal with. Can you imagine a body regulating doctors that had not one doctor on it? Can you imagine a body regulating lawyers that did not have one lawyer on it?... Of course you must ensure the politicians cannot, as it were, dominate the body. But the Electoral Commission is engaged in seeing how the political process in part works. You should have people

104 www.public-standards.gov.uk/publications/news_release/2005/pn173electoralcommreview.aspx

105 See www.public-standards.gov.uk/upload/assets/www.public_standards.gov.uk/review_elec_com_iq.pdf

106 Sam Coates, The Times. October 30, Monday 2006

107 Para 365 15th June 2006, available at www.public-standards.gov.uk/upload/assets/www.public_standards.gov.uk/2ndhearing_1506061.doc

108 For example, Dr Alan Whitehead MP and Mr Andrew Tyrie MP

who have been engaged in the political process there to help the Electoral Commission - or there will be people who say it does not have the confidence of those engaged in the process. It needs the confidence of them but it also needs the confidence of the public as well. I think you can do both".¹⁰⁹

The Electoral Commission is currently working on its own review, which is expected to be published next year.¹¹⁰

64. We recommend change to the Electoral Commission to help it become an effective watchdog with appropriate powers of enforcement. We recommend that the provisions in PPERA should be changed to allow a minority of Commissioners to be people with practical past experience of politics from across the political spectrum.

Spending Control

65. As stated previously, campaign spending for general elections and elections to the devolved Parliament and Assemblies, and European Parliament is capped in the UK. For general elections, the national campaign limit is £20 million for the year in the run up to a general election, while constituency limits are typically around £10,000 for the campaign itself, depending on the size and type of constituency. The constituency spending limits for individual candidates are not counted as part of the national limit of their political party.¹¹¹ The law defines the campaign period which counts for this purpose as 365 days preceding polling day. In 2001 the campaign period was limited to four months because the Act did not come into force until 16 February.¹¹²

66. In its review of Party Funding in 2004, the Electoral Commission recommended that the spending cap for General Election campaign spending introduced under the PPERA 2000 should be reduced from approximately £20 million to £15 million following the 2005 General Election, or from £30,000 to around £23,000 per constituency. They recommended that this should be accompanied by a proportionate increase in local candidate spending limits.¹¹³ The New Policy Network went further and recommended a cap of £10 million,¹¹⁴ whilst a recent editorial in the Times suggested that the national campaign limit should be £6 million.¹¹⁵ However, it was noted that in real terms there had already been a reduction in the spending cap since 2000: it had not risen with inflation and the reduction in the number of Scottish MPs had meant that in practice the maximum permitted expenditure for a party contesting all UK constituency seats was £18.84 million.¹¹⁶

109 Para 168 21st September 2006, available at http://www.public-standards.gov.uk/upload/assets/www.public_standards.gov.uk/11thhearing_210906.doc

110 Sam Coates, The Times. October 30, Monday, 2006

111 Ev 60

112 Ev 46

113 Electoral Commission (2004), *The Funding of Political Parties: Report and Recommendations*, p. 61

114 Ev 60

115 See www.timesonline.co.uk/article/0,,542-2117086.html April 4th 2006.

116 Professor Justin Fisher, *Party Funding: The Future Options*. House of Commons Library talk. 9 November 2006

67. Our inquiry found that, in principle, there was general agreement across the political parties and others¹¹⁷ that there should be a cap on campaign spending at the national level. While the Labour party agreed that a cap should be considered,¹¹⁸ the Liberal Democrats and Conservative parties proposed a limit of “no more than £15 million”.¹¹⁹ The DUP stated that the cap on election expenses at a constituency level had “proved to be an effective mechanism for keeping spending- and therefore the necessity to raise money- under control. . . such a restriction could be replicated at national level”.¹²⁰

68. The Conservatives suggested further proposals to cut the costs of politics, including a reduction in the number of special advisers, the abolition of Regional Assemblies and consideration of a small reduction in the number of MPs.¹²¹ They argued that “cutting the costs of politics would make it fair to ask taxpayers to contribute more to the cost of political parties”.¹²²

69. Our inquiry identified some debate as to the impact of campaign spending on turnout at general elections. Campaigning as an activity is not a bad thing: it provides information around policy choices and may engage the voter and encourage participation. Alan Grant asked “whether it is entirely coincidental that the first election where spending limits applied was also the one that saw a precipitous decline in electoral turnout from 71.4% in 1997 to 59.4% in 2001”.¹²³ However, the Electoral Commission argued that voters respond better to local communication that engages them directly and makes politics more relevant than national level political advertising.¹²⁴ Based on a survey of the available research to date, Justin Fisher and David Denver concluded that campaigning methods which required voluntary effort were the most effective.¹²⁵

70. The evidence for the effectiveness of increased spending on campaigns is very limited. Mr Michael Koss of Transparency International told us that across Europe there was no clear correlation between levels of campaign expenditure and turnout at elections. Indeed, nowhere was this lack of correlation more apparent than in the United States of America. Furthermore, support for a particular party is more associated with party affiliation and identity. He concluded “the campaign has little impact”.¹²⁶ Whatever doubts may exist about the usefulness of much of the spending carried out by the main political parties, it is clear that none of the political parties represented at Westminster will voluntarily cut their spending unless the other political parties follow suit. Indeed, the major parties in Germany had agreed a voluntary cap on expenditure, but this proved to be

117 Ev 67

118 Ev 56 and Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 6

119 Ev 86

120 Ev 84

121 David Cameron, Foreword, in Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 6

122 As above

123 Alan Grant (2005) 'The Reform of Party Funding in Britain', in *The Political Quarterly*, p.389

124 Electoral Commission Report (2004), pp.59-61

125 Justin Fisher and David Denver 'From Foot Slogging to Call Centres: Constituency Campaigning 1992-2005 prepared for the Political Studies Association Conference in April 2006, available at www.psa.ac.uk/2006/pps/Fisher.pdf

126 See witness list

unsustainable.¹²⁷ What the evidence does show is that where the regulatory environment permits it the spending trends are all upwards. In some cases escalation is a deep source of concern. However, Justin Fisher has urged caution in consideration of any reduction in the existing spending cap. He argued that a reduction could lead to greater targeting and subsequently further disengagement amongst members of the public not living in marginal seats. Furthermore, he warned that reducing the campaigning capacity of democratically elected political parties could “enfeeble parties in relation to unelected actors”, for example pressure groups and the media, at the time of elections.¹²⁸

71. Campaigning is a core activity for political parties which provides information and encourages participation and engagement. It is the means by which political choices are presented to the voters. However, we are concerned about the negative public perception of impersonal and expensive campaigns and their potential impact on participation and engagement should campaign costs continue to escalate.

72. We recommend that there should be a tighter cap on overall party spending. This limit should be set by the Electoral Commission and should be determined as the result of an open debate about the real cost of politics.

Local and National Limits

73. While the accounts show escalating campaign costs at the national level, at the local level, very few candidates spend the total expenditure permitted. In 2001 the constituency level spending limit ranged from £6,846 to £11,957, depending upon the size and nature of the constituency. However, the average spending per candidate was only £3,582 and total candidate spending in 2001 fell 17% in real terms compared with 1997. Only 21% of candidates spent more than 80% of the permitted accounts while 53% spent less than 30% of the limits.¹²⁹ In the 2005 General Election, candidates spent just over £14.1 million in total, compared to £11.9 million at the 1997 General Election. Almost 40% of all candidates spent less than two fifths of their statutory limit, with only 15% spending over four-fifths of their limit.¹³⁰

74. Sam Younger, Chairman of the Electoral Commission, argued that any spending cap at the national level should be accompanied by “a rebalancing of spending at the local level”.¹³¹ The New Policy Network agreed and further recommended that the current constituency spending limits be raised by 20%. They argued that this “would encourage parties to focus on local campaigning and activism rather than running centralised campaigns. An increase in constituency spending limits would also benefit new parties and independents as well as the established parties and would therefore encourage vibrant local contests”.¹³²

127 See witness list

128 Professor Justin Fisher, *Party Funding: The Future Options*. House of Commons Library talk. 9 November 2006

129 Alan Grant (2005) ‘The Reform of Party Funding in Britain’, in *The Political Quarterly*, p.389

130 Electoral Commission (2006), Campaign Spending. *The UK Parliamentary General Election*. March 2006. Executive Summary and pp. 32-35

131 Q 207

132 Ev 60

75. However, the Lord Chancellor voiced the argument against increasing the local spending limit and stated that it would “lead to much more expenditure taking place in the constituencies which are perceived to be the battleground for the election”.¹³³ Indeed, Frank Hindle, Deputy Chair, Northern Region Liberal Democrats, identified another potential problem. He said: “if we bring down the national cap and do not control local expenditure correspondingly then the gains which are being sought would not be achieved because it would be very easy for some national treasurer to tell local parties, “we have got a million pounds. You have each got a £5,000 donation and this is how I have spent it. Here is the receipt and here is the invoice”.¹³⁴

76. Jack Straw raised a further issue in determining local and national campaign spending limits. He pointed out that there is no clear distinction between national and local campaigning, describing the distinction as “rather illusory”.¹³⁵ He cited the example of customised telephone canvassing activities which are “very local but they are organised nationally”. He added “all parties have call centres which they use to sell a very distinctive local message. Is it national or local spending?”¹³⁶

77. Any additional caps on spending and the revision of local and national spending limits would have to be accompanied by an increase in regulation at the local level. Several party representatives raised concerns about their practical ability to manage further regulation at the local level. The President of Plaid Cymru emphasised that the party “rely to a great degree on the effectiveness of our local officials”¹³⁷ to guarantee compliance, while the Labour party stressed that they did “not wish to see unnecessary burdens placed on the volunteers who support political parties at local level”.¹³⁸ In his interim report, Sir Hayden Phillips acknowledged that a crucial question to be addressed was “whether parties, especially locally, can manage the practical demands of greater accountability; and whether the cost of compliance on small parties is too great”.¹³⁹

78. Although election spending at constituency level is subject to defined limits, extensive spending can take place, including in marginal constituencies outside these limits. Any change, even if designed to encourage a more general shift from national to local campaigning would still be subject to loopholes and it is not clear whether it would be administratively feasible to close these.

79. We see merit in the focus of campaigning being shifted from the national to the local level. Whilst recognising that parties must take control of spending, we recommend that there be a modest increase in local spending limits to be set by the Electoral Commission.

133 Q 7

134 Q 252

135 Q 273

136 Q 274

137 Ev 85

138 Ev 86

139 The Phillips Interim Report, p.5

A Spending Cap? The Canadian Example

Spending limits for political parties and candidates apply only during the short campaign period. Spending limits were first introduced in 1974, the limits were expanded by the 2003 law. They are considered to be the cornerstone of the Canadian regime, underscored by the extension to include “third parties”, or interest groups, thus applying to all participants, not just parties and candidates. The raising of the limits included a broader definition of election expenses, encompassing public opinion polling and surveys, leaders’ tours and staff salaries.

Spending limits for parties that receive public funding average about \$154 million, and about \$78,000 for candidates, during election campaigns. Spending limits for constituency nomination contests, a new feature of the law, are set at 20% of the limit as established for candidates in each constituency, varying according to the number of voters in a constituency, with additional provisions for districts with fewer than average electors and districts with low population density.

“Third parties” may and do advertise and no special provisions of the election law apply with respect to the allocation of broadcasting time, they are sold time under normal broadcast practices. Spending limits for “third parties” were considered in litigation before the Supreme Court of Canada; they are being challenged as unreasonable infringements of freedom of expression. The court upheld the third party provisions contained in the *Canada Elections Act*. An individual or a group spending more than \$500 independently on advertising must register. They are subject to two sets of advertising spending limits: \$3,000 for a local constituency election and \$150,000 in total, both limits are adjusted for inflation annually. These limits, however, do not apply to individuals or groups who advertise their position on issues not intended to influence how an elector might vote.

Adapted from: Herbert E. Alexander, *Comparative Analysis of Political Party and Campaign Financing in the United States and Canada*, in Griner and Zovatto *The Delicate Balance between Political Equity and Freedom of Expression: Political Party and Campaign financing in Canada and the United States* (Organization of American States (OAS) International IDEA, Washington D.C.)

\$1 Canadian = £0.44p.

Timing: Constant Campaigning

80. Under PPERA 2000, the campaign period is defined as 365 days before the general election at the national level and approximately four weeks at the local level. During the 2005 General Election the regulated period for candidates spending ran from dissolution of Parliament (11 April 2005) until polling day (5 May 2005). However, many of our witnesses identified problems with defining the regulation period prior to a general election, not least because UK general elections do not have a fixed date. In its December 2004 report on the funding of political parties the Electoral Commission proposed that the

regulated period should be extended to four months ending with the poll.¹⁴⁰ In their written evidence, the Labour party identified a further problem with the current definition of the campaign limit which had allowed “spending vast amounts outside of the period of the short campaign and therefore outside of any election limits”.¹⁴¹

81. Furthermore, there has been a considerable increase in the number of elections that are held in various parts of the UK. In addition to the general election, local government elections and elections to the European Parliament, between 2001 and 2005 there were elections to the Scottish Parliament, the National Assembly for Wales and the London Assembly. There were also elections for the London Mayor and referenda on the Government’s proposals for regional assemblies and city mayors. Most political parties face one major set of elections every year in at least one part of the United Kingdom.

82. While these elections occurred in different parts of the UK, defining what counts as campaigning and what does not is difficult. For example, in the run up to devolved elections in Scotland and Wales, events at Westminster, while not part of the official campaign, could have a significant impact on those elections. In response to this, Jack Straw argued that “the notion that there are fallow periods for political parties when they are not using their money for electioneering is, I think, incorrect. The truth is that almost all parties’ active spending is for election purposes”.¹⁴²

83. Rather than trying to define the period in which election campaigning takes place therefore, it was suggested that a continuous limit be put on party campaign expenditure. Both the Labour and Liberal Democrat parties suggested that the “discussion looks at year-round expenditure by parties as well as election time expenditure”,¹⁴³ and that caps should be considered “every year- not just general election year”.¹⁴⁴ In his interim report, Sir Hayden Phillips suggested that “these could apply to parties separately at a national and local level to take into account the different ways political parties are organised. The limits might be further adjusted to take account of the number and type of elections occurring in a year”.¹⁴⁵

84. Jack Straw argued:

“The original reforms...were aimed in practice at controlling all election spending because all campaigns were primarily conducted at a local level. The 2000 Act which I introduced aimed to fill the gap which meanwhile had been created, on national election spending. But it inadvertently foreshortened the period when controls operate on local campaign spending to a few weeks, and so there’s a gaping hole in the system. In my view we now have to have limits in all spending, national and local, by all parties, at all times. If and when we do that, as a result of the current review,

140 The Electoral Commission (2004), p.105

141 Ev 56

142 Q 264

143 Ev 56

144 Ev 86

145 The Phillips Interim Report, p42

parties will be forced if they want to survive to flourish to recruit, retain and involve more members and supporters”.¹⁴⁶

However, the Conservative Party pointed out to us that a cap on non-general election spending would be disadvantageous to opposition parties because the Government would have all Government communication networks at its disposal during those periods of time. Other elements of the incumbency advantage were highlighted on our visit to Washington D.C. Despite tight regulation around the use of Senate resources 60 days prior to a general election, Ms Kennie Gill, Minority Staff Director and Chief Counsel, Senate Rules and Administration Committee, told us that the biggest incumbent advantage in the Senate was access to dollars. She estimated that Senators spent approximately half their time in office fundraising in order to finance their re-election. House representatives spend an even greater proportion of their time fundraising.¹⁴⁷

85. Echoes of this problem have emerged in the UK with money being raised at a national level and being used to fund local candidates between elections. One of the dangers associated with this increased reliance on large donations is the allegation that individuals, corporations and unions can buy influence, or even buy elections. For example, in his written evidence to the Committee, Mr Peter Bradley voiced specific concerns in regard to the activities of a consortium which comprised Lord Ashcroft’s Bearwood Corporate Services Ltd, Lord Steinberg and the Midlands Industrial Council, during the 2005 General Election campaign. In some cases, the consortium’s donations made up a very significant proportion of the local Conservative association’s external funding. For example in the Wrekin, the £55,742 which the Conservatives received from Lord Steinberg and the Midlands Industrial Council constituted the total amount of the donations it reported to the Electoral Commission. In other cases, the consortium’s support represented only part of a much larger total. In Welwyn & Hatfield, Bearwood’s donation of £15,000 in April 2005, though significant, was only a fraction of the £180,382 which the Conservative association declared to the Electoral Commission for the period 2001-5.¹⁴⁸

86. Some critics of the current system have pointed to the obvious danger associated with this spending. If close regulation is not placed on the amount which external parties can spend then the effective limits on spending can easily be circumvented. Some of the very problems which have caused most public concern, such as the ability of a few rich people or bodies to buy a disproportionate amount of power, are made much worse if pressure groups can concentrate their support on particular candidates, especially if they are in key marginal seats. As with so much about this subject, the problem is not only the impact of extra spending but also the damage done by the perception of unfairness. Mr Bradley told the Committee that “the source of funds, whether raised locally or from third parties, is not the central issue. The channelling by external donors of substantial funds to several targeted seats poses a particular problem, not least in the influence they may enjoy or be seen to enjoy with national parties or Governments”.¹⁴⁹

146 www.unionstogether.org.uk/articles/article13.html

147 See witness list

148 Ev 51

149 Ev 53

87. With an increase in the frequency of elections within the United Kingdom, the current definitions of campaign periods for spending regulation periods are outdated and allow a range of activities outside those periods, which, although within legal definitions, do not reflect the spirit of the law.

88. The effects of any reform to address constant campaigning would be far reaching and should only be considered in the context of an agreed overall package of proposals, including limitations on all sources of income and expenditure.

89. Part of this package would be a revision of the present arrangements to enable the expenditure of all parties, both at local and national level, to be capped over a five year accounting period. During this period parties would be allowed to spend their money as they see fit, provided spending is within predetermined spending caps. Any elections falling within the accounting period would continue to be subject to their own spending caps within the laid down accounting period, but would also be counted within the overall five year cap.

Third Party Spending

90. If a person or organisation other than a registered political party is intending to spend over £10,000 in England or £5,000 in Scotland or Wales (publishing material on behalf of a political party or category of candidates) it must register as a 'third party' and is subjected to a cap of £800,000. At present, the definition of third parties includes registered companies, trade unions and individuals. Only ten 'third parties' were registered for the 2001 General Election.¹⁵⁰ By 2005 this had increased to 26 third parties who spent a total of £1.7 million. Unison and the Conservative Rural Action Group accounted for 72% of this spending.¹⁵¹

91. It was clear from our evidence taken from both within the UK and overseas that there were problems with third party spending. The most significant problem within the UK was the occurrence of this type of spending outside the regulated election period, which although within existing legal boundaries could have a significant impact on election results. Jean-Pierre Kinglsey told us that "if the system doesn't control the money, the money controls the system," and our witnesses in the U.S.A and Canada agreed that the money will find its way to those parts of the system which remain unregulated. This was clearly apparent in the United States, where there had been a significant increase in the activity of 527 or "advocacy issue" groups.¹⁵² Regulating these groups was difficult as the U.S Supreme Court had equated free speech with free spending and any restriction on spending was regarded as a breach of First Amendment rights.¹⁵³ However, despite these restrictions, Ms Gill predicted legislative action in the next session of the Senate in order to close the 527 loophole.

150 Ev 53

151 Electoral Commission (2006), *Campaign Spending: The UK Parliamentary General Election*. Executive summary and pp. 32-35

152 See witness list

153 It is worthy of note that the Canadian Courts interpret free speech differently. Money does not equal free speech, as those with more money could impede the free speech of others

92. It is essential that, both in perception and in reality, money cannot buy undue influence, (or indeed, buy the election result) from within or outside the party. Third party spending should therefore be subject to a transparent and robust regulatory regime and should be regulated within the same accounting period as that determined for political parties so that current loopholes can be eradicated.

Regulation and Third Party Spending: The U.S.A Example

In 1976, the total elections budget in the U.S.A was \$40 million. By 2004 the costs had escalated to \$3.9 billion for federal elections alone.¹⁵⁴ However, despite this huge increase in spending, party and election finance in the U.S.A is subject to significant regulation. Following the Watergate scandal, legislation was passed in 1971 in order to limit the appearance of corruption in U.S politics and proposed limits on both expenditure and income. However, the Supreme Court's decision in the *Buckley vs Valeo* case in 1976 outlawed restrictions on expenditure as breach of the right to free speech under the First Amendment in the U.S Constitution (see also paragraph 91).¹⁵⁵

Following this there was a significant increase in the number of Political Action Groups. As a result the amount of 'soft money' or unregulated money in the system doubled from \$300 million in 1976 to \$600 million by 2000. In 2002 the Bipartisan Campaign Reform Act (McCain Feingold) was passed. It prohibited soft money contributions to federal candidates and national political party organizations. It restricted non-party issue organizations from sponsoring television or radio advertising that mentions the name of a candidate in the period thirty days before a primary election or sixty days before a general election.

However, twin bans on "soft money" (i.e. unregulated money) and issue advertising at the federal level has spawned a new generation of political committees, known as 527s, that are functioning under the new law's parameters, and taking over some party operations using soft money in the form of large individual, corporate, labour or other contributions that go well beyond the contribution limits and presidential and party spending limits. In addition they can and do spend on television and radio advertisements.

There was widespread recognition in the U.S that there is incomplete regulation.¹⁵⁶ The money goes wherever there is insufficient regulation, but Ms Gill, Minority Staff Director and Chief Counsel, Senate Rules and Administration Committee, predicted there would be legislative action to close the 527 loophole during the next session of the Senate.

There have also been significant initiatives at the state level to regulate and clean up party financing in the U.S. For example, in Connecticut, a campaign finance law was introduced in 2005, which not only places limits on donations to parties and candidates, but which also introduces an element of public funding.

There was a consensus in the U.S. that the system was flawed and that money was still buying access and influence in their system. All agreed that this semi-regulated structure was unsatisfactory.

154 Kennie Gill, Minority Staff Director and Chief Counsel, Senate Rules and Administration Committee

155 For more detail see Trevor Potter 'Campaign Finance and Disclosure Laws', in Corrado et al, (2005), *The New Campaign Finance Sourcebook*, (Brookings: Washington), pp. 123-160

156 See appendix b

Conclusion

93. PPERA brought about a complete change in the way in which party funding is regulated in the UK, and in a very short time has been largely successful in bringing about a cultural change in this area of political life. However, recent concerns have brought PPERA under the microscope and resulted in calls for further transparency in the area of party finance.

94. While we support the regulatory framework provided by PPERA, increased transparency alone is not sufficient to address the issues associated with party funding: in many ways, transparency has been counterproductive. All party funding should be transparent, but this should be accompanied by open and frank debate about the costs of politics, and indeed who should bear this cost. It is in this context that we are keen to see the development of both the legislative framework and of the Electoral Commission. However, we are aware that it is virtually impossible to provide a permanent solution for what is a constantly changing and dynamic situation. In this sense, we welcome the constant review of PPERA.

95. This chapter also considered the issue of spending control and we are convinced by arguments that there should be further caps on spending. However, we also emphasised that campaigning is a legitimate activity, but acknowledge that given the increase in elections, there is an increased financial burden on parties which must be managed. Spending caps however, are only one aspect of addressing the problem. The question that remains is how, and by whom, should the political parties be funded?

96. Any extension of the existing arrangements for limiting spending (however defined) would not be sufficient to address all the current concerns about the funding of the political parties. It should be considered as part of a broader set of proposals.

4 Potential Solutions: Sources of Funding

Donations

97. Jean-Pierre Kingsley, Director of Elections Canada, told us that in Canada the regulatory system had been devised in order to deal with escalation in spending. He argued that caps on spending alone were insufficient and he argued that in addition “contribution limits are essential”. In their 2004 review of party funding, the Electoral Commission recommended that a cap on private donations was not appropriate at that time. However, they suggested that if at some time in the future a cap were to be proposed, it should be set at a low level; they recommended approximately £10,000.¹⁵⁷ However, public opinion is remarkably consistent in its dislike of private donations, primarily because of an objection to the possibility of buying influence. A MORI poll in 2003 found that 70% of respondents agreed that funding political parties by voluntary donations was unfair because of the risk that wealthy individuals, businesses and trade unions could buy influence over parties,¹⁵⁸ while 73% agreed with this statement in an ICM poll in 2004, with 74% further agreeing that there should be a limit on donations.¹⁵⁹ A Populus poll for the Times conducted in March 2006 found that 79% of respondents agreed that there should be a limit on the amount of money that can be donated to any political party to remove the risk of people trying to buy influence or favours.¹⁶⁰ The Joseph Rowntree Foundation identified that in April 2006 59% of respondents supported a donations cap, a majority of more than two-to-one over those who opposed it (24%).¹⁶¹

98. The New Policy Network argued that the most effective method of dealing with the claim that money buys influence was to introduce a cap on donations. However, this raised other questions: who would set the cap, and more crucially, at what level? Should the cap apply equally to individuals, companies and trade unions? They identified two potential options for the creation of a cap:

- To cap all donations at the same level. The exact level of the cap would be set by the Electoral Commission.
- To cap corporate or trade union donations at a different level from individual donations.¹⁶²

Individual Donations

99. In its report, the Power Inquiry concluded that “donations from individuals to parties should be capped at £10,000, and organisational donations capped at £100 per member, subject to full democratic scrutiny within the organisation”.¹⁶³ All three main parties

157 The Electoral Commission (2004)

158 MORI (2003) Attitudes towards voting and the political process in 2003

159 ICM State of the Nation Poll, Joseph Rowntree Reform Trust

160 March 31st - April 2nd 2006 populuslimited.com

161 Ev 64

162 Ev 59

163 *Power to the People: The Report of Power: An Independent Inquiry into Britain's Democracy*, (March 2006)

represented at Westminster agree in principle that a cap on individual donations should be considered. Both the Liberal Democrats and the Conservatives proposed a cap on individual donations in the region of £50,000.¹⁶⁴ However, the Conservative party added that should a £50,000 cap fail to allay public disquiet, the limit may need to be lowered still further.¹⁶⁵

100. The Labour party told us that “there is a case to examine a limit on individual donations, which should be applied equally and not circumvented”, however, they added that “the merits of such a limit will need to be examined carefully. If there is to be such a limit, it should be low enough to address any public concerns about individual donations... It is important that the regulatory framework enables the Electoral Commission to intervene when the Commission has legitimate grounds for investigating – not after the event. All loopholes need to be closed; we should not close some loopholes simply to open others”.¹⁶⁶

Affiliated Organizations and Corporations

101. A further area to be considered in the context of a cap on donations are those received from trade unions and corporations. The relationship between the Labour party and the trade unions was outlined in paragraphs 24 and 25 of this report. The Labour party told the Committee that any review of party funding, or any proposed changes must “respect the membership and constitution of political parties”. They explained that “all our affiliates, be they socialist societies, trade unions, constituency labour parties or the relationship we have with the Co-op party- must remain an integral part of the Labour party”.¹⁶⁷ In their written evidence, the Labour party were also keen to draw a distinction between affiliated organisations and corporate bodies or businesses. They argued “an affiliated organisation is different: business may give money to any particular political party or parties, but they are not a component element of the party, as an affiliated organisation is”.¹⁶⁸

102. This distinction was rejected by the Conservative party. They told the us:

“A cap on all corporate, institutional and trade union funding of £50,000 per annum, in cash or in kind, should be introduced. The Electoral Commission should be made responsible for ensuring that such bodies do not change their structure in order to circumvent the cap, directly or indirectly. In the longer term, and after a transitional period, all corporate, institutional and trade union funding of parties should be ended. Corporate bodies should not be able to buy disproportionate influence in a 21st century democracy. The retention, for a while, of the £50,000 cap will give those most affected, particularly the Labour party, time to adjust. Electoral politics should primarily be a matter for individuals, not well-heeled pressure groups, trade unions or corporations”.¹⁶⁹

164 Ev 86 and Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 4

165 Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 4

166 Ev 56

167 Ev 55

168 Ev 56

169 Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 4

103. The National Trade Union and Labour Party Liaison Committee argued that, in reality the affiliation fee is a collective membership fee.¹⁷⁰ However under PPERA, it is currently classified as a donation. The New Policy Network supported this position and said that they “would allow trade unions and membership organisations in general, to act as “facilitators” between individual members and the political party”.¹⁷¹ Furthermore, UNISON argued that “a donation cap introduced to include affiliations would effectively exclude working-class people”.¹⁷² They stated that “any system of donation caps which includes affiliation fees would prevent this membership relationship and would do huge damage to the most powerful and demonstrably successful way of ensuring wide and active participation in politics”.¹⁷³

104. However, the New Democratic Party (NDP) in Canada have re-evaluated their relationship with the trade unions. When legislation was passed prohibiting financial contributions from trade unions (see text box), the party sought other ways to preserve the links and relationships with the trade unions. The relationship is now based on membership and not money, so for example, the more NDP members that belong to a particular union, the more influence that union has on the party. Two of the twenty five seats on the party executive are reserved for the unions, who also retain a flexible number of seats on the party council. Unions are also awarded annual convention places on the basis of the number of party members they have.¹⁷⁴

105. Although the NDP were initially concerned about the impact of a ban in trade union donations on their relationship with the unions, they were positive about its outcome. Not only had it removed any suggestion of trade unions buying political influence, but also served to reinvigorate the party base, as the trade unions became more pro-active in promoting party membership. By adapting their behaviour, the NDP did not lose out financially and at the same time succeeded in breathing new life into their own internal structures and broadening the party’s support base.¹⁷⁵

106. In Germany, we learnt that some large financial institutions donate money to several political parties. So long as corporate donations remain permitted, there is merit in business recognising that democracy as a whole can be better supported if they divide any political contributions they make amongst several parties. However, we see merit in seeking to encourage business to finance a democracy fund for the funding of citizenship education and promoting participation.

170 www.unionstogether.org.uk/articles/article13.html

171 Ev 60

172 Ev 66

173 Ev 66

174 Eric Hebert-Daly, Federal Secretary, New Democratic Party of Canada

175 See also Matt Cain and Matthew Taylor (2002), *Keeping it clean: the way forward for state funding of political parties* (IPPR)

A Cap on Donations?: The Canadian example

The provisions for spending limits and public financing in Canada bring a combination of floors and ceiling, by providing, on the one hand, direct and indirect floors by means of reimbursements of party and candidate election expenses, annual allowances to the parties and tax credits for individual contributions and, on the other hand, ceilings on candidate spending, nomination contestant spending, political party spending and strict limits on special interest or “third party” spending.

Contribution limits relate to who may contribute, how much, to whom, and when. The 2003 amendments introduced:

- A ban on contributions from corporations and unions (and unincorporated associations) to political parties and contestants in party-leadership selection contests;
- \$1,000 annual limit on contributions from these three sources to candidates, nomination contestants and local party constituency associations;
- \$5,000 annual limit on contributions from individuals to parties, constituency associations, candidates affiliated with a registered party and nomination contestants;
- \$5,000 per event limit on contributions to independent candidates;
- \$5,000 per event limit on contributions from individuals to party-leadership contestants;
- \$5000 exception for contributions subject to the limit for contributions from a nomination contestant or candidate to his or her own campaign and a \$5,000 exception for contributions from a leadership contestant to his or her own campaigns and;
- contributions are barred from government corporations or corporations that receive more than 50% of their revenues from the government.

Contribution limits are adjusted for inflation each April.

The National Democratic Party of Canada has not been financially disadvantaged by a ban on trade union donations, nor has their historic links with the unions been severed by this change in the financial relationship. Instead, the NDP has seized the opportunity to re-evaluate links with the unions, which not only have served to strengthen the relationships, but also to broaden the party’s membership base (see paragraphs 104 and 105).

Quarterly allowances to the political parties were introduced by the 2003 amendments. To qualify, a party must have received 2% of the national vote in the previous election or 5% of the total vote in the constituencies where they nominated candidates. The party then receives on an annual basis \$1.75 per vote obtained in the previous election. This allowance is adjusted for inflation each April 1st. If they fail to make the thresholds, they lose their access to public funding. Beyond annual allowances, the parties that qualify receive partial reimbursement of election campaign expenses; they will receive 60% of their actual expenses in the first general election held after January 1, 2004, and thereafter, 50% of

actual election expenses; since the 2003 legislation, research expenditures are included as election expenses and are partly refundable.

Candidates that receive at least 10% of the valid votes cast are also eligible to receive a partial reimbursement of election expenses. 60% of election and candidate personal expenses are reimbursed to eligible candidates up to a maximum of 60% of the election expenses limit.

Indirect government funding includes provisions of the Income Tax Act, which provide individual tax credits for political contributions, as follows:

- 75% of contributions not exceeding \$400;
- contributions over \$400 but not exceeding \$750, \$300 plus 50% of the amount that exceeds \$400;
- contributions exceeding \$750, the lesser of \$475 plus one-third of the amount exceeding \$750, or \$650.

Adapted from: Herbert E. Alexander, Comparative Analysis of Political Party and Campaign Financing in the United States and Canada, in Griner and Zovotoo *The Delicate Balance between Political Equity and Freedom of Expression: Political Party and Campaign financing in Canada and the United States* (Organization of American States (OAS) International IDEA, Washington D.C.)

Note: Unincorporated associations are defined by the *Canada Elections Act* as an unincorporated organization-other than a trade union-together with all of its branches, chapters or any other divisions. Such organizations may make contributions from funds collected from individuals for the purpose of making a contribution to a candidate, nomination contestant or registered association.

\$1 Canadian =£0.44p.

The Impact of a Donation Cap

107. A cap on donations would result in an income shortfall for the political parties. As part of its 2004 review the Electoral Commission performed some calculations as to the potential impact of a cap on donations on the income profiles of the political parties. Between 2001 and 2003 the total value of cash donations, non-cash donations and donations from exempt trusts was just under £68 million. It was calculated that had donations been capped at £5,000 during this period, political parties would have had to reject some 3002 donations totalling just under £60 million, leaving just under £8 million in reported donation income. A similar situation would have arisen had a capping threshold been set at £10,000. Under this scenario, 2,940 donations totalling almost £56 million would have been disallowed, leaving the parties with approximately £12 million in reported donation income. If the capping threshold were set even higher at £50,000 political parties would, between 2001 and 2003, have refused 2,747 donations worth £46 million in total. The total amount received by parties in donations would have been almost

£22 million.¹⁷⁶ However, these estimates ignore the likely behavioural effects: parties would almost certainly react by widening the base of smaller donors, as has happened in other countries where caps have been introduced such as Canada. The New Policy Network pointed out that if a cap were to be introduced, parties would have to receive some other form of income in order to operate effectively nationwide.¹⁷⁷ While we acknowledged that this shortfall is likely, we were surprised that following a cap on large donations in the United States, huge sums of money continue to be raised consisting of small donations of less than \$2000 each.

108. It was noted that the existing system of donations currently benefits the Labour and Conservative parties, as other political parties do not have the same historic links with either the trade unions or business.¹⁷⁸ However, Jacob Rowbottom, Fellow in Law at King's College, Cambridge warned us that while

“there is a case in principle for a limit on donations to eliminate the worst inequalities in the system of party funding...one should also be clear that such limitations do not secure equal opportunities to contribute, which will still depend to some extent on the individual's wealth. Imposing a limit would also raise some difficult questions, in particular devising a scheme to allow aggregate donations from groups while avoiding abuse of the system through evasion, and deciding how state funds could be allocated to make up for any shortfall in funds”.¹⁷⁹

Some have argued that, in the context of the history and organisation of the Labour party, to distinguish between donations from trade unions and trade union affiliation fees which are a form of collective membership fee.¹⁸⁰ However, these fees are a substantial contribution to the income of the Labour party, which others regard as equivalent to donations.

109. Any meaningful limit on donations from individuals, corporations and trade unions would lead to a shortfall in funds, which would not be addressed by a reduction in the current level of the cap in spending alone. However, a donation limit would greatly increase the incentive for parties to widen their support base to a larger number of small donations, a development we would welcome. In principle, therefore, we agree that transparency of donations is not enough and the parties should take steps to agree voluntarily to binding limitations on donations. However, such a limit should only be considered within the broader context of a discussion about alternative sources of funding, including state funding, for political parties.

110. This issue is difficult to resolve, not least because of the present disagreement about the status of trade union funding to the Labour party. Any move to change the nature of party funding must not stray into prescriptive devices to require political

176 The Electoral Commission (2004), p. 84

177 Ev 59

178 Professor Justin Fisher, *Party Funding: The Future Options*. House of Commons Library talk. 9 November 2006

179 Ev 72

180 Ev 66 and 67

parties to organise internally in ways that violate their democratic relationships with other institutions.

A Cap on Donations? The U.S.A Example

The United States federal limits on hard money contributions from individuals are as follows:

- \$2,000 per candidate per election (primary and general election)
- \$5,000 per political action committee
- \$25,000 per political party committee

The U.S. contribution limit of \$2,000 is indexed to inflation and is to be adjusted in odd-numbered years.

The BCRA increased the overall limit for an individual from \$25,000 per year to \$95,000 in a two-year election cycle, in all federal party, candidate and PAC giving. But the BCRA has sub-limits within a cycle: \$37,500 to all candidates; \$57,500 to all PACs and parties, but no more than \$37,500 of which is to state and local parties and PACs at a limit of \$10,000 contribution to a state party committee. Accordingly, the increase from \$20,000 to \$25,000 in the amount that can be given by an individual to national party committees per year, is a \$5,000 increase; but since the limit is per year, a contributor can give \$50,000 of the \$95,000 upper limit per election cycle.

Loans

111. Following a series of allegations with regard to loans in early 2006, in March of that year the Electoral Commission called on parties voluntarily to report loans on the same basis as donations. This was the first quarter to which this voluntary agreement applied and three parties reported loans totalling over £31.5 million.¹⁸¹ It is difficult to compare the total amount of loan income received by the political parties. In their reporting, both the Labour party and the Liberal Democrats included loans previously reported, and reported total sums of £28,200,693.85 and £584,239.08 respectively. The Conservative party only reported loans received in the reporting quarter, April-June 2006, a total of £2,812,000.00. However they had previously reported all aggregate loans totalling £13.083 million.¹⁸²

112. In their written evidence to us, the Department for Constitutional Affairs stated their intention to amend the Electoral Administration Bill in order to introduce a transparent regulation regime for loans, similar to that for donations under PPERA. From the 11

¹⁸¹ These figures are based on reported loans. The Conservative Party only reported loans received in the reporting quarter (April - June 2006), while both the Labour and Liberal Democrat parties have included loans previously reported. See electoralcommission.org.uk/media-centre/newsreleasedonations.cfm/news/588 for further detail

¹⁸² Annual Report and Financial Statement, (year ended 31 December 2005) the Conservative party.

September 2006, political parties had a statutory duty to report loans under provisions in the Electoral Administration Act 2006.¹⁸³

113. Both the Conservative party and the Liberal Democrats argued that a ban on all forms of loans to parties, except from financial institutions on fully commercial terms, should be imposed. The Electoral Commission must oversee these to ensure that they cannot become disguised donations.¹⁸⁴

114. We welcome the new provisions for the reporting of loans under the Electoral Administration Act 2006. However, recent allegations with regard to loans (be they substantiated or not) have had a negative impact on public confidence in the political system. In order to restore this confidence fully, we recommend that all loans to political parties be made illegal, with the exception of those from UK based financial institutions, at commercial rates.

State Funding

115. In their written evidence to us, the Democratic Unionist Party told us that “to speak of state funding of political parties is to speak of a present reality not a future possibility”.¹⁸⁵ The extent of existing public funding for political parties was outlined earlier in paragraphs 33 to 39 of this report. The Conservative party estimated that this funding accounted for 40% of the cost of party activity in a non-election year, and around 60% in an election year.¹⁸⁶ Some degree of state funding existed in most countries throughout Europe and North America. Indeed, Professor Robert Leicht, Co-Editor at “Die Zeit,” and teaching professor, told us that in Germany, parties “could not work without state funding”. The degree of affirmative state action taken to facilitate electoral and party activity in the United Kingdom was on the low side compared to most countries in Europe and North America.¹⁸⁷ This support, both in cash and in kind, supports the policy making functions of political parties, staff costs and some communication costs, for example, free party political broadcasts. The key areas of activity not directly funded at present are campaigning and recruitment costs, and some administration and compliance costs.¹⁸⁸

116. An increase in public funding was rejected by the Neill Committee (Commission for Standards in Public Life) in its 1998 report and also by the Government in its response. However, the Government have decided to re-evaluate this issue, in part due to the financial difficulties in which the parties have recently found themselves.¹⁸⁹ In its 2004

183 Ev 48 and 49

184 Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 4

185 Ev 83

186 Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 17

187 Keith D Ewing and Samuel Issacharoff (2006), *Party Funding and Campaign Financing in International Perspective*; (Hart Publishing 2006), p53. An example given is that public funding plays a major role in elections in the USA. Four states (Arizona, Maine, Massachusetts and Vermont) provide for full public financing for those candidates that accept spending limits. Some 22 States (and more localities) provide public funding for political campaigns and organisations

188 See Library Standard Note (SN/PC/3138, November 2005) *Funding of Political Parties- A Brief Overview* for more detail

189 See paragraph 4 of this report

review, the Electoral Commission recommended a “degree of increased public funding”.¹⁹⁰ The Liberal Democrats recommended a “limited extension of state funding”,¹⁹¹ while the Conservative party argued that cutting the costs of politics would “make it fair to ask taxpayers to contribute more to the costs of political parties”.¹⁹²

117. Opposition to the state funding of political parties is not as strong amongst members of the public as is commonly believed. In 2004, an ICM poll found that 62% of respondents agreed that political parties with significant public support should be provided with public funds to limit their dependency on donation from wealthy individuals, businesses and trade unions, while 59% agreed that there should be some element of funding from taxation for political parties.¹⁹³ By 2006, 41% of respondents agreed that political parties with significant public support should be provided with public funds to reduce their dependency on donations from wealthy individuals, trade unions and businesses, however only 36% disagreed with this statement.¹⁹⁴ Indeed, in the most recent State of the Nation Poll, published in December 2006, nearly 3-1, or 50% to 17% of the public now back state funding for political parties.¹⁹⁵ Qualitative research undertaken by the Electoral Commission indicated that when informed of an estimate as to how much public funding of political parties might cost each tax payer they felt this to be a small price to pay for the benefits that result.¹⁹⁶

118. In their written evidence, the Conservative party highlighted that state funding for political parties could help to purify the political process by removing reliance on large loans and donations, thereby contributing to the restoration of public confidence.¹⁹⁷ Indeed, were told repeatedly in Canada “if you want clean politics, you have to pay for it”. However, it should not be thought that direct state funding will automatically curb the financial influence of large private donors. In the United States and Israel, the “porosity of electoral spending ceilings and a fluid electoral market structured around loose knit catch all parties, have favoured a rapid increase in electoral expenditure and, therefore, in the need to attract the large private donations that direct state funding was meant to prevent”.¹⁹⁸

119. On our visit to Germany, we found that state funding, of itself, does not make scandal over party finance impossible, and that there are risks to relying excessively on state funding to keep politics clean. However, our German witnesses did not feel that state funding had worsened the impact of these scandals in the eyes of the public, as they were all associated with the abuse of private rather than public funding. The Conservative party

190 The Electoral Commission (2004)

191 Ev 86

192 David Cameron, foreword in AT paper

193 Ev 64

194 Ev 87

195 www.jrrt.org.uk

196 The Electoral Commission (2004). Research undertaken by MORI

197 Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 8

198 Kevin Casas-Zamora, (2005), *Party Membership Trends in Western Europe 1960-1989 in Paying for Democracy: Political Finance and State-funding for Parties*, (ECPR Press), p.48 This is a broad analysis, as the Conservative party for instance, only begun to publish full accounts from 1992-1993

emphasised to us that “nonetheless, when combined with an effective system of oversight and caps on spending and donations, it can make an important contribution. State funding, particularly if it can be implemented on the basis of consensus, can address the problems caused by the abuses and scandals of recent years and can contribute to the vital process of restoring public confidence”.¹⁹⁹

199 Andrew Tyrie (2006), *The Conservative Party's proposals for the funding of political parties*, p. 8

The Mixed System: Party Funding in Germany

Following a landmark judgment of the Federal Constitutional Court in 1992 on the constitutionality of state party funding, the system of party funding was fundamentally reformed. Further reforms, relating to the sanctions available in cases of a breach of the party finance publicity rules were enacted in 2004. The President of the Bundestag is responsible for administering state party funding and overseeing the adherence to party funding publicity rules at both Federal and Länder level

The German system of party funding is one of mixed state and private funding. This is exemplified by the rule that annual state funding must not exceed a party's annual income from other sources (the so-called relative limit). Thus, state funding can ever only amount to half of a party's overall annual income.

The Parties Act lays down an absolute limit to the overall annual state party funding budget of currently € 133 million. Where this sum would be exceeded by the sum of the funding accorded to the individual parties under the normal methods of calculation of state grants, each party's annual grant will be downward adjusted proportionately.

In order to be eligible for state funding, a party must have obtained a share of at least 0.5 % of the national vote or, at least 1% in the last Länder election. In addition to this criterion, a party can only claim state funding if it has filed a certified annual financial report with the President of the Bundestag. The state grant to a party is calculated on a) the basis of both the number of votes the party has accrued in the relevant election and b) membership fees, contributions by elected representatives and donations by natural persons it has received in the previous financial year.

For each vote of up to 4 million votes, a party can claim € 0.85, and € 0,70 per vote beyond the initial 4 million votes. On top of that, a party can claim € 0,38 per each € 1,00 it has received in membership fees, contributions by elected representatives and donations of up to € 3,300 from natural persons in the previous year. Thus, per annual donation/membership fee of a natural person a party could claim up to € 1254.00 in state grant per year. This overall sum is then subject to the relative limit of state funding: the state grant must not exceed the party's last year's overall income, which includes any sort of income apart from standard rate loans and credits. Finally, the grant will be subject to proportionate downward adjustment so that the overall sum of state grants to all eligible parties does not exceed the annual absolute limit of € 133 million. Where a party's annual report is found to be incorrect after the grant allocation has been taken by the President of the Bundestag, he or she will recall that grant allocation.

In addition, indirect state funding is provided through the exemption from inheritance tax of legacies to parties by testament and by donations by individuals being tax deductible up to a limit of € 3,300.

There is no cap on donations from natural persons, or any other source of party income, but parties are also prohibited from accepting individual donations of more than € 50 million where the identity of the (true) donor cannot be verified.

120. Since the publication of the Neill report in 1998, both devolution and the adoption of new voting systems for some elections has increased the presence of smaller parties, and encouraged the creation of new parties. In his interim report, Sir Hayden Phillips recognised this, and argued that any funding system “needs to reflect the reality of this changed political situation and the needs of smaller parties, and enable entry to the political system”.²⁰⁰ While the Lord Chancellor pointed out that it was “very difficult to come up with any formula that does not favour to some extent those who are already established as a party”,²⁰¹ we were told by the Green party in Germany however, that the system of state financing based on votes cast had significantly assisted their party’s growth in the early years.²⁰²

121. A further objection to state funding is the argument that it removes healthy, market like competition from the political parties, and that it is wrong to attempt artificially to create a “level playing field”. The Conservatives addressed this by proposing that any state funding should be voluntary: “a party which does not qualify, or chooses not to apply, for state funding will not be required to accept the limits on donations. Its access to political competition is therefore unfettered. A new party should have to prove that it can attract a certain level of support before obtaining recourse to public funding.”²⁰³ However, the Labour party disagreed and argued “political parties should not be able to opt out of a transparent, sustainable and fair system with greater investment from the state, simply because they believe they may be able to raise a greater sum outside of the recognised system”.²⁰⁴ Indeed, the ability to opt out had been partly responsible for the collapse of the state funding and regulation of Presidential elections in the U.S.A.

122. The German system was interesting in this respect as it was based on a combination of both private and public funding. Public funding was not only allocated on the number of votes cast in elections, but also as match funding for membership fees, and individual donation up to the value of €3,300 per annum. An element of competition and the need to raise external funds were therefore maintained. Furthermore, in Canada, party funding was allocated on a votes cast basis, thereby encouraging the parties to broaden their base and to strengthen local party organization and get the vote out even in those areas where they did not traditionally succeed.

123. Finally Navaraj Singh Ghaleigh warned that:

“given public esteem for politicians is not high at present, diverting money away from other spending priorities, so that politicians can spend it in contentious ways is likely to be counterproductive [...] Estimates indicate that the current system of

200 The Phillips Interim Report, p 4

201 Q 73

202 See witness list

203 Andrew Tyrie (2006), *The Conservative Party’s proposals for the funding of political parties*, p. 12

204 Ev 56

public funding, in its myriad operations, costs the taxpayer some £100m in an election year, and £25m in other years. That is a major expenditure by popular reckoning, and more extensive provision would be tendentious in the extreme”.²⁰⁵

The Consequences

124. Jack Straw warned the Committee of some potential consequences of extending state funding. He said: “you may resolve one set of problems but you gain all sorts of others and effectively you get state bureaucracies running political parties and all sorts of other problems, including detachment”.²⁰⁶ UNISON added that there was a risk of “increasing state intrusion into the internal affairs of the parties”.²⁰⁷

125. A second consequence would undoubtedly be increased scrutiny of party spending. Canon Peter J Winstone echoed the views of many of our witnesses. He said “it would be quite improper for taxpayers’ money to fund makeup or hairdressing for politicians or their wives, consultancy fees for outside organizations... which are an embarrassment to people like me who vote, and which no doubt discourage many people from voting”.²⁰⁸ Frank Hindle put this in context and said “if you see it being used for suits and hairdos and so forth it is headlines, but then they disappear. What people do want is a strong democracy but people have not always thought through how you get a strong democracy that needs paying for. We have all got a process there in educating people in some way and being responsible in how we do things”.²⁰⁹ Evidence from other jurisdictions suggested that when faced with increased public scrutiny, parties do moderate and self-regulate their spending to a greater extent, as it would be counterproductive for them to do otherwise.

126. Any extension of state funding should offer the taxpayer visibly cleaner and healthier politics; it should be accompanied by robust regulation and be focused towards the local level. It should also seek to maximise flexibility in determining funding for new parties, and towards stimulating local activity. These aims should be kept in mind when considering different methods of how any potential system of the state funding of political parties is devised and operated.

How Much Funding is Required?

127. It is only meaningful to have a debate about party funding if there are some agreed principles about how much funding parties require. What has been strikingly absent from the debate thus far is a discussion of this issue. It is a question not only of financial facts and figures, but of the values and principles that should be attached to state funding; not so that “good” or “bad” funding and expenditure can be defined, but so that principles about the purpose and nature of party funding could be devised.²¹⁰ In its written evidence, the

²⁰⁵ Keith Ewing and Navraj Singh Ghaleigh (2006) Political Finance and Government Advertising Workshop (Australian National University) 25 February 2006. *Donations to Political Parties in the UK*, available at http://democratic.audit.anu.edu.au/papers/20060321_fin_ewing.pdf, p. 55

²⁰⁶ Q 283

²⁰⁷ Ev 68

²⁰⁸ Ev 83

²⁰⁹ Q 260

²¹⁰ Dr Alan Whitehead submitted some proposed calculations. See Ev 88

Conservative party argued that “parties need to be funded at a level that allows them to put their message across to the electorate, and in a way which permits some independence from filtering by the media by means of, among other things, new information technology. However, they should not be assisted beyond the minimum level that is judged to allow this. Making this judgement should be the responsibility of the Electoral Commission, who already similarly advise on the spending cap for General Elections”.²¹¹

128. While we consider it is neither helpful or desirable to try to distinguish between “good” and “bad” expenditure, we recognise the need for further debate around the values and principles that should govern state funding.

How will Funds be Raised and Distributed?

129. An associated set of issues that must be resolved before any scheme for state funding is proposed, are the questions of how the funds will be raised and distributed, and who should be eligible? The different options are outlined below.²¹² TULO recommended that any state support “should build in incentives that encourage the parties to enhance electoral turnout, as well as recruit and retain members”.²¹³ Indeed, if there is to be increased state funding for political parties, there is overwhelming public support for this funding being targeted to support local activity by parties. 59% of respondents supported this, against less than one fifth who opposed it (18%).²¹⁴

130. We agree that state funding should not be used as a tool to dictate to parties how they should behave or organise. Neither should such funding be simply applied to shore up such parties’ existing arrangements. However, while we are sympathetic to the argument that any state funding should be directed towards the local regeneration of parties, this would be difficult to monitor.

131. Instead, we are of the view that the means by which state funding is determined and distributed should incentivise party activities. Matched funding for membership fees should be introduced as a means of encouraging recruitment, as well as the introduction of a fixed annual amount of funding on the basis of votes cast at the previous election to give greater incentives to parties to increase activity, and thereby engagement and turnout, in seats other than marginals.

Extending the Current Arrangements?

132. The most immediate way of increasing state funding would be to extend the current arrangements. In 2004, the Electoral Commission made two specific recommendations on how this could be achieved. First, they suggested that additional funding should in principle also be made available for all candidates contesting local elections through the

211 Andrew Tyrie (2006), *The Conservative Party’s proposals for the funding of political parties*, p. 3

212 This is not an exhaustive list. For example The Power Inquiry March 2006 recommended an individual voucher scheme. At general election a voter will be able to tick a box allocating a £3 donation per year from public funds to a party of his or her choice to be used by that party for local activity. It would be open to the voter to make the donation to a party other than the one they have just voted for.”

213 www.unionstogether.org.uk/articles/article13.html

214 Ev 87

extension of the freepost facility. Second, they recommended a modest increase in policy development grants so that they could be extended to all parties with at least two members elected to any legislature above the local level.²¹⁵

133. The first recommendation was widely supported. However, the Lord Chancellor suggested that any extension of this type of provision (i.e. including free party political broadcasts) could not alone be a “a significant part of the solution”.²¹⁶ There was no dispute in regard to an increase in the policy development grant. In addition however, UNISON suggested that Short money be extended to include the party in Government.²¹⁷ Some of our witnesses responded, and argued against this, and suggested that rather than extend Short money to the governing party, party funding should be used to further compensate opposition parties for what is described as the incumbency advantage. However, Sam Younger rejected this. He said:

“...if you went down the track of saying because Government has access to Government information systems, therefore you compensate for that somehow in a party funding system, then you are effectively acknowledging that part of the normal course of events might be abuse of that incumbency advantage that you point to, so I would not think that is probably the right way to go, I think there ought to be something that is even-handed”.²¹⁸

Matching Funds

134. Jack Straw argued that “the most attractive case for additional support for political parties is that of matched funding by one device or another”.²¹⁹ The New Policy Network agreed: “if...it is desirable to encourage greater participation in parties then giving an incentive to parties to recruit and retain members would be a good way of going about it. This could be done by offering to match funds for membership subscriptions and donations up to a maximum of say £100. For example, if a party received a membership subscription of £10 it would receive another £10 from public funds”. The Network suggested that if combined with a ban on large donations, this would go some way towards ensuring that parties are accountable to their members and through them to the population as a whole. However, they added “that whilst this option may have the effect of halting the decline in party membership, it is unlikely to produce the revival in party membership that in our opinion is necessary”.²²⁰

Tax relief on Donations

135. At present, political parties, unlike charities, are unable to reclaim the tax on donations. The one exception to this was that under the Inheritance Tax Act 1984, legacies to political parties with two members elected to the House of Commons, or to those parties

215 www.electoralcommission.org.uk/media-centre/newsreleasereviews.cfm/news/406

216 Q 32

217 Ev 67. See also Q 264

218 Q 198

219 Q 281

220 Ev 61

that have one elected member and gained at least 150,000 votes were exempt from inheritance tax.²²¹

136. In 1998 the Committee on Standards in Public Life concluded in favour of tax relief at the standard rate on donations up to £500 to ‘eligible’ political parties. The Committee argued that in order to prevent abuse, this should be limited to political parties with two members at Westminster or one member with at least 150,000 votes. This was the only major recommendation the Government failed to take up from the Neill report. The Electoral Commission in their recent report on the funding of political parties also proposed a system of tax relief on donations of up to £200 or on the first £200 of a large donation, and that any tax relief scheme should be extended to non-taxpayers, possibly though a match funding system.²²² The Conservative party agreed that a matching funding scheme for non-taxpayers should be introduced.²²³

137. The Labour party said that they “support the principle of political parties having charitable status”.²²⁴ Jack Straw clarified this position: “our democracy could not operate without people who are willing to give large and small sums to our political parties...we should find some means of moral recognition of the importance of that activity”.²²⁵ The New Policy Network recognised that by giving donations to political parties a similar status to those of charities, it would “imply that as a society we regard political activity as a worthwhile public good”.²²⁶ Frank Hindle, Deputy Chair, Northern Region Liberal Democrats agreed, citing two advantages to this scheme: “it would first of all make small donations more valuable to us and, secondly, to some extent it would make it more respectable to go and donate and also encourage people. It is like charity. It is always a good incentive to say, “If you put some money in, the taxman will put some in as well”.²²⁷

138. However, despite support in principle, our witnesses identified several practical problems with this scheme. The New Policy Network told us that even with a threshold fixed as low as £100 and set at the standard rate for tax relief, the poorer supporters of a party would lose out, as it would only apply to tax payers.²²⁸ The Electoral Commission proposed solving this problem by introducing matched funding for non-tax payers. The Conservative party also supported this approach.²²⁹ Colleen Fletcher, of North East Coventry Labour party, expressed a note of caution and reminded us that “it would be important to have something that did not complicate things for treasurers of political parties”.²³⁰

221 The Inheritance Tax Act 1984, Section 24. Gifts and bequests made to political parties on or after 15 March 1988 were exempt from inheritance tax with no limitation on value

222 Fifth Report of the Committee on Standards in Public Life (1998), *The Funding of Political Parties in the United Kingdom*, para. 8.20; The Electoral Commission (2004), p. 99

223 Andrew Tyrie (2006), *The Conservative Party’s proposals for the funding of political parties*, p. 5

224 Ev 56

225 Q 276

226 Ev 61

227 Q 254

228 Ev 61

229 Andrew Tyrie (2006), *The Conservative Party’s proposals for the funding of political parties*, p. 5

230 Q 255

139. We see positive benefits from allowing small donations to political parties to benefit from tax relief, but we suggest that this should be limited to £250 per donor per annum. We also recommend that a ‘matched funding scheme’ for non-taxpayers should be set up alongside it.

Determining Thresholds

140. Virtually all countries with direct state funding have enacted a threshold of eligibility for the subsidy.²³¹ The eligibility is frequently defined by the achievement of parliamentary representation in the previous election (for example in Finland), or it may also consist of an absolute number of votes (as in Denmark and Portugal), a given percentage of the vote (e.g. Germany) or a combination of representation and votes (e.g. Sweden).²³² The Electoral Commission suggested to us that the current eligibility criteria for the distribution of Short money and Policy Development Grants could be used to determine thresholds for increased state funding.²³³

141. However, the Electoral Reform Society suggested “a note of caution against any formula that assumes the votes for the parties in general elections is an accurate indication of their support in the country”.²³⁴ They argued that the fact that turnout in safe seats is demonstrably lower, and evidence of tactical voting misrepresents actual levels of support for the political parties.

142. Furthermore, Plaid Cymru impressed upon us the need for “some recognition of the specific national contexts of political parties reflected in any formulas that may be developed to distribute funds”.²³⁵ In practice, they suggested that “in the first instance...the threshold should be calculated individually within each nation of the UK. We would then propose a threshold of an average 5% of valid votes and at least one parliamentary representative across National, UK and European elections within the national area”.²³⁶

143. Plaid Cymru also raised a broader point about the utility of thresholds in attributing funds for basic party functions. They asked that any formula recognise “that certain basic party functions are undertaken by all parliamentary parties of a certain size. While clearly some account must be taken of party size, the mechanism must also recognise that parties have basic functions, which all have to undertake regardless of the votes won”.²³⁷ The German system recognised this: the first four million votes earned the party 85 cents per vote, while each vote above this earned then 70 cents. The intention was that each eligible party has enough income to perform their basic functions.

231 Kevin Casas-Zamora, (2005), Party Membership Trends in Western Europe 1960-1989 in *Paying for Democracy: Political Finance and State-funding for Parties*, (ECPR Press), p.48

232 As above

233 As above

234 Ev 75

235 Ev 85

236 Ev 86

237 Ev 85

Conclusion

144. Some increase in state funding seems to us to be a necessary component of a solution to the problems of party funding. We believe it is neither helpful nor desirable to try to distinguish between good and bad expenditure, and recommend that parties should be allowed discretion in their spending. It is not logical to assist parties in policy development and parliamentary opposition activity while excluding the primary democratic activity of campaigning from financial assistance. Any attempt to allocate particular monies for particular activities, with value labels attached, would only encourage parties to look for loopholes in the regulations.²³⁸

145. However, any increase in state funding should rightly be accompanied by more detailed scrutiny and auditing of how party funds are spent. The evidence suggests that this would lead to self-regulation in the way that political parties spend their money. If one of the aims is to bolster public confidence, and indeed support for a political party, then it would be counter productive for parties to be irresponsible in their spending.

146. **We recommend that any proposals for the reform of the system of party funding should be based on the following key principles:**

- **Any system of funding should be transparent, and be subject to the full scrutiny of the regulating body, in order to ensure sufficient public support and bolster public confidence in the integrity of the political system.**
- **It should be workable.**
- **It should, as far as is practical, be fair between existing parties and new entrants.**
- **Every effort should be made to attract a consensus among the major political parties.**
- **It should be based on the principle that the main purpose of political parties is to be a vehicle for public activism and engagement, and should subsequently be focused on making political parties fit for this purpose.**

238 For example, see the New Zealand Auditor General's Report, available at www.oag.govt.nz

5 The Way Ahead: What Principles Should Govern Party Funding?

147. We began our inquiry at a time of great public anxiety about issues related to the funding arrangements of political parties within the UK. There is no doubt that the various events which have occurred since March 2006, and the course of the debate relating to the system of party funding since then, have damaged public confidence in the financial operation of the major political parties represented in Westminster. We are all agreed that there are serious problems with the current system of party financing which have to be addressed as a matter of urgency. Piecemeal reform of the system is not a viable option; a radical approach is required which will allow all of those who are active in party politics to re-gain the trust of the wider public.

148. That approach must begin with the development of an appropriate regulatory framework, which is a complex task. Many of our witnesses emphasised the difficulty of ensuring that regulation works. Furthermore, we are only too aware that political parties in all countries, whether in government or in opposition, will be tempted to stretch the rules to the limit and to find loopholes within existing legislation and regulatory frameworks. Modern political parties now support candidates in an ever wider set of elections and an ever changing communications environment. There is no proper or adequate alternative to close regulation for political parties in the modern world. International experience, for example that of Canada and Germany, shows that a formal regulatory approach can be made to work.

149. We acknowledge that an increase in public funding for political parties attracts public opposition, but we note that when public opinion is sought about specific issues relating to public finance for political activity the reaction is less hostile. Given the expectations placed on the work of political parties in relation to the greater range of elections which now take place, we see no alternative to an increase in the range of public funding available. If handled well, as part of a new regulatory package, this could not only serve to enhance public confidence, but would also be the only viable long term solution to ensure that political parties are adequately funded to fulfil their legitimate and important democratic functions.

150. Canada's experience suggests that it is possible to win public confidence for very radical changes in the way party finance is regulated and supported, and to do so without losing the traditional links between institutions and parties even when financial links are removed. The Canadian public, trade unions and business have entered a world in which large individual, corporate and institutional donations are precluded and state finance combines with the encouragement of small individual donations to take their place.²³⁹

151. As radical a change may be a step too far for the United Kingdom to take at this stage, but if the public are to see a benefit from greater state funding it will be because they are convinced that it is the way to ensure that parties are free from any appearance

239 See text box on pages 38 and 39

they are influenced by powerful paymasters. Increased regulation of donations and of spending, combined with wider availability of state funding, are justified if they open up a clear route away from interest based funding along which further steps can be taken if the benefits become more apparent. Without this sense of direction voters may well conclude that the parties are voting to give themselves more money without removing dependence on their other paymasters.

152. The UK currently limits expenditure but does not limit donations, while in the U.S.A, donations are capped but spending is not. Both systems lead to significant problems. In Canada, both income and expenditure are comprehensively capped and regulated, and we were convinced by the strengths and benefits of this model. In conclusion therefore, our report proposes a package of reforms. These reform set out where we would like the parties to be in the medium term future. Our aim is to strengthen parties not to weaken them, and to make sure that parties are not disadvantaged by the implementation of our proposals.

153. A cap on spending could result in a less onerous fundraising burden for parties, as there would be a limit in the amount they needed to raise. It would also serve to reduce the amount of money that is currently in the system. There would, however, still be public concern, not about the size of donations but the source of donations as large donations would be a greater proportion of a party's funds and would subsequently increase concerns about wealthy donors, individual, corporate and union, being able to buy political influence. The preferred solution to this problem would be for the parties voluntarily to agree a binding framework to limit all large donations. This would encourage parties to broaden their base, and pursue smaller donations from a larger number of individuals. However, it is likely that a cap in donations would result in reduced income for the parties. This shortfall could be met by an increase in state funding, which would be subject to a more transparent and robust regulatory framework. Not only would this serve to address public concerns about undue influence, it would at the same time provide an acceptable level of funding to parties who meet specific eligibility criteria, to ensure that they can operate effectively to fulfil their democratic functions.

154. We recommend that within a stronger and more robust regulatory framework there be a package of changes to the system of party funding to include: an overall cap on spending, both at local and national level; greater transparency about the sources of all elements of party funding; a voluntarily agreed binding framework for the limiting of all large donations leading to an increase in state funding for political parties. We agree that the aim of reform should be to strengthen the political parties, and that no party should be financially disadvantaged by any changes that are introduced.

155. We acknowledge that all of the elements of the package we propose cannot be achieved immediately. We therefore recommend a two staged approach: a lower national cap on spending alongside a voluntarily agreed binding framework for a limit on donations should be pursued immediately. A combined matched funding and tax relief scheme should also be introduced with immediate effect in order to encourage small donations. The first stage would give parties time to adjust before more radical changes, including further extensions of state funding for political parties, are introduced. This package would not only provide a stable route for parties, but also a transparent and sustainable funding regime which could also be acceptable to the public.

Conclusions and recommendations

1. Party funding and the maintenance of a system of parties that compete fairly within the British polity is an issue of central political importance. It is imperative that the Government take a considered and measured view of any proposals for reform, and that reforms command a wide consensus among political parties. Failure to undertake reform, or the promulgating of reforms which are seen to be of a partisan nature will serve only to alienate the public and damage rather than revive political parties in the eyes of the electorate. (Paragraph 13)
2. Decline in party membership has altered the income profile of the main political parties. However, more significantly, it has altered campaigning strategies, led to a reduction in the number of local activists and subsequently reduced the direct contact that parties have with members of the public. (Paragraph 23)
3. Political parties receive income from a variety of different sources. Despite the introduction of a duty to produce accounts under PPERA, a lack of common accounting practices makes it difficult to compile a comprehensive account of the income profiles of the political parties. The Government should ensure that the Electoral Commission produce more digestible, thorough and transparent figures of both the private and public sources of party income. (Paragraph 39)
4. The current system of party financing in the UK is unstable and, unless key issues are addressed, it is likely that these problems will increase further. Not addressing the financial predicament of the parties at this stage could lead to increased dependency on large donations, ever increasing amounts of money being spent between elections and the subsequent further erosion of public confidence due to the increasing appearance of money buying power and influence. (Paragraph 48)
5. We believe that there are problems, both actual and perceived, with the current arrangements for party funding in the UK. While parties struggle with escalating costs and a reduction in the traditional financial support base, public confidence is damaged by the fear that donors may be able to buy political influence. While the PPERA 2000 introduced closer regulation and some improved transparency, it has not finally resolved problems with the system; if anything increased transparency, by revealing the extent of and dependency on donations from a few rich individuals, corporations and trade unions, has increased the negative impact on public confidence. (Paragraph 49)
6. We agree with the Lord Chancellor that party funding is only one issue that has an impact on public confidence, and resolving this issue alone will not fully restore this confidence. However, if handled well, the process could contribute to the restoration of public confidence. If handled poorly, regardless of the merits of any proposals for reform, public confidence and engagement will be further undermined. (Paragraph 50)
7. While we endorse a transparent system, transparency does not solve problems, but draws attention to them. It also invites “sniping” between opponents. It must be

based on readily identifiable risks so that audit functions have a clear overall purpose. (Paragraph 53)

8. We welcome the changes and transparency that have come about as a result of the PPERA. We agree with the basic principles of the current system. We note that the system of regulation has largely developed as a response to specific problems which have emerged, and emphasise the need for constant review and flexibility in what is a very fluid and dynamic environment. (Paragraph 54)
9. However, we recognize that current reporting methods fail to provide adequate transparency in the way accounts are presented by the Electoral Commission. We urge the Electoral Commission and the Government to work together to improve and strengthen these processes. (Paragraph 55)
10. There needs to be a fine balancing act between regulation and providing the parties with adequate resources to ensure compliance. It would be counter-productive to increase further the financial burden on the political parties by requiring them to re-direct resources in order to assure compliance. (Paragraph 60)
11. We acknowledge the difficulties with regulation, especially its application at the local level. However, these obstacles should not prevent the pursuit and development of a robust, transparent, workable and enforceable regulatory framework. (Paragraph 61)
12. We recommend change to the Electoral Commission to help it become an effective watchdog with appropriate powers of enforcement. We recommend that the provisions in PPERA should be changed to allow a minority of Commissioners to be people with practical past experience of politics from across the political spectrum. (Paragraph 64)
13. Campaigning is a core activity for political parties which provides information and encourages participation and engagement. It is the means by which political choices are presented to the voters. However, we are concerned about the negative public perception of impersonal and expensive campaigns and their potential impact on participation and engagement should campaign costs continue to escalate. (Paragraph 71)
14. We recommend that there should be a tighter cap on overall party spending. This limit should be set by the Electoral Commission, and should be determined as the result of an open debate about the real cost of politics. (Paragraph 72)
15. Although election spending at constituency level is subject to defined limits, extensive spending can take place, including in marginal constituencies outside these limits. Any change, even if designed to encourage a more general shift from national to local campaigning would still be subject to loopholes, and it is not clear whether it would be administratively feasible to close these. (Paragraph 78)
16. We see merit in the focus of campaigning being shifted from the national to the local level. Whilst recognising that parties must take control of spending, we recommend that there be a modest increase in local spending limits, to be set by the Electoral Commission. (Paragraph 79)

17. With an increase in the frequency of elections within the United Kingdom, the current definitions of campaign periods for spending regulation periods are outdated, and allow a range of activities outside of those periods, which, although within legal definitions, do not reflect the spirit of the law. (Paragraph 87)
18. The effects of any reform to address constant campaigning would be far reaching and should only be considered in the context of an agreed overall package of proposals, including limitations on all sources of income and expenditure. (Paragraph 88)
19. Part of this package would be a revision of the present arrangements to enable the expenditure of all parties, both at local and national level to be capped over a five year accounting period. During this period parties would be allowed to spend their money as they see fit, provided spending is within predetermined spending caps. Any elections falling within the accounting period would continue to be subject to their own spending caps within the laid down accounting period, but would also be counted within the overall five year cap. (Paragraph 89)
20. It is essential that, both in perception and in reality, money cannot buy undue influence, (or indeed, buy the election result) from within or outside the party. Third party spending should therefore be subject to a transparent and robust regulatory regime and should be regulated within the same accounting period as that determined for political parties so that current loopholes can be eradicated. (Paragraph 92)
21. Any extension of the existing arrangements for limiting spending (however defined) would not be sufficient to address all the current concerns about the funding of the political parties. It should be considered as part of a broader set of proposals. (Paragraph 96)
22. Any meaningful limit on donations from individuals, corporations and trade unions would lead to a shortfall in funds, which would not be addressed by a reduction in the current level of the cap in spending alone. However, a donation limit would greatly increase the incentive for parties to widen their support base to a larger number of small donations, a development we would welcome. In principle therefore, we agree that transparency of donations is not enough, and the parties should take steps to agree voluntarily to binding limitations on donations. However, such a limit should only be considered within the broader context of a discussion about alternative sources of funding, including state funding, for political parties. (Paragraph 109)
23. This issue is difficult to resolve, not least because of the present disagreement about the status of trade union funding to the Labour party. Any move to change the nature of party funding must not stray into prescriptive devices to require political parties to organise internally in ways that violate their democratic relationships with other institutions. (Paragraph 110)
24. We welcome the new provisions for the reporting of loans under the Electoral Administration Act 2006. However, recent allegations with regard to loans (be they substantiated or not) have had a negative impact on public confidence in the political

system. In order to restore this confidence fully, we recommend that all loans to political parties be made illegal, with the exception of those from UK based financial institutions, at commercial rates. (Paragraph 114)

25. Any extension of state funding should offer the taxpayer visibly cleaner and healthier politics; it should be accompanied by robust regulation and be focused towards the local level. It should also seek to maximise flexibility in determining funding for new parties, and towards stimulating local activity. These aims should be kept in mind when considering different methods of how any potential system of the state funding of political parties is devised and operated. (Paragraph 126)
26. While we consider it is neither helpful or desirable to try to distinguish between “good” and “bad” expenditure, we recognise the need for further debate around the values and principles that should govern state funding. (Paragraph 128)
27. We agree that state funding should not be used as a tool to dictate to parties how they should behave or organise. Neither should such funding be simply applied to shore up such parties’ existing arrangements. However, while we are sympathetic to the argument that any state funding should be directed towards the local regeneration of parties, this would be difficult to monitor. (Paragraph 130)
28. Instead, we are of the view that the means by which state funding is determined and distributed should incentivise party activities. Matched funding for membership fees should be introduced as a means of encouraging recruitment, as well as the introduction of a fixed annual amount of funding on the basis of votes cast at the previous election to give greater incentives to parties to increase activity, and thereby engagement and turnout, in seats other than marginals. (Paragraph 131)
29. We see positive benefits from allowing small donations to political parties to benefit from tax relief, but we suggest that this should be limited to £250 per donor per annum. We also recommend that a ‘matched funding scheme’ for non-taxpayers should be set up alongside it. (Paragraph 139)
30. We recommend that any proposals for the reform of the system of party funding should be based on the following key principles:

Any system of funding should be transparent, and be subject to the full scrutiny of the regulating body, in order to ensure sufficient public support and bolster public confidence in the integrity of the political system.

It should be workable.

It should, as far as is practical, be fair between existing parties and new entrants.

Every effort should be made to attract a consensus among the major political parties.

It should be based on the principle that the main purpose of political parties is to be a vehicle for public activism and engagement, and

should subsequently be focused on making political parties fit for this purpose. (Paragraph 146)

31. As radical a change may be a step too far for the United Kingdom to take at this stage, but if the public are to see a benefit from greater state funding it will be because they are convinced that it is the way to ensure that parties are free from any appearance they are influenced by powerful paymasters. Increased regulation of donations and of spending, combined with wider availability of state funding, are justified if they open up a clear route away from interest based funding along which further steps can be taken if the benefits become more apparent. Without this sense of direction voters may well conclude that the parties are voting to give themselves more money without removing dependence on their other paymasters. (Paragraph 151)
32. We recommend that within a stronger and more robust regulatory framework there be a package of changes to the system of party funding to include: an overall cap on spending, both at local and national level; greater transparency about the sources of all elements of party funding; a voluntarily agreed binding framework for the limiting of all large donations leading to an increase in state funding for political parties. We agree that the aim of reform should be to strengthen the political parties, and that no party should be financially disadvantaged by any changes that are introduced. (Paragraph 154)
33. We acknowledge that all of the elements of the package we propose cannot be achieved immediately. We therefore recommend a two staged approach: a lower national cap on spending alongside a voluntarily agreed binding framework for a limit on donations should be pursued immediately. A combined matched funding and tax relief scheme should also be introduced with immediate effect in order to encourage small donations. The first stage would give parties time to adjust before more radical changes, including further extensions of state funding for political parties, are introduced. This package would not only provide a stable route for parties, but also a transparent and sustainable funding regime which could also be acceptable to the public. (Paragraph 155)

Formal minutes

Tuesday 12 December 2006

Members present:

Mr Alan Beith, in the Chair

David Howarth

Keith Vaz

Siân James

Dr Alan Whitehead

Julie Morgan

Jeremy Wright

Mr Andrew Tyrie

The Committee deliberated.

Debate to be resumed Wednesday 13 December at Three o'clock

[Adjourned till Wednesday 13 December at 3.00pm

Formal minutes

Wednesday 13 December 2006

Members present:

Mr Alan Beith, in the Chair

| | |
|-----------------|-------------------|
| David Howarth | Mr Andrew Tyrie |
| Siân James | Keith Vaz |
| Mr Piara Khabra | Dr Alan Whitehead |
| Julie Morgan | Jeremy Wright |

The Committee deliberated.

Draft Report [Party Funding], proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 158 read and agreed to.

Summary read and agreed to.

Conclusions and recommendations read and agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No 134 (Select Committees (Reports)) be applied to the Report.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned till Tuesday 9 January at 4.00pm]

Witnesses

Wednesday 19 April 2006

Rt Hon Lord Falconer of Thoroton and **Alex Allan**, Department for Constitutional Affairs Ev 1

Tuesday 16 May 2006

Sir Hayden Phillips GCB Ev 17

Sam Younger and **Peter Wardle**, The Electoral Commissions Ev 25

Frank Hindle, Northern Region Liberal Democrats, **Colleen Fletcher**, North East Coventry Labour Party, and **David Simpson**, Conservative Campaign HQ Ev 31

Tuesday 4 July 2006

Rt Hon Jack Straw MP, Leader of the House Ev 38

Informal Meetings

Informal meetings were held with the following people in:

A. Berlin

Meetings with Hugh Mortimer, Tilo Fuchs and HE Sir Peter Torry (Ambassador) British Embassy; Dr. Johannes Becher, Referat PM3 (Parliamentary Services); Inge Wettig-Danielmeier, SPD Treasurer, SDP Headquarters; Michael Koss (Transparency International); Dr Gero Neugebauer (Free University of Berlin, Political Scientist); Prof Robert Leicht (Co-Editor at “Die Zeit”, academic); and Ulrike Herrmann (Journalist at “Taz”, a Berlin Daily).

Dietmar Strehl, treasurer of “Buendnis 90/Die Gruenen”;

Thilo Streit, Institute for German and European party law and party research, Duesseldorf University; Juergen Lennartz (Saarland); Dr Michael Wilhelm (Saxony); Wolfgang Gibowski (Lower Saxony); Dr Michael Schneider (Sachsen-Anhalt); Volker Hoff (Hesse); Karl Holluba, treasurer of the Left Party.

B. Ottawa, Canada

Meetings with Jean-Pierre Kingsley, Head, Elections Canada and Elections Canada Officials; Mike Donnison, Executive Director, Conservative Party of Canada; Graham Fox, Public Policy Forum; Eric Hebert-Daly, Federal Secretary, New Democratic Party of Canada; Julian Evans, Acting High Commissioner

The Committee also met: Hon Rob Nicholson MP, Minister for Democratic Reform and Leader of Government in House of Commons; Gary Goodyear MP, Standing Committee on Procedure and House Affairs; Royal Galipeau MP, Deputy Chair of Committees of the Whole; Michel Guimond MP, Bloc Quebecois; Marcel Proulx MP; Professor Jon Pammett, Carleton University; Bill Neville, Public Policy Forum; Senator Daniel Hays, Chair of Senate Reform Committee; Senator Marjory Le Breton; Senator Noel Kinsella; Senator Terry Mercer; Ken Rockburn, CPAC Television; Glen McGregor, Ottawa Citizen.

C. Washington DC

Meetings with Alan Charlton, Deputy Head of Mission, British Embassy; Bob Schiff, Minority Chief Counsel (Campaign Finance Reform and Judiciary), Office of Senator Russ Feingold; Dominic Martin, Counsellor, Political and Public Affairs.

The Committee also met: Al Eisele, Editor-at-Large, The Hill; Paul Herrnson, Director, Center for American Politics and Citizenship, University of Maryland; Trevor Potter, President & General Counsel, Campaign Legal Centre; Donald Simon, Counsel for Common Cause & Democracy 21 (Partner at Sonosky, Chambers, Sachse, Endreson & Perry LLP).

Michael Toner, Chairman; Ellen Weintraub, Commissioner; Steven T Walther, Commissioner and Hans A von Spakovsky, Commissioner, Federal Election Commission; Joseph Cantor, Government and Finance Division, Congressional Research Service; Thomas Mann, Senior Fellow, Governance Studies, The Brookings Institution; Joseph Sandler, General Counsel, Democratic National Committee; Ms Kennie Gill, Minority Staff Director and Chief Counsel, Senate Rules and Administration Committee; Tom Josefiak, Election Law Counsel, Republican National Committee.

D. Hartford, Connecticut

Peter Kelly, former Democratic Party Treasurer; Albert Lenge, Deputy Director and Associate General Counsel, Jeffrey Garfield, Executive Director and Beth Rotman, Director of Public Campaign Financing Connecticut State Elections Enforcement Commission; Michael Kozik, Managing Attorney, Connecticut Secretary of State's Election Administration Office; Jodi Rell, Governor of Connecticut; Andy Sauer, Executive Director, Common Cause Connecticut.

E. Boston, Massachusetts

Meeting with John Rankin, Consul-General; Congressman Martin Meehan; Margaret Marshall, Massachusetts Supreme Court Justice; Michelle Tassinari, Director of Elections and Legal Counsel, Massachusetts Secretary of State Elections Division; Michael Sullivan, Office Director and Denis Kennedy, Director of Public Information, Massachusetts Office of Campaign and Political Finance; Anthony Petrucelli, Chairman and Committee Members of the Joint Committee of Election Laws; Peter Vickery, Executive Director of Massachusetts Voters For Fair Elections and British Student Caucus, Kennedy School of Government, Harvard University.

List of written evidence

| | |
|--|-------|
| Department for Constitutional Affairs | Ev 46 |
| Peter Bradley | Ev 51 |
| Labour Party | Ev 54 |
| New Policy Network | Ev 57 |
| The Electoral Commission | Ev 64 |
| UNISON | Ev 65 |
| Peter Hooper | Ev 68 |
| King's College Cambridge | Ev 69 |
| Save the Labour Party | Ev 73 |
| Electoral Reform Society | Ev 73 |
| Mr C. A. Clarkson | Ev 75 |
| John Maples MP | Ev 75 |
| James Page | Ev 76 |
| Michael Pinto-Duschinsky | Ev 76 |
| Chris Mullen MP | Ev 81 |
| Maurice Bale | Ev 82 |
| Local Government Association Independent Group | Ev 82 |
| Canon Peter J Winstone | Ev 83 |
| Democratic Unionist Party | Ev 83 |
| Plaid Cymru | Ev 84 |
| Liberal Democratic Party | Ev 86 |
| Joseph Rowntree Reform Trust Ltd | Ev 87 |
| Robert Rhodes | Ev 87 |
| Jack Brown | Ev 87 |
| Dr Alan Whitehead MP | Ev 88 |

Reports from the Constitutional Affairs Committee

Session 2005-06

| | | |
|----------------------|---|---------------------------|
| First Report | The courts: small claims <i>Government response</i> | HC 519 <i>Cm 6754</i> |
| Second Report | The Office of the Judge Advocate General | HC 731 |
| Third Report | Compensation culture <i>Government response</i> | HC 754 <i>Cm 6784</i> |
| Fourth Report | Legal Services Commission: removal of Specialist Support Services | HC 919 |
| Fifth Report | Compensation culture: <i>NHS Redress Scheme</i> <i>Government response</i> | HC 1009 <i>Cm 6784</i> |
| First Special Report | Legal Services Commission's response to the Fourth Report on removal of Specialist Support Services | HC 1029 |
| Sixth Report | Family Justice: the operation of the family courts revisited | HC 1086 |
| Seventh Report | Freedom of Information—one year on | HC 991 |
| Eighth Report | Reform of the coroners' system and death certification | HC 902 |

Session 2004-05

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|----------------|--|--------------------------|
| First Report | Freedom of Information Act 2000 — progress towards implementation <i>Government response</i> | HC 79 <i>Cm 6470</i> |
| Second Report | Work of the Committee in 2004 | HC 207 |
| Third Report | Constitutional Reform Bill [<i>Lords</i>]: the Government's proposals <i>Government response</i> | HC 275 <i>Cm 6488</i> |
| Fourth Report | Family Justice: the operation of the family courts <i>Government response</i> | HC 116 <i>Cm 6507</i> |
| Fifth Report | Legal aid: asylum appeals <i>Government response</i> | HC 276 <i>Cm 6597</i> |
| Sixth Report | Electoral Registration (Joint Report with ODPM: Housing, Planning, Local Government and the Regions Committee) <i>Government response</i> | HC 243 <i>Cm 6647</i> |
| Seventh Report | The operation of the Special Immigration Appeals Commission (SIAC) and the use of Special Advocates <i>Government response</i> | HC 323 <i>Cm 6596</i> |