

**20 March 2006**

## **Clean Politics**

**Andrew Tyrie MP**

*Without parties parliamentary government is impossible, Benjamin Disraeli.*

*Parties must ever exist in a free country, Edmund Burke.*

### **1. Funding political parties: the problem**

Democracy needs parties. Parties need money. The means by which parties now obtain their funding is attracting increasing public criticism. At least some of the criticism is justified, and is contributing to the erosion of trust in parties and politics. It is now incumbent upon the major parties to work together to agree a reform that can restore the public's faith in them, and the way they are funded.

Party funding cannot go on as it is. Traditional ways of funding politics are collapsing:

- The membership of political parties (and, with it, individual subscription income) has dropped by around 85 per cent over the last half century. The long-run downward trend may continue.
- Corporate donors have disappeared, scared away by transparency requirements and, rightly, by a growth in shareholder activism.

The remaining sources of party funding are making the problem worse. These fuel scandal and further erode the public's confidence in parties:

- Both the major parties are increasingly dependent on a small number of rich donors. To the public, it appears that these donors are seeking to buy access or influence. The public may be right. The last few years have seen a succession of scandals and rows over donations – Ecclestone, Mittal, PowderJect, amongst others<sup>1</sup> – each of which has damaged the reputation of parties for clean politics.
- Increasingly, it has looked as if peerages and other honours are being offered in exchange for donations and loans to parties. A number of recent cases have led many voters to conclude that honours are now being trafficked.<sup>2</sup> Nor has this been exclusively a Labour party problem.<sup>3</sup> The sale of honours was made illegal under the Honours (Prevention of Abuses) Act, 1925,<sup>4</sup> as a result of Lloyd George's honours' sales.

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<sup>1</sup> Formula One boss Bernie Ecclestone gave £1million to the Labour Party in 1997, which was subsequently linked by the press to an exemption for Formula One from a ban on tobacco advertising. Mr Ecclestone's £1 million donation was later returned to him. Lakshmi Mittal's donation to the party of £125,000 in 2001 was linked by many to the fact that Tony Blair had written to the Prime Minister of Romania shortly afterwards, backing Mr Mittal's efforts to take over a steel plant in that country. Dr Paul Drayson's company, PowderJect Pharmaceuticals, donated £50,000 to the Labour party in 2001. In April 2002 the Department of Health revealed that it had awarded a £32 million contract to the company, and in 2004 Dr Drayson was made a peer.

<sup>2</sup> Apart from Dr Drayson, Lords Bragg, Gavron, Haskins and Sainsbury all made large donations to the Labour party before they were made peers.

<sup>3</sup> 'While only around 6 per cent of companies make donations to the Conservative Party, 50 per cent of knighthoods and peerages have gone to directors of companies which have made such donations.' See Vernon Bogdanor, *Power and the People* (1997), p. 155.

<sup>4</sup> This makes it a criminal offence to deal in honours, either as broker or purchaser. The Act has been ineffective, and has resulted in only one prosecution.

- The public's confidence in Parliament has also been eroded by the appearance that an honour, which confers membership of the legislature, can be purchased by means of a donation to a political party. Fundamental reform of both composition and powers of the House of Lords is to be considered shortly by a joint committee of both Houses.<sup>5</sup> The 1925 Act was created after Prime Minister Lloyd George outrageously exchanged peerages for party funding. We are slipping back into the world of Lloyd George.
- Trade Unions still fund the majority of the Labour Party's costs.<sup>6</sup> A handful of Trade Unions, and therefore a small number of Trade Union leaders, have effective control of over half the funding. In return, they expect access and influence. The Warwick agreement of 2004, by which the Trade Unions extracted from the Labour Government a change to employment law and a commitment to state ownership of the Royal Mail, illustrates the scale of Union power. Their influence will be highlighted again when they wield their electoral college votes in the Labour leadership contest, later in this Parliament.

For over ten years both major parties have made efforts to overcome the problem. None of them have transpired to be sufficient:

- New 'sleaze' watchdogs have been created. The Major Government created the Committee on Standards in Public Life, initially chaired by Lord Nolan in 1994. It has spawned others: the Standards and

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<sup>5</sup> The Government is committed to set up a joint committee of both Houses to consider and codify the powers of the House of Lords. It is also committed to limit to 60 days the time that the House of Lords can delay a bill and to abolish the remaining hereditary peers. It has said that it will allow a free vote on the composition of the House of Lords.

<sup>6</sup> See Appendices 6 and 8.

Privileges Committee in the House of Commons, set up in 1995, and the Electoral Commission, set up under the Political Parties, Elections and Referendums Act 2000. All of these have done good work. Nonetheless, while they have found nothing seriously wrong, the effect of their inquiries has sometimes been to fuel a media feeding frenzy and to convince the public that there is no smoke without fire.

- New rules and transparency requirements have been introduced, particularly in the Political Parties, Elections and Referendums Act 2000. These limit the donations that parties may receive, and require parties to report regularly on their donations. They also set caps on campaign expenditure. However, the effect of these has been to narrow the funding base, throwing parties into the hands of a handful of rich donors.
- Despite the new rules, parties have found ways of getting round them, including loans. The decision of Tony Blair to nominate lenders for peerages and the subsequent scrutiny by the House of Lords Appointments Committee brought these loans into the public domain.

In sum, parties are being squeezed by a steady decline in traditional sources of funding. At the same time, they are finding it increasingly hard to attract other forms of funding in ways that can command public confidence. Reform is essential if parties are to be able to operate effectively in the twenty-first century.

## 2. Reforming party finance: objectives and principles

Any reform should be based on clear objectives and principles that the electorate will understand and accept. Fundamental reform should achieve the following objectives:

- i. It should eliminate the power of any individual donor to exercise undue influence over a party.
- ii. It should reassure the public that corporations, Trade Unions and other institutions cannot capture parties, nor influence them through the back door as donors or sponsors.
- iii. It should decisively break the link between Honours and party funding.

This will require a cap on donations below the level at which the public believe parties can be influenced or bought. As a result, parties will not have enough money to fund themselves.

At least part of the shortfall will have to be met from public funds.

State funding should embody five principles:

- i. It should **encourage participation**

State funding should be related to both votes and membership. Parties should be required to earn funding by increasing grass roots participation as well as by attracting votes. In this way state funding

will avoid rewarding political failure at the polls or encouraging apathy in membership recruitment.

ii. It should be **open to all**

All voters, whatever their means, whether taxpayers or not, should be able to participate.

iii. It should be **voluntary for parties**

Access by parties to state funding and, with it, the imposition of the cap on individual donations, should be voluntary. A party should not be required to take public money but, if it does, it should be required to play by certain rules, including those which sever the link between corporate and trade union funding and parties.

iv. It should be **fair and transparent**

Those rules should be supervised by the Electoral Commission to ensure fairness and to subject the use of the money to full transparency and disclosure requirements.

v. It should be **proportionate**

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.

### 3. Proposals for fundamental reform

Based firmly on these objectives and principles, the following reforms are needed:

1. The ceiling on General Election spending should be lowered from £20 million to £15 million, as has been proposed by the Electoral Commission.<sup>7</sup> The Electoral Commission is already responsible for ensuring that the General Election cap is not circumvented. It should be asked to report on whether the current arrangements for doing so are effective.<sup>8</sup>
2. A cap on individual donations of £50,000, in cash or kind should be introduced. Any statutory cap must form part of wider agreement between the parties and, in practice, must apply to all organisations including Trade Unions. If a £50,000 cap fails to allay public disquiet the limit may need to be lowered.
3. 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,

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<sup>7</sup> *The funding of political parties*, Electoral Commission, Dec. 2004, para. 4.49

<sup>8</sup> This means reviewing 'Third party' spending, as well as the spending of political parties. The Political Parties, Elections and Referendums Act 2000 (PPERA) introduced limits on the amount of money that can be incurred by organisations or individuals who are not standing at an election, but who wish to campaign for or against a party or group of candidates. These 'Third parties' can include UK registered companies, Trade Unions, and even individuals. Third parties that wish to spend more than £10,000 in England, or £5,000 in each of Scotland, Wales or Northern Ireland supporting or opposing a party or group of candidates must register with the Commission as a recognised third party.

institutional and Trade Union funding of parties should be ended. Corporate bodies should not be able to buy disproportionate influence in a 21<sup>st</sup> 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.

4. 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.
5. Income Tax relief should be introduced for donations up to £3,000 per annum at the basic rate (22 per cent), subject to an eligibility threshold.<sup>9</sup> Income Tax relief has already been proposed both by the Neill Committee and by the Electoral Commission.<sup>10</sup>
6. A matching funding scheme for non-taxpayers should be introduced. Donations of up to £3,000 to a political party from non-taxpayers should attract an additional 22p in the £. The benefiting party must fulfil the same eligibility criteria as for Income Tax relief and Inheritance Tax relief as described in note 9.<sup>11</sup>

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<sup>9</sup> A party will be eligible which either has two members elected to the House of Commons, or has one elected member and gained at least 150,000 votes at the last General Election. These are the rules currently applied to exemptions from Inheritance Tax under s. 24 of the Inheritance Tax Act 1984. The same eligibility criteria apply to Short Money. See note 13 for the slightly different criteria that apply to Policy Development Grants.

<sup>10</sup> Fifth Report of the Committee on Standards in Public Life *The Funding of Political Parties in the United Kingdom* (1998), para. 8.20; *The funding of political parties*, Electoral Commission, Dec. 2004, paras 6.44, 6.54

<sup>11</sup> The Electoral Commission has proposed a match funding scheme for non-taxpayers. See *The funding of political parties*, Electoral Commission, Dec. 2004, para. 6.55

7. The current arrangements for Inheritance Tax relief and Short Money should remain.<sup>12</sup>
8. A General Election Policy and Communication Fund (GEF) should be created. Its purpose will be to assist parties with the extra cost of general elections and, between elections, to enable parties to prepare for them in two areas: policy development and the use of up to date technology to enable more effective communication during an election. The main terms of the fund will be:
- Eligible parties would receive a sum of £1.20 for each vote they obtained at the preceding General Election, plus an annual payment of 60p for each vote they obtained at the preceding general election.
  - To be eligible, a party must satisfy the same conditions as apply for access at present to Inheritance Tax relief (see footnote 9).
  - The scheme will replace the existing Policy Development Grants administered by the Electoral Commission.<sup>13</sup>
  - The scheme will be administered by the Electoral Commission which will also be responsible for auditing the money.

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<sup>12</sup> See footnote 9 for the eligibility for these grants.

<sup>13</sup> The Policy Development Grants Scheme was originally established under the Elections (Policy Development Grants Scheme) Order 2002. The fund of £2m per annum is allocated by the Electoral Commission among eight parties (which are parties with two or more sitting members of the House of Commons on a certain date who have taken the oath). An Elections (Policy Development Grants Scheme) Order 2006 comes into force on 1 April 2006.

9. Parties which are not eligible for, or who choose not to apply for, the GEF will not be bound by the cap on individual donations.

10. Decisive action needs to be taken now to end the suspicion that peerages, and other honours, are sold, and to restore credibility to the Honours system and appointments to the Upper House. Apart from peerages, honours must be awarded solely on the basis of an independent judgement about achievement. Appointment to the House of Lords should be based on an assessment of the ability and the likelihood of that individual making a useful contribution to the work of the legislature. To achieve these changes:

- The current House of Lords Appointments Commission<sup>14</sup> should be renamed the Honours Commission and should assume from Ministers the task of making recommendations to The Queen for all honours.<sup>15</sup>
- The Commission must be placed on a statutory basis. The statute should lay down clear criteria by which awards and appointments are made.
- It should be an offence to provide the Commission with false information (as pertains for the Electoral Commission).
- Anyone, including Government Ministers, other institutions, public and private, should be able to make recommendations to the Honours Commission.

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<sup>14</sup> The Commission is a Non Departmental Public Body. Its role is more fully described in Appendix 2.

<sup>15</sup> The Public Administration Committee recommended the establishment of a statutory Honours Commission in its report on the Honours System of 2004.

- The Commission will be appointed by both Houses of Parliament and accountable to both Houses of Parliament.
- The Conservative Party has supported a largely elected second chamber for nearly five years. Until further reforms to the composition of the House of Lords are enacted, the Commission's remit will need to include the appointment of all members of the House of Lords, not only 'non-political' peers. Political parties will be able to make recommendations, but the Commission will determine whether those recommended are suitable for membership. The details of the arrangements under which they do so, including those for party balance in the second chamber, should be the subject of consultation between the parties.
- The Honours Commission should check whether or not nominees for peerages and other honours have made donations or loans to a political party within the last five years.<sup>16</sup> It should require a certificate from party leaders to this effect. Party treasurers should be placed under a statutory duty to enable party leaders to complete the certificate accurately. This will require providing all relevant information about the financial relationship between a candidate for an honour and his or her party. The statutory requirements on declaration may need to be accompanied by statutory protection for donors from discrimination. Donations should not be a bar to an award but must be and be seen to be

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<sup>16</sup> The House of Lords Appointments Commission currently reviews the Prime Minister's nominations for peerages, and checks whether the people concerned have made donations to political parties declarable to the Electoral Commission in the last five years; asks for a certificate from the Party Chairman to confirm whether they have made any donations. For more details, see Appendix 2.

unconnected to the award. Scrutiny should be strong enough to assure the public that there is no connection.

11. Special consideration may need to be given to the arrangements for party funding in Scotland, Wales and Northern Ireland (which already has a slightly different legal framework for parties under the PPER).

These proposals will cost money. On the basis of turnout at the last General Election the cost of the GEF will be £30 million in a General Election year and £15 million in a non-General Election year. The cost of tax relief, and non-taxpayer matching funding, will depend on take-up but is likely to be much smaller than GEF.

The gross cost will be partly offset by the replacement of the Policy Development Grants (£2 million). More widely, a number of other offsetting savings to the cost of politics should be considered. The number of special advisers in Whitehall could be halved, providing an annual saving of nearly £3 million. The growth in the cost of special advisers over the past decade, from £1.8 million to nearly £6 million is a form of state funding of political parties by the back door. In addition, the Conservatives are considering the scope, over time, for a small reduction in the number of MPs – at 646 the House of Commons is one of the largest legislatures of any democracy and probably too large. Even a modest reduction of, say, ten per cent, would bring annual public expenditure savings of £10-15 million, broadly equivalent to the annual cost of the GEF. Furthermore, it should be borne in mind that the total cost of democratic politics in Britain, at £1.3 billion a year has risen sharply since 1997, probably by nearly 80 per cent.<sup>17</sup> The Conservative Party will examine

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<sup>17</sup> See Andrew Tyrie, 'Pruning the Politicians', *Conservative Mainstream*, 2005

the sharp rise carefully to find further savings. The Party is already committed to abolition of the Regional Assemblies, and their associated administrative support, in England, saving at least £18 million. The public benefit of the Union Modernisation Fund (Exchequer cost £10 million) and the Union Learning Fund (£14 million) also needs to be re-examined.

Given the fragility of public confidence, agreement on all the above measures for offsetting savings cannot be allowed to stand in the way of fundamental reform of party funding. Nonetheless, it will be the intention of the Conservative party to find offsetting savings which can enable implementation of its proposals at a fraction of the gross cost.

#### 4. Clean politics: a new era for party funding.

These proposals form a group of interrelated reforms. Taken together, their beneficial effect will be wide ranging. A number of complex issues are raised by the proposals and further detailed work will be required, in co-operation with other parties and taking account of other ideas for reform.

A number of other organisations and individuals have recently made proposals designed to have a similar effect.<sup>18</sup> Proposals for state funding based mainly on tax relief plus matching funding were made, for example, by Matthew Taylor, now the Prime Minister's Chief Adviser on Strategy, in an IPPR pamphlet in 2002.<sup>19</sup> Very recently, the Power Commission, chaired by the Labour peer Helena Kennedy, proposed a voucher scheme: each voter at the General Election would be able to indicate that they wished to allocate £3 per year from public funds to a party of his or her choice.<sup>20</sup> In the last few days, the Prime Minister has responded to public criticism by providing a rough outline of some measures of his own.

State funding, of itself, does not make scandal over party finance impossible. It is no panacea. A series of scandals in Germany, for example, have shown the risks of relying excessively on state funding to keep politics clean.<sup>21</sup> Nonetheless, when combined with an effective system of oversight and caps on spending and donations, it can make an important contribution. State funding,

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<sup>18</sup> Some more detail on recent proposals is given in Appendix 1.

<sup>19</sup> *Keeping it clean: the way forward for state funding of political parties*, Matt Cain with Matthew Taylor, IPPR 2002

<sup>20</sup> *Power to the People. The report of Power: an Independent Inquiry into Britain's Democracy*, Feb. 2006, pp. 211-12. The Commission proposed that the money should be made available to the party concerned for activities conducted by parties or candidates within their constituency only.

<sup>21</sup> See Appendix 3 for state funding of political parties in other countries and details of scandals which have affected it.

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.

Reform of party funding is only one among many measures and constitutional changes required. Over the past decade major constitutional change has been enacted and at considerable expense, but the overall effect appears at best mixed, with public trust in parties and political institutions probably no higher than a decade ago and in some areas, lower. The Democracy Task Force, led by The Rt Hon Kenneth Clarke MP, is examining these issues and will consider what further measures need to be taken. Among them will be proposals to restore the place of Parliament nearer the centre of British political life, to rebalance the relationship between Ministers and the Civil Service, and to curb the growth of presidentialism in British politics.

Therefore, given courage and farsightedness on the part of all political parties, there is now a unique opportunity to create a new era for party politics, not tainted by the mistakes of the past. For it to be stable and lasting, the reforms of party finance must be constructed on the basis of cross-party consensus. In turn, this will mean that the major parties will have to engage in more constructive dialogue on these issues, and less mud-slinging. It will require parties to work together on this for the common good and to set aside their own party advantage. Only by doing so can a lasting consensus be constructed.

These discussions now need to take place between the major parties as openly as possible, rather than entirely behind closed doors, and should be independent of party intrigue. In order to achieve this, the Conservative Party proposes that the Electoral Commission should be asked to work under section 6 of the

Political Parties, Elections and Referendums Act to bring forward a firm set of proposals. The statutory independence of the Electoral Commission can provide an assurance that the agreed measures are not stitched up behind the scenes between the parties, but are a considered attempt to place party funding on a sustainable basis and to recover trust in the political system.

## 5. Issues and answers

### 1. How much will it cost ?

- On the basis of the 2005 General Election the GEF would cost £30.7 million in a General Election year and £15.35 million in a non-General Election year.<sup>22</sup>
- The cost of tax relief and non-taxpayer matching funding scheme would depend on take up, but would be much smaller than the cost of the GEF.<sup>23</sup>
- The Electoral Commission may incur some additional costs. The Commission should be asked to find savings for these from within its current budget.

The gross overall cost will be proportionate. It can be compared to:

- The annual cost of democratic politics at £1.3 billion.<sup>24</sup>

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<sup>22</sup> See Appendix 5 for details of the number of votes cast in the General Election of 2005.

<sup>23</sup> An estimate can be made on the basis of the calculations of the Electoral Commission. The Commission gives the total value of donations reported to the Commission for 2001, 2002 and 2003 as £68m, approximately £23m a year. Applying the gift aid formula for calculating tax relief to this figure – i.e., the amount of gift multiplied by 22/78 – gives a figure of £6.48 million. This ignores donations under the threshold used by the Commission for donations of £5000 for parties and other organisations, and £1000 for local branches of parties and individuals. It is assumed that the loss of the larger donations will be compensated for by a growth in smaller donations – not reported in the electoral Commission figures. For the methodology, see *The Funding of Political Parties*, The Electoral Commission, 2004, paras. 5.32 and Table 18, para. 6.51 and footnote 71.

<sup>24</sup> See above, p. 15.

- The average annual public cost, in cash or kind, of support to political parties. This runs to £230 million in an election year, £88.5 million in a non-election year (see Appendix 4).
- The costs of elections over a four year cycle: the Electoral Commission has calculated that these are in excess of £440 million, implying an annual average cost of £110 million.

## 2. Can any savings be made?

Yes. The net cost will be smaller than the gross cost, and the Conservative Party is considering proposals largely or fully to offset it;<sup>25</sup>

- Policy Development Grants will be subsumed into the GEF at a saving of £2 million.
- Consideration will be given to halving the number of Special Advisers at a saving of nearly £3 million.
- Consideration will be given to a modest reduction in the number of MPs. A ten per cent reduction (which could be implemented over a Boundary review cycle) would bring savings of at least £10-15 million per year.
- Other savings may be available from an examination of the sharp rise in the cost of democratic politics since 1997. This has risen by nearly £600 million, or nearly 80 per cent, since 1997. The Conservative Party is

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<sup>25</sup> For further details, see above, p. 13-14.

already committed to the abolition of regional assemblies in England at a saving of between £18 million and £30 million.

### 3. **Doesn't the public dislike the principle of state funding for political parties?**

- A number of surveys show that the public is strongly supportive of the principle that parties should be financed by their own fundraising, rather than being subsidised by taxpayers; **but**
- Those same surveys also show that the public accept that 'it makes elections unfair if one party can afford to spend more than the others'; and 'funding parties by voluntary donations is unfair because there is a risk that wealthy individuals, businesses and trade unions can buy influence over parties'.<sup>26</sup>
- The Neill Committee found that most of those they spoke to in Canada, Germany and Sweden considered that 'whatever the disadvantages of state aid, the provision of it had had the effect in their country of making the political process substantially cleaner than it would otherwise have been'.<sup>27</sup>

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<sup>26</sup> *The funding of political parties*, Electoral Commission 2004, p. 15.

<sup>27</sup> Para. 7.16

#### 4. Why should taxpayers pay for political parties, especially if they disagree with them?

- Tax relief or matching funding offers a means by which taxpayers can allocate money directly to a party they actually do support, rather than to political parties as a whole. These schemes may also promote a revival in grass roots party political activism.
- GEF funding follows votes cast, thereby encouraging parties to maximise turnout, including in non-marginal seats.
- Professor Vernon Bogdanor of Oxford University has pointed out that much existing party funding from private sources is far from voluntary. Trade Unions use their members' funding in large part to fund the Labour Party, but a majority of Trade Unionists vote for parties other than Labour. Though individuals can contract out of the political levy, only about a fifth of them do, perhaps either because some of them are not fully aware of the use to which the levy is put, or because of inertia.<sup>28</sup>
- Taxpayers already pay for political parties through the various existing forms of state funding, both in cash and in kind: the Electoral Commission's Policy Development Fund; Party Election Broadcasts; the free delivery of election communications; Short and Cranborne money.

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<sup>28</sup> Vernon Bogdanor, *Power to the People* (1997), pp. 152-3

**5. Won't it mean funding unacceptable political parties, like the BNP?**

- A threshold will prevent parties which do not obtain one or more seats in the House of Commons, or do not take up their seats, from access to any money under the new schemes. The threshold for access to funding is of long standing, and described above (see footnote 9).
- Some state funding in kind is already provided for parties that would be excluded from the new funding streams – the access to party election broadcasts and to the delivery of an election communication.

**6. Won't it suppress smaller parties, and prevent new parties from forming, bringing new life to the political system?**

- 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.
- The threshold arrangements will mean that parties which do not obtain one or more seats in the House of Commons will not obtain access to the new streams of party funding which are being established. Such threshold arrangements are common in most countries and are already in place in the UK for access to other public funding.

**7. Why should donors be prevented from paying as much money as they want to parties they do support? After all it's their own money.**

- The electorate believe that large donors are interested in buying influence and access to those in power.
- The electorate already accept extensive rules about the funding of politics and political parties, for example the ban on the purchase of broadcast advertising, and welcome the fact that this avoids political competition spiralling out of control. A political arms race such as exists in the US would transform for the worse the conduct of elections in the UK.
- Small amounts from a larger number of individuals is a more acceptable way of building up the finances of a political party than large amounts from a handful of wealthy donors. The proposed scheme will encourage a broadening of the financial base of political parties.

**8. Won't it be challenged in the courts as against the Human Rights Act?**

- It is sometimes argued that limits on the donations that people can give to political parties will be regarded as contravening the European Convention on Human Rights, and therefore illegal under the Human Rights Act. The judgement of the European Court of Human Rights in the case of *Bowman* in 1983 held that it was a restriction on the right to freedom of expression to prevent a person other than the candidate and

his or her agents from spending more than £5 on publishing material which promoted a candidate.<sup>29</sup>

- This was considered by the Neill Committee. Its view was that the point in *Bowman* related to the very low limit set on spending in that case, something which effectively placed a total ban on the freedom of expression of the individual concerned. As it argued, in the wider context of overall limits on election spending, and limits on donations which are not set at the very low level concerned in that case, it is unlikely that a claim based on the Convention would succeed.<sup>30</sup> Challenges have been made against Federal election limits in the US on similar basis, citing the first amendment.<sup>31</sup>

## **9. Isn't this just a way for Conservatives to hit at the funding that the Labour Party gets from the Unions?**

- The first task must be to restore credibility to the conduct of political parties and the way that they are raising money.
- The proposed reforms affect individual and corporate donations just as much as they affect Trade Unions.
- The Prime Minister's chief strategist agrees that Trade Unions should be treated just like any other donor. In a pamphlet published by the left-

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<sup>29</sup> The case concerned the provisions of s.75 of the Representation of the People Act 1983.

<sup>30</sup> *Fifth Report of the Committee on Standards in Public Life: the Funding of Political Parties in the United Kingdom* October 1998, pp. 130-1

<sup>31</sup> The details are given in Appendix II of the Report of the Neill Committee, p. 211. The challenge was to 1974 amendments to the Federal Election Campaign Act of 1971; the leading case was *Buckley v. Valeo*.

leaning think-tank, the IPPR, Matt Cain and the Prime Minister's chief strategist, Matthew Taylor, argued that 'our recommendations set out to remove the perception that money buys influence and trade unions cannot be treated differently from any other donor'.

- The basis of political funding ought to be the willingness of an individual to support a party. It should not be based on the inclination of the leadership of a union, chief executive of a corporation or other institution to deploy funding derived from many people, often in the pursuit of political aims with which their membership or shareholders may not be in agreement. The direct part demanded by the Trade Union movement in return for its affiliation fees has been a subject of longstanding concern – on the part of New Labour as much as on the part of anyone else.<sup>32</sup>

#### **10. Why these particular proposals? What about other ideas – a voucher scheme as proposed by the Power Commission, for example?**

These proposals have been worked out as a coherent, practical and affordable. They reflect the objectives and principles set out in section 2 of this paper. Other ideas may also be considered. The Conservatives want consultation to take place on an all party basis, supported by the independent watchdog the Electoral Commission. The scandals of recent years in party funding need to be brought to an end, while providing a solid basis for the survival of parties, and the survival of parliamentary government.

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<sup>32</sup> See Appendix 7 for details of the links between the Labour party and the Unions

## 6. Appendices

### **Appendix 1: Other proposals for state funding**

Many bodies and individuals have made proposals involving state funding of political parties over the last few years – although support for the principle of state funding goes back at least to the Houghton Committee report of 1976 and the Hansard Society report of 1982. The recent reports which have been referred to in this paper are outlined here:

1. Matt Cain and Matthew Taylor, *Keeping it Clean: the way forward for state funding of political parties* (IPPR, 2002). Proposals include:

- A reduction of the General Election spending cap to £12m, plus an annual spending cap.
- A cap on all donations of £5,000 – including donations by Trade Unions and other institutions – for those parties which wish to receive state funding. Those which did not would be free to accept higher donations.
- State funding through ‘Tax relief plus’ – a system tapered to encourage smaller donations.
- Additional state funding in kind – for example through advertising.

2. The Power Commission: *Power to the People. The report of Power: an Independent Inquiry into Britain's Democracy* (2006). Proposals include:

- State funding to support local activity by political parties and independent candidates to be introduced based on the allocation of individual voter vouchers.
- Individual donations to political parties should be capped at £10,000; donations from organisations should be capped at £100 per member, and subject to full democratic scrutiny within the organisation.

3. The Neill Committee, *The Funding of Political Parties in the United Kingdom* (1998) said that:

- Arguments for and against public funding were finely balanced: 'we can envisage circumstances in which substantially increased state funding of political parties – including the funding of their general activities – might become an imperative. But we do not believe that that time has come yet, if it ever will' (para. 7.24)
- Proposed, however, a modest policy development fund, subsequently implemented; and
- Proposed allowing tax relief on donations to political parties by deduction at source, not subsequently implemented (para. 8.20).

4. Electoral Commission, *The Funding of Political Parties* (December 2004). Proposals include:

- A modest increase in the Policy Development Grant Scheme.
- Introduction of tax relief on small donations to political parties (up to a value of £200).
- Any tax relief scheme should extend to non-taxpayers, possibly through a match-funding system.

## **Appendix 2: The current Honours system and political honours**

### 1. The system before 2005:

- The Honours (Prevention of Abuses) Act, 1925 makes it a criminal offence to deal in honours, either as broker or purchaser. The Act did not recognise the existence of a seller in the transaction. The maximum penalty was a fine of £500 and 2 years' imprisonment. Only one prosecution has ever been brought under the Act.
- The Political Honours Scrutiny Committee was set up in 1923. It consisted of three Privy Councillors appointed by the Prime Minister. Since the Neill Committee report of 1998 the Committee had been scrutinising every case where a nominee for a CBE and above has directly or indirectly donated £5,000 or more to a political party at any time in the past 5 years. "The Committee should satisfy itself that the donation has made no contribution to the nomination for an honour". The Committee was renamed the Honours Scrutiny Committee and its terms of reference were set out in an Order in Council of 18 October 2002.

### 2. In 2005 the Government initiated a review of the Honours system, and the Public Administration Select Committee undertook its own review. PASC proposed an Honours Commission entirely separate from Government with its own staff, which would take over from Ministers the task of making recommendations to the Queen for honours, and based on statute. The Government's own review proposed a much more limited reform which the Government implemented in a White Paper of 2005.

3. In line with the White Paper proposals, the Honours Scrutiny Committee was wound up with effect from 31 March 2005. It was argued that the Committee was unnecessary, because appointments to the House of Lords were now dealt with by the House of Lords Appointments Commission, and that after 2006 the information published by the Electoral Commission would show whether a particular individual had been a donor within the last five years.
  
4. The House of Lords Appointments Commission is chaired by a cross bench peer, and has two non-party political members and three members nominated by the main political parties. Its role is to recommend people for appointment as non-party-political life peers, to vet all nominations for membership of the House of Lords, and since 2005, to vet individuals added to honours lists by the Prime Minister for propriety.
  - The Commission requires individuals being proposed for an appointment to the House of Lords to declare whether they - are resident in the UK and intend to remain so, and are also resident for tax purposes; are not involved in any roles, positions or activities or have any interests that would conflict with their membership of the House of Lords; and have made any donations to a political party in the last five years which were declarable to the Electoral Commission.
  
  - The political parties provide the Commission with: a certificate confirming either that no significant donation has been made or an assurance that any donation was not related to the proposed nomination; a citation from the party leader giving the reason for the nomination.

- However, the Commission must satisfy itself that the person would be a credible nominee irrespective of any payments made to a political party or cause. Other than the Chief Whip's certificate and party leader's citation, mentioned above, the Commission may also seek further information from the nominating party, or from the nominee.

### Appendix 3: International comparisons

All advanced democracies have some form of state funding. In most cases requirements are imposed on parties in exchange, including limits on private donations, caps on total spending, and disclosure and transparency rules. The following are illustrative examples:<sup>33</sup>

1. **Germany:** was one of the first established democracies to grant public funding to national political parties

- State funding for political parties based on the number of votes they received in a General Election plus matching funding for subscriptions and donations.
- Trade Unions are not eligible to provide donations.
- Donations may be accepted only from EU citizens or a business substantially owned by a 'German'.
- Tax relief is given on donations up to £2,000 per person per year.
- There are legal requirements on the disclosure of donations of over £6,700 and auditing of accounts with very stringent fines.

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<sup>33</sup> Details taken from *Fifth Report of the Committee on Standards in Public Life: the Funding of Political Parties in the United Kingdom*, Appendix 1, and from *Funding of Political Parties and Election Campaigns*, IDEA 2003.

- There have been a series of scandals relating to party funding: the most notorious was that which broke in late 1999 over the failure to report donations made to the CDU party leader and federal Chancellor Helmut Kohl; a number of other CDU figures were involved as well.<sup>34</sup>
2. **Canada** is regarded as having very successfully got rid of party funding scandals through the Canada Elections Act 1974, when public funding was introduced as a means of covering part of campaign expenditure.
- Registered political parties are entitled to a reimbursement of 22.5 per cent of declared election expenses, subject to a threshold of votes obtained.
  - Tax credits are available for small donations on a sliding scale up to £460. These tax incentives have considerably increased the share of individual donations.<sup>35</sup>
  - There are no limits on donations to political parties at federal level, although donations are restricted to Canadian citizens and permanent residents, and corporations and trade Unions operating in Canada.
3. **USA:** Campaign finance regulation is based on the Federal Election Campaign Act 1971, which created a system of public funding:
- ‘Check off’ system by which individual US citizens can indicate on income tax returns that \$3 of their tax goes to the Presidential Campaign

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<sup>34</sup> For details see *Funding of Political Parties and Election Campaigns*, IDEA 2003, p. 130.

<sup>35</sup> IDEA, p. 39

Fund. The money is used to match donations by individuals to campaigns, grants for national party conventions, and grants to cover the expenses of general election campaigns.

- There are limits on donations from individuals and Political Action Committees (PACs): the effect of these limits has been considerably weakened by the Supreme Court decision in *Buckley v. Valde*, which held that contribution and expenditure limits restricted First Amendment rights relating to freedom of speech and association, and other decisions relating to the scope of activity which can be financed using ‘soft money’.

#### **Appendix 4: State Funding in the UK**

State funding already exists in the UK, and accounts for around 40 per cent of the cost of party activity in a non election year and around 60 per cent in an election year. The main components of state support are:

- Short money (introduced in 1975) and Cranborne money (introduced in 1996) to fund opposition parties in the House of Commons and House of Lords respectively. Both were increased very significantly in 2001-2 and 2002-3;
- free airtime for party political and party election TV and radio broadcasts;
- free postage and distribution of election communications;
- Policy Development Grants under the Political Parties, Elections and Referendums Act 2000, administered by the Electoral Commission;
- and for the governing party, the salaries of special advisers.

See the attached table and pie chart, overleaf.

## Estimated cost of party politics

£

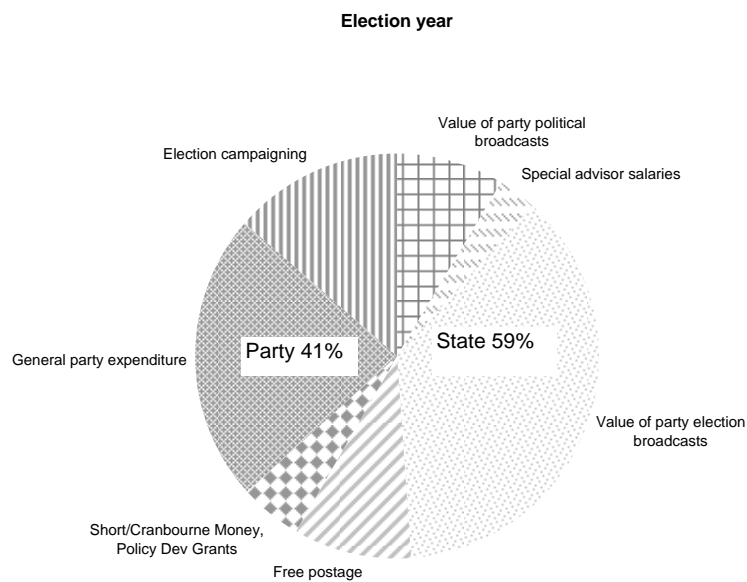
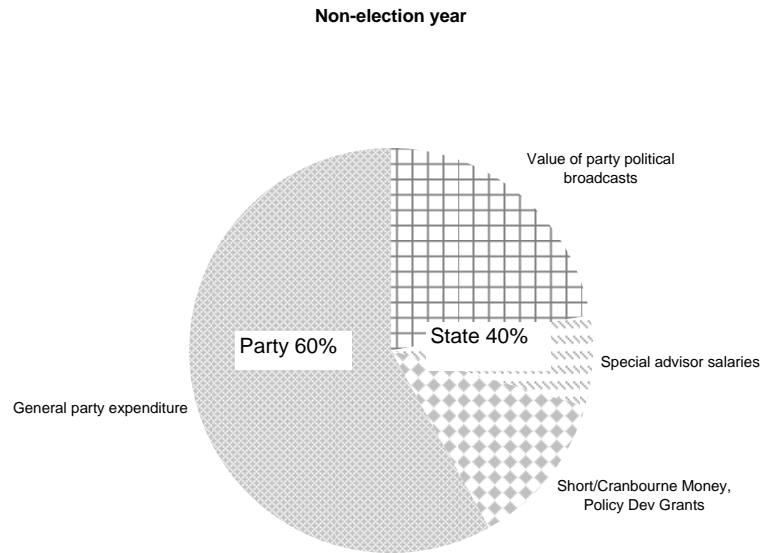
	Non election year	Election year
General party expenditure	£54,100,000	£54,100,000
Election campaigning	-	£41,300,000
<b>Private party total</b>	<b>£54,100,000</b>	<b>£95,400,000</b>
Value of party political broadcasts	£20,000,000	£20,000,000
Value of party election broadcasts	-	£80,000,000
Free postage	-	£21,000,000
Special advisor salaries	£5,500,000	£5,500,000
Short money	£6,200,000	£6,200,000
Policy Development Grants	£2,000,000	£2,000,000
Cranborne money	£680,000	£680,000
<b>State total: in cash and in kind</b>	<b>£34,380,000</b>	<b>£135,380,000</b>
<b>Total cost of party politics</b>	<b>£88,480,000</b>	<b>£230,780,000</b>
State total as percentage of total	39%	59%

Data first published in A Tyrrie, *Our politics is healthy. Our party finances stink*, newpoliticsnetwork, March 2003

Sources: House of Commons Library  
 Electoral Commission (campaign spending)  
 Party accounts  
 Home Office (free post)  
 Institute of Public Policy Research (PPBs)  
 Independent Television Association (PEBs)  
 HC Deb 22 July 2004, c466-70W (special adviser salaries)

See also pp. 13-14 and 18-19 for further information on the cost of politics in the UK.

## Comparison of estimated state and private party funding of politics



Source: House of Commons Library, using data from Electoral Commission, Home Office, Institute of Public Policy Research And Independent Television Association.

Data first published in A Tyrie, *Our Politics is healthy. Our party finances stink*, newpoliticsnetwork, March 2003.

**Appendix 5: Eligibility for GEF: votes cast for each party at the 2005 General Election**

<u>Parties winning seats in the House of Commons (no. of seats)</u>		<u>Parties not winning seats in the House of Commons</u>	
Labour (355)	9,552,436	UKIP	605,973
Conservative (198)	8,784,915	Green	283,414
Liberal (62)	5,985,454	BNP	192,745
SNP (6)	412,267	Others	418,948
DUP (9)	241,856		
PC (3)	174,838		
Sin F (5)	174,530		
UU (1)	127,414		
SDLP (3)	125,626		
Respect (1)	68,094		
Total	25,647,430 <sup>36</sup>		1,501,080
Overall total votes cast			27,148,510

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<sup>36</sup> votes cast for Independents (2) and Speaker (1) are included in the second column

## **Appendix 6: Labour Party Funding**

Labour's donor base has the outward appearance of having been diversified in recent years away from a small clique of union bosses. In fact, a handful of union bosses (two of which are UNISON and Amicus) and another handful of individual donors, provide the lion's share of Labour funding.

According to their accounts, the central Labour Party raised £29.3 million in 2004:

- About half of Labour's income comes from the Trade Unions, in two main forms: £7.6 million in affiliation fees and nearly three quarters of the donations they receive.
- Labour's donations total £9.0 million.<sup>37</sup> 72 per cent comes from the Unions and 24 per cent from individuals, including £1 million from Lord Paul Drayson and £500,000 from Sir Christopher Ondaatje; other big individual donors include William Haughey OBE and Sir Ronald Cohen in 2004, and Lord David Sainsbury and Lakshminiwas Mittal in 2005.
- Labour raises £3.6 million through commercial income. This is explained in Labour's Annual Report as income from Party conferences and dinners.

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<sup>37</sup> The donations Labour registered with the Electoral Commission totalled £13.6 million, rather than the £9 million listed in Labour's accounts; likewise, the donations the Liberal Democrats registered with the Electoral Commission totalled £2.5 million (Federal Party and Parliamentary Party), rather than the £2.1 million listed in the Liberals' accounts. There is no immediate explanation for this discrepancy. The percentages of donations from various sources given are drawn from the donations registered with the Electoral Commission.

- Labour receives £3.5 million from membership subscriptions; the Labour Party has 201,000 members. Constituency Labour Parties generate only low levels of income from Member subscriptions, but tend to have relatively substantial levels of property income.
- £0.9 million is received through fundraising.
- £0.6 million comes in benefits in kind.
- £0.4 million is received as Policy Development Grants from the Electoral Commission.
- £0.3 million is donated in legacies.
- £0.04 million is earned as interest.
- The Labour Party accounts declare £3.4 million as ‘other’ unspecified income.

Labour Party accounts conceal substantial loans. This may partly explain the entry on the balance sheet for overdrafts and short-term loans of £6.9 million in 2004.

## **Appendix 7: Liberal Democrat Financing**

According to their accounts, the Liberal Democrats raised £5.1 million in 2004, largely from donations:

- £2.1 million comes from donations. Of this, 52 per cent comes from official sources, such as Short money, 27 per cent from companies (principally the Joseph Rowntree Foundation) and 15 per cent from individuals (the largest individual donation being £100,000).
- £0.8 million is income from the Party conferences.
- £0.7 million comes from membership subscriptions; the Liberal Democrats have around 73,500 members.
- £0.7 million is raised from ‘recharges to party bodies’.
- £0.4 million is received as Policy Development Grants from the Electoral Commission.
- £0.1 million is income from selling the ‘Liberal Democrat News’ newspaper.
- £0.05 million is benefits in kind.
- £0.05 million is affinity income from deals with credit cards and energy companies.

- £0.01 million is earned as income on investments.
- The Liberal Democrat accounts declare £0.1 million as ‘other’ unspecified income.

It is not known whether the Liberal Democrats have been in receipt of undeclared loans.

## **Appendix 8: Trade Unions: funding and influence**

Labour's financial relationship with the trade unions was turbulent in the run-up to the last Election:

- in February 2004, the RMT was disaffiliated from Labour for funding the Scottish Socialist Party;
- in June, the FBU chose to disaffiliate from Labour, having decided to support the SNP in Scotland and Respect elsewhere;
- in July, the GMB decided to stop funding the Labour Party centrally, and instead only to back Labour MPs and candidates who support their policies.

In the same month, the Labour Party attempted to safeguard funding in the Warwick Agreement. The Labour Party pledged to:

- keep the Royal Mail in public hands, with telecom regulation focusing on service choice and reliability as well as network competition.
- introduce four weeks paid holiday for every worker, exclusive of bank holidays. This will benefit two million workers currently forced to count bank holidays off as part of their annual leave;
- introduce training for pension trustees, and ensure members of schemes make up 50 per cent of trustees;

- extend the two-tier workforce protection in local government across the public services;
- promote a public procurement policy which ‘safeguards jobs and skills’;

Union appears to have persisted since Warwick:

- In September 2004, Brendan Barber, the head of the TUC, said that Tony Blair must demonstrate that Warwick does not<sup>38</sup> “*represent a kind of pre-election stitch-up – it genuinely represents a commitment to a joint programme...to deliver a better deal for the people of Britain at work.*”
- In June 2005, the head of the GMB, Paul Kenny, called on Tony Blair to set out a timetable for his departure by the 2006 Party conference.<sup>39</sup>
- In September 2005, Brendan Barber called for<sup>40</sup> “*an orderly transition...in time for the new leader to stamp their personal authority on the government*” and stated that “*the spirit of Warwick*” had “*yet to be honoured.*”
- In September 2005, Derek Simpson, the General Secretary of Amicus, stated that Tony Blair should start preparations to hand over power, and claimed there were disturbing signs that the Warwick agreement would be watered down.<sup>41</sup>

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<sup>38</sup> BBC, Unions warn Blair: ‘no stitch up’, 9<sup>th</sup> September 2004

<sup>39</sup> BBC, Union urges Blair to leave early, 6<sup>th</sup> June 2005

<sup>40</sup> BBC, Blair must go quietly – TUC boss, 8<sup>th</sup> September 2005

<sup>41</sup> BBC, Union urges Blair handover plan, 10<sup>th</sup> September 2005