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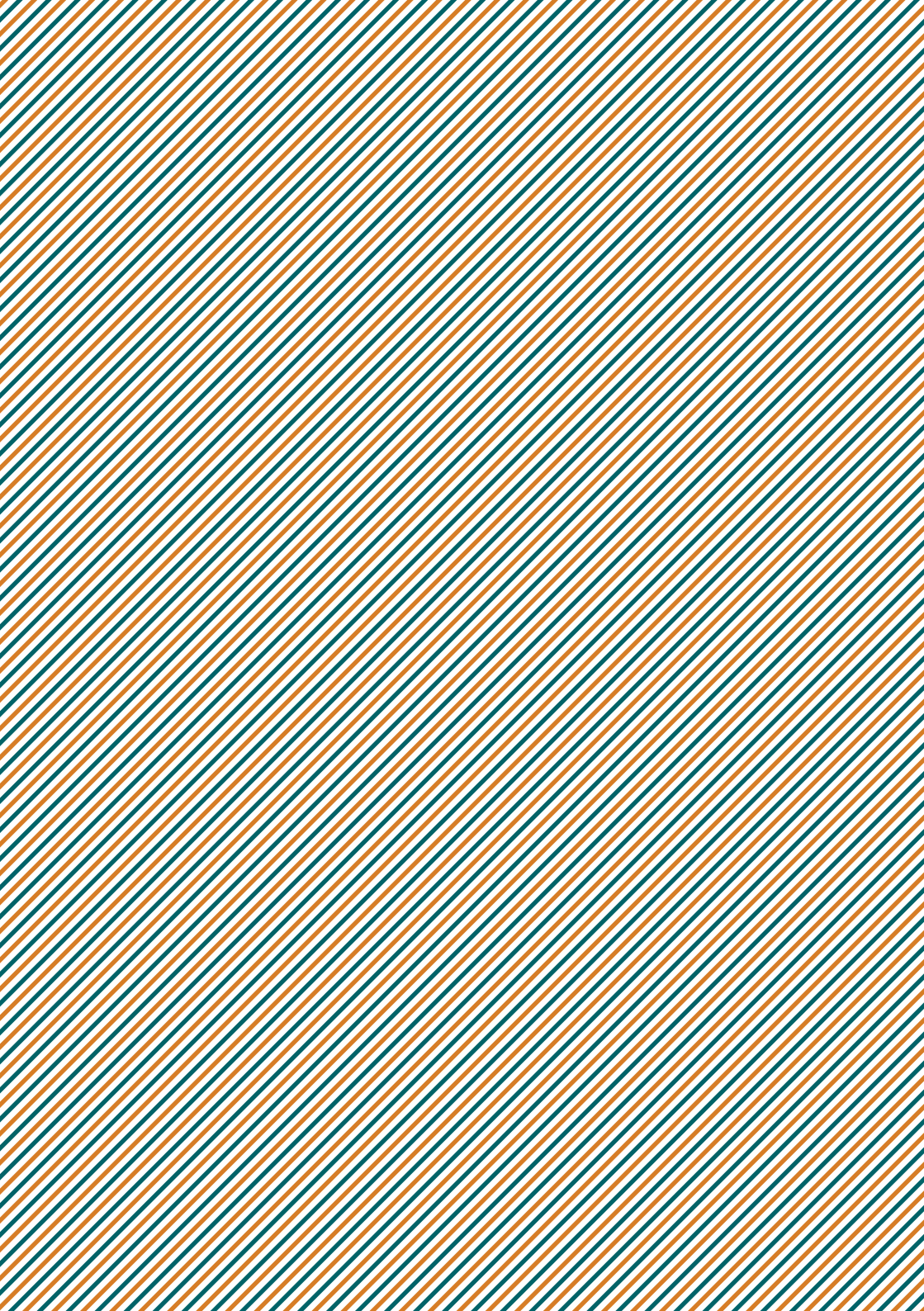


DEAL OR NO DEAL

How to put an end to
party funding scandals

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INTRODUCTION

Whenever party funding scandals hit the news these days, the public aren't surprised – in fact, they have grown to expect it.

Such is the scale of disenchantment with the major parties. In this briefing we analyse the party funding crisis and argue we urgently need to tackle it – or else the scandals will just keep coming.

Public trust and confidence in political parties and the political system are essential for a thriving democracy. Yet this is being repeatedly undermined by party funding scandals. We need to clean up party finance in order to restore public confidence in our political system.

Our research shows the public are deeply concerned about 'big money' in politics. According to our polling:

- **75%** of the public believe big donors have too much influence on political parties
- **65%** believe that party donors can effectively buy honours
- **61%** believe that the system of party funding is corrupt and should be changed¹

The long term effects of this erosion can be seen, in part, in the growing anti-party mood with the public increasingly turning away from party politics.

This is not a blame game – all the major parties have been tainted by party funding scandals. An open, clean and fair model of financing political parties is long overdue. We need it if we are going to improve transparency and restore integrity to the political system. Through in-depth research on public attitudes to party funding and our own analysis of the problem, this paper demonstrates how political parties can **break the deadlock**.

1 ERS poll of 1,402 people by Greenberg Quinlan Rosner (24-27 February 2014)



75%

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...of the public believe "big donors have too much influence on political parties"



61%

...of the public say "the system of party funding is corrupt and should be changed"

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WHAT'S THE PROBLEM?

Political parties play an essential role in our democracy: representing and giving voice to a diversity of opinions; giving voters choice at the ballot box; developing policy and scrutinising the policies of other parties; recruiting and selecting candidates and providing channels for public participation in politics through party structures. Whilst the public think of parties mainly in terms of their role in government, they also see them as providing the link between citizens and the political process – giving them a choice at elections and providing a vehicle for their views¹.

Whilst it is important to ensure these functions are free of any potential influence, it is also important that parties have finance to carry out these roles now and for the future. When party finance is sourced from a small number of major donors it is both unstable and probably unsustainable.

Big money

In the last twenty years, big individual donations have come to account for a large proportion of parties' funding².

Courting a minority of big spenders rather than reaching out to a wider constituency of citizens means that parties are missing an opportunity to broaden their support base. This is damaging for the future of the political party. Alienating an already plummeting membership base by focusing efforts on a minority of big donors can only make party membership an even less attractive offer for ordinary citizens, and make parties less responsive to them. What reason do people have to join political parties when they see those with the deepest pockets having greater influence on policy

1 ERS focus group research conducted by Greenberg Quinlan Rosner, January 2014

2 Wilks-Heeg, S., Crone, S., (2010) Funding Political Parties in Great Britain: a Pathway to Reform. Democratic Audit

decisions and the direction of the party?

The reliance on big donations means that if there is undue influence and improper access, it is concentrated in the hands of a very limited number of individuals and organisations. Research by Stuart Wilks-Heeg and Stephen Crone³ reveals that between 2001 and 2010, over three-quarters of Labour's donations income⁴, over half of the Conservatives' and two-fifths of Liberal Democrat donations income came from donations over £50,000.

Donations over £250,000 accounted for more than half of Labour's donations income (mostly unions), a quarter of Conservatives' donations income and a sixth of the Liberal Democrats' over the same period. Despite accounting for a significant part of the three parties' funds, these sums came from just 224 individual donations over the decade. What is more, the 224 donations came from just 60 different 'donor groups' – related individuals, companies and trade unions⁵. At the same time, these funding streams, since they come from a limited number of sources, provide an unstable and volatile basis on which to fund parties.

Big influence

It is clear that a very small handful of individuals could exert significant influence over political parties. These wealthy backers are now the main funding streams for most parties. Large individual donations accounted for between 25% and 60% of Conservative and Labour income in recent years⁶. It would therefore seem naïve to imagine that donors would expect nothing in return.

The Committee on Standards in Public Life interviews in 2011 with several of the major party donors threw up some uncomfortable if wholly logical conclusions about the relationship between donations, policy influence and honours. Conservative party donor

3 See <http://blogs.lse.ac.uk/politicsandpolicy/just-224-large-donations-from-fewer-than-60-sources-funded-two-fifths-of-all-spending-by-the-top-three-parties-across-a-decade-of-british-politics-this-is-far-too-narrow-a-base-for-the-health-of-uk-d/>

4 This includes Union affiliation fees as a single sum

5 See <http://blogs.lse.ac.uk/politicsandpolicy/just-50-%E2%80%98donor-groups%E2%80%99-have-supplied-over-half-of-the-conservative-party%E2%80%99s-declared-donation-income-in-the-last-decade-a-fact-disguised-by-legal-%E2%80%98fame-avoidance/>

6 Wilks-Heeg, S., Crone, S., (2010) Funding Political Parties in Great Britain: a Pathway to Reform. Democratic Audit

Stuart Wheeler suggested it was ‘natural’ and unobjectionable that donors would gain policy influence: “If it is influence in the sense of being able to put their views on what is best for the country and how the country should be run, I do not see any objection to that”⁷. Recent House of Lords appointee Michael Farmer suggested that many donors would expect an honour in return for their finance: “You cannot get away from the fact that the word ‘peerage’ is connected to large donations, so if you are giving a large donation there is a part of your mind somewhere that every now and then thinks about it”⁸.

The relationship between donations and political influence is hard to escape and the perception of a link between the two, whether real or imagined, damages public faith in the system, eroding people’s trust in politics.

All the parties need to commit to capping the amount that individuals can donate, so that our politicians cannot be accused of selling influence to the highest bidder, and can instead start to build a more sustainable and democratic future for party politics (*see page 11*).

Scandal fatigue

Funding scandals are not new to party politics. 1925 saw the introduction of the Honours (Prevention of Abuses) Act in response to concern about the routine and open practice of honours being given out in return for donations to the governing party’s funds. Allegations of parties breaching this law have continued up to the present day⁹. Concern about the funding of politics led the new Labour government in 1974 to set up a committee to look at party funding. The committee reported back in 1976 but the parties’ failure to reach agreement meant legislation did not follow and it wasn’t until the Political Parties, Elections and Referendums Act (PPERA) some 24 years later that the issue of party finance was addressed in law.

7 Committee on Standards in Public Life public hearing 23rd November. See http://webarchive.nationalarchives.gov.uk/20140430123801/http://www.public-standards.gov.uk/wp-content/uploads/2012/11/20101123_Corrected_Transcript_6_July.pdf

8 Ibid.

9 See <http://www.theguardian.com/politics/2014/aug/07/cash-for-peerages-row-reignite-tory-lib-dem-donors-lords>

Since the mid-nineties the public has been besieged with scandal after scandal involving parties, donors and honours. These have included allegations of cash for questions, cash for honours, cash for policy influence, cash for government contracts, cash from tax exiles, cash from criminals, cash by proxy and undeclared cash amongst many others. All the major political parties have been tainted by scandal, creating an impasse where there seems to be little electoral advantage from leading on reform. But this is hugely damaging to political parties in the long term and there is much to be gained by the party that decides to lead the change. Breaking the deadlock on party funding reform is essential.

Deal or no deal

Cleaning up party funding and donations has been an ongoing, incremental task for nearly a century, from the Honours (Prevention of Abuses) Act 1925 to the Political Parties, Elections and Referendums Act 2000 (PPERA). Crucially however, it is one that has proceeded even when complete, pre-legislation, cross-party agreement has not been guaranteed.

Since the Political Parties, Elections and Referendums Act (2000), there have been numerous committees and reports aimed at addressing the continuing problems arising from money in politics. The latest of these is the Committee on Standards in Public Life (CSPL) report published in 2011 following a detailed inquiry. The key recommendations were:

- A **£10,000 cap** on donations from a single individual or organisation. The cap would also apply to trade unions. However, trade union affiliation fees could be considered as individual payments (applying the cap to each Trade Union member) as long as the member ‘opts in’ to the payment.
- The election campaign **spending limit should be cut by 15%**¹⁰.

10 Current spending limits for General Election campaigns apply to both the central parties and individual candidates. The candidate limits were increased by the government subsequent to the publication of the CSPL report. The current limits for candidates are £30,700 in the ‘Long campaign’ (December - dissolution) plus 9p per elector in a county constituency or 6p per elector in a borough constituency, and £8,700 in the ‘Short campaign’ (dissolution to polling day) plus 9p per elector in a county constituency or 6p per elector in a borough constituency. For a party, the spending limit is £19.5m for the whole General Election campaign (365 days)

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- **Public funding** for political parties which have two or more representatives in Westminster or devolved governments. Funding would be based on votes: £3 per vote and £1.50 per vote for Westminster and devolved legislatures respectively.

After the report was published the three main parties held a series of meetings but failed to reach an agreement. The Deputy Prime Minister issued a statement on 4 July 2013 saying that it was “clear that reforms cannot go forward in this Parliament”¹¹.

Despite a Coalition commitment to “pursue a detailed agreement on limiting donations and reforming party funding in order to remove big money from politics”¹², a cross-party deal has not been struck, legislation has not been proposed and no further action has been taken. A backbench cross-party group published a draft bill seeking to turn the majority of the CSPL recommendations into law and proposed ways of doing so that would limit the impact of public finance. However, the proposals have not gone any further.

The Labour Party made initial steps towards reforming the way individual trade union members affiliate with the party, introducing reforms requiring union members to opt into affiliation with the party in July 2013. However, this did not cover an opt-in to the political fund as suggested in the CSPL report. Labour’s reforms to union funding should be the start of a wider process of change for the whole political system, not the end. Reform of all political parties’ funding has to go much deeper.

11 Nick Clegg, Deputy Prime Minister, Written Statement, 4 July 2013. <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130704/wmstext/130704m0001.htm>

12 Coalition Programme for Government (2010)

The case for reform is built on the fundamental principle that access to political influence should not be bought, and therefore those that donate to political parties should not exert undue influence or receive unfair advantages.

Cleaning up party funding also has the potential to engender wider cultural change in our democracy. A shift to small donations from a large number of donors, rather than large donations from a small number of donors, could help rebuild trust in party politics and level the playing field for ordinary people to have more influence in politics.

Our three recommendations for cleaning up party funding are supported by the public, who see the need to remove big money from politics and let citizens' voices back in. The following three proposals have been tested with voters of all parties in focus groups and surveys¹.

Three reforms

1. *Levelling the playing field: capping donations*

Our polling shows that 67% of people believe no one should be able to give more than £5,000 to a political party in any year². And our focus group research shows that a donations cap is by far the most supported policy, with people remaining supportive even in the face of counter-arguments. The level of the cap was not a critical factor in people's support for the policy, though some felt that £5,000

1 ERS poll of 1,402 people by Greenberg Quinlan Rosner (24-27 February 2014) and ERS focus group research conducted by Greenberg Quinlan Rosner, January 2014

2 Ibid.

would be too low.

The level at which a donations cap is set needs to be fair to all parties. A cap even at £50,000 would, on the current model of funding, significantly reduce parties' income, and the size of those losses is greater as the cap lowers. The Committee on Standards in Public Life calculates that a cap at £10,000 (the level favoured by the Committee) would create an average loss to the three main parties of £29 million (or £21.6 million if union affiliation fees are discounted).

However, whilst significant to parties, these amounts are minor compared to other democratic costs. Running an election costs around £90 million, rising to £118 million with the inclusion of the costs of free mailing³. The total cost of our wider democratic infrastructure – including indirect subsidies to parties and candidates, allowances for elected representatives and the costs of electoral administration – comes to £2.6 billion over a parliamentary cycle⁴.

Our focus group research found that people were surprised at how little parties actually spend compared to the overall cost of democracy. With large sums already spent on indirect subsidies such as election broadcasts and freepost mailings, these funds could be better targeted and used to plug any gaps that would be created in the short term from a donations cap. Later we examine how.

2. Taking out the dirty money: public funding

Our polling shows 41% of people agree that a publicly-funded political system would be fairer than the one we currently have, compared to just 18% who disagree.

European comparisons show that the UK is the lowest state contributor by a long way. Standards Committee research puts the median public subsidy in Council of Europe member states at £3.25 per voter per year. The UK equivalent is £0.36⁵. Most European countries have a mixture of private and state financing (using the number of seats or votes as the criteria for distribution). This is not,

3 Committee on Standards in Public Life (2011) Political party finance: ending the big donor culture

4 Wilks-Heeg, S., Crone, S., (2010) Funding Political Parties in Great Britain: a Pathway to Reform. Democratic Audit

5 Committee on Standards in Public Life (2011) Political Party Finance: Ending the Big Donor Culture, p44

Investing in our democracy: public funding for political parties



Europe
£3.25 per
voter

UK
36p

Average across Council of Europe states per year

Let's not wait for another scandal to come along. It's time to clean up party funding.

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therefore, the radical idea that some consider it to be.

Whilst the UK does not directly state-fund political parties, there is some direct and indirect state support. Opposition parties receive 'Short' money to pay for parliamentary activities, travel and the Leader of the Opposition's office. 'Cranborne money' is the equivalent in the Lords. In addition to direct funding, parties do not pay for political broadcasts (paid broadcasts are prohibited) and are entitled to free postage for one leaflet in both General and European elections.

£7.25 million of Short money has been allocated for the 2014/15 Parliamentary session, while Cranborne money amounts to £646,000 for the same period. Meanwhile the cost of freepost

mailings for the General Election and European elections comes to £68 million⁶.

Through indirect subsidies in particular, a significant amount is spent which could be reallocated more efficiently. A cross-party report in 2013 found that £47 million could be saved by replacing the freepost leaflet system with a joint election address booklet (copying the Mayoral and GLA election practice)⁷.

Our focus group research found that whilst the public would prefer parties to get by with less funding, they understood that funding imbalances are unfair and favour the big guy. They want more diversity and more options in politics: they want a fairer system.

3. *Stopping the electoral 'arms race': capping campaign spending*

Voters are aware that capping donations would mean less money for parties, but whilst they support using public funding to create a fairer system, they also think parties should get by on less⁸.

It therefore makes sense to include lowering the (recently increased) cap on campaign spending as part of a package of measures. Limiting campaign spend would help parties bilaterally stop the arms race of funding for elections and reduce overall spend. Although there is some disagreement over the amount that party spending on campaigns has increased in real terms, there is no doubt that the most expensive election campaigns have all been fought in recent years. Whilst 1997 remains the most expensive election to date (over £80m combined party and candidate spending), all three elections fought since have been expensive by historic standards⁹.

Last year, the Government raised the existing spending cap for candidates by 23%¹⁰ despite the Electoral Commission recommending a net increase for the Long and Short campaign of just 4%¹¹.

6 Tyrie, A. and Whitehead, A. (2013) Funding Democracy - Breaking the deadlock www.fundingukdemocracy.org

7 Ibid.

8 ERS focus group research conducted by Greenberg Quinlan Rosner, January 2014

9 Wilks-Heeg, S., Blick, A., and Crone, S. (2012) How Democratic is the UK? The 2012 Audit, Liverpool: Democratic Audit. www.democraticaudit.com

10 See <http://www.electoralcommission.org.uk/i-am-a/candidate-or-agent>

11 Increasing the short campaign amount to take account of the increase from

This increase can only intensify problems around party funding.

One of the issues with reducing campaign spend is that parties do not fight in constituencies equally. The handful of marginal and therefore winnable seats created by the electoral system means that parties have an incentive to directly fund these seats. This distortion in the system makes controlling election spend challenging, especially in differentiating between national and local spend. Whilst the spending cap is the same regardless of the marginality of the seat, the size of the maximum spend and additional national campaigning spend means vast amounts are funnelled to just a handful of constituencies.

However, capping both national and local party spend could reduce the arms race overall and return the focus back to on-the-ground engagement, rather than continue the status quo of parties trying to out-compete each other by funnelling ever growing amounts of money into targeted seats during election campaigns.

Sealing the deal

Reforming party funding is a challenging but essential task. Each new scandal further undermines and erodes people's trust in the political system. Finding a party funding package that resonates with – and is acceptable to – citizens is crucial in order to restore faith in the system.

Voters readily accept that under the current system politics can be bought by large donations, and they strongly support measures to curb this. Our research demonstrates a receptive and robust audience for party funding reform. The party or parties willing to take action on this issue would find strong support for leading the charge.

Of the specific reforms we tested with different audiences, overall, voters were most strongly in favour of a donations cap. Finding a fair solution that tackles the inequity in who can influence the political process, and that reviews existing funds in addition to new ones to find a way to plug gaps, would be popular with voters of all parties.

17 to 25 days of this period and reducing the long campaign amount to take account of electoral timetable changes as a result of the introduction of Fixed Term Parliaments

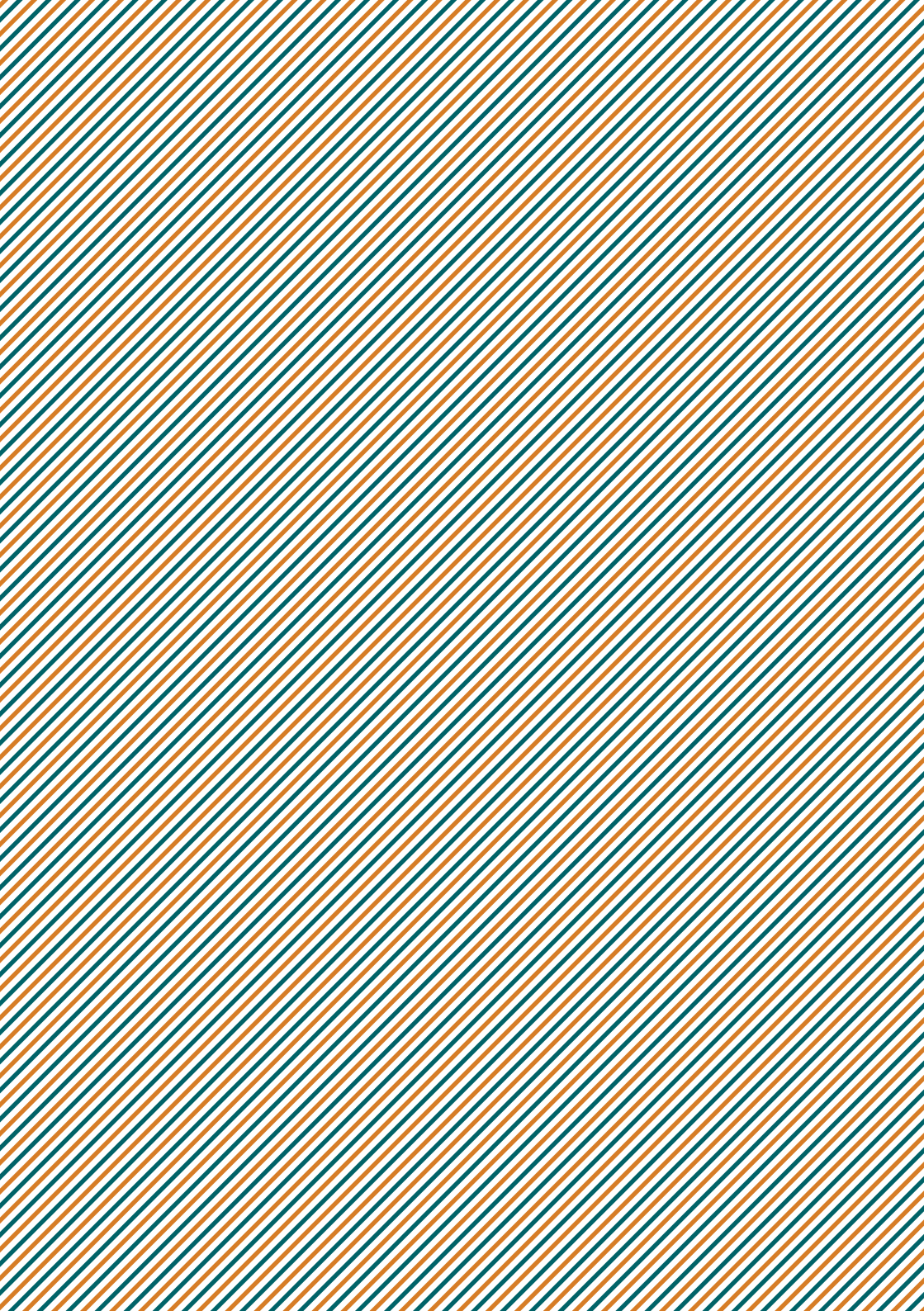
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CONCLUSION: ENOUGH IS ENOUGH

The long line of party funding crises which Britain has endured over recent years makes it abundantly clear that party funding is in urgent need of reform. Our report draws on public support to argue that capping both donations and campaign expenditure, and introducing a fair and transparent system of public funding for parties, would reduce the influence of a handful of wealthy backers on politics and correspondingly help to clean up politics.

Each time this issue has been raised, attempts to reach cross-party consensus have broken down and thrown the issue into the long grass. But this is too pressing a problem to leave to the fate of commissions and minority reports. After May 2015, a new Parliament has the chance to get to grip with these issues, and any party which takes a lead on sorting it out can expect to reap electoral rewards.

It's time to clean up party funding once and for all.





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