

Inter-Party Talks: The Funding of Political Parties

Sir Hayden Phillips GCB, Chairman

Proposals for the funding of political parties

Draft agreement put to the Conservative, Labour and Liberal Democrat parties by the Secretariat of the inter-party talks on the funding of political parties in August 2007.

Contents

Introduction	3
Donations	4
Spending controls	5
Public funding	6
Compliance	7
Transitional arrangements and review	9

Introduction

This new approach aims to restore public trust in the probity of party finances by setting a limit on the amount which any individual or organisation can donate to a political party. To enable political parties to continue to operate effectively under these new restrictions, there will also be new controls to limit the spending of political parties, and the possibility of additional public funding related to their success in collecting small donations and winning the support of voters at elections.

With the exception of the spending controls, the proposals are only intended to apply in the first instance to parties registered in Great Britain. The application and full extension of any agreement to Northern Ireland will be the subject of separate discussions between the Government and the Northern Ireland parties.

Donations

- A1 There shall be a cap on donations and loans to all political parties that reach the threshold specified at A2.
- A2 The cap shall apply to all parties registered in Great Britain with two or more elected representatives to Parliament, the Scottish Parliament, the National Assembly for Wales and the European Parliament. It shall apply to the party, its accounting units, and regulated donees.
- A3 The final level of the cap will be £50,000.
- A4 Commercial loans will be exempt from the cap provided they are made and declared in accordance with existing applicable law.
- A5 Any amount donated over the limit will have to be returned to the donor, or forfeited if this is not possible.
- A6 Affiliation fees paid by trade unions will be treated for the purposes of the cap as individual donations of the members, provided the conditions at A7-A10 are all met.
- A7 The amounts paid by individuals into a union's political fund as their contribution to the union's affiliation fee, and the money paid by that union to a political party as its affiliation fee will be the same. This one-for-one link will be transparent and auditable.
- A8 The following information will be provided on all union membership application forms:
- an explanation of what the political fund is and the union's affiliation to a political party;
 - an explanation of how much individual members contribute to the political fund and towards the union's affiliation fee;
 - an explanation of the trade union member's right at any time to stop contributing to the political fund and the union's affiliation fee and clear information about how they can do this; and
 - an explanation of the fact that if a member stops contributing, their membership subscription will be reduced accordingly.
- A9 Trade union members will be reminded annually of the amount they are contributing to the union's affiliation fee and of their right to opt out of contributing to the political fund, including how they may do so.
- A10 The requirements of transparency and choice set out here will be overseen by the Certification Officer acting in concert with the Electoral Commission, which will have the power to order affiliation fees to be repaid if they are not compliant with the requirements.
- A11 Due to the increased transparency and choice for trade union members the ten-year review ballot on the existence of the political fund is no longer necessary and should be removed.

Spending controls

- B1** All registered political parties will be subject to the spending controls.
- B2** Spending controls will apply to the whole of a Westminster electoral cycle. The maximum limit for a full cycle will comprise a five-year running costs figure and a general election premium. In calculating the limit for parliaments which run for less than the maximum permitted cycle of 61 months, the running costs figure will be adjusted by the relevant fraction of 61 months depending on the actual life of the parliament, and the general election premium will be added back to calculate the enforceable limit.
- B3** A single overall limit will apply to the expenditure of each party, including all its constituent organisations whether national, regional, local or other. It will be a matter for the party itself to decide how to disaggregate its spending within the overall limit between the years of the parliament and among the various organisations in the party.
- B4** The expenditure of accounting units (equivalent to or larger than a Westminster constituency) with expenditure less than £40,000 (after transitional arrangements) in any given year will not count in that year towards the overall limit.
- B5** Spending controls will cover all of a party's spending except certain defined categories:
- contributions to party employees' pension funds to make up for past shortfalls;
 - interest on debt and repayments of debt;
 - legal expenses;
 - costs of compliance with electoral law;
 - expenditure on trading activities and income generation;
 - accounting units' expenditure on social functions for members of the party, and
 - intra-party transfers.
- B6** Expenditure which under accounting standards would be classified as capital expenditure will be depreciated as usual in party accounts in accordance with accounting policies and with an appropriate asset life; only the depreciation figure would count towards the limit.
- B7** The limit will be £150m for the full term of the next Parliament, including a general election premium of £20m.
- B8** The limit will be the same for all parties putting forward candidates in at least 90% of constituencies at the general election at the end of the cycle. The limit would fall pro rata, in steps of 10%, for parties fielding fewer or no candidates, with a floor (to allow for fixed costs and to avoid over-regulation of smaller parties) set at 10% of the total limit.
- B9** Existing controls on candidate spending under the Representation of the People Acts will continue, and will be tightened so as to bring the costs of direct mail targeted at a constituency and an apportionment of the costs of phone bank activity targeted at a constituency within the scope of reportable spending.
- B10** The current limit for by-elections of £100,000 should be maintained.

Public funding

- C1** Two new schemes for public funding of political parties will be introduced:
- A scheme designed to encourage parties to engage the active participation of the electorate based on a form of matched funding; and
 - A scheme based on public support, pence-per-vote, primarily designed to help provide for financial stability following the introduction of a cap on donations.
- C2** Only parties subject to the cap on donations will be eligible for these public funding schemes.
- C3** A matched funding scheme will enable parties to receive £10 of public funding for each donation of £10 or more that they secure from any one person on the electoral register in any one year.
- C4** The amount of money that can be paid out through this scheme will initially be capped at the equivalent of donations from 1 million individuals, that is, £10 million.
- C5** The matched funding scheme will be primarily internet-based, with a paper-based alternative. Parties will set up their own internet schemes, adapting their current systems if they so wish. The Electoral Commission will be responsible for auditing the scheme and the release of money to the parties.
- C6** Under the pence-per-vote scheme, parties will receive 40p each year for every vote cast for them in the most recent general election, and 20p for every vote cast for them in the most recent elections for the Scottish Parliament, National Assembly of Wales, and for the European Parliament. As voters in Scotland and Wales have two votes at the elections for their devolved administrations, one for a constituency representative and one for a regional representative, the parties will receive 10p per vote regardless of whether it is a vote for a constituency representative or a list representative, equivalent to 20p per voter.
- C7** The Policy Development Grants currently received by the political parties will be abolished.
- C8** Public funding will also be made available on a once-off basis to parties to assist them in meeting the costs of compliance with the new regulations. This funding will be distributed by the Electoral Commission following the precedent set in PPERA 2000, and will not exceed £1.5m in total.

Compliance

General

- D1 The Electoral Commission should move towards a more investigative and tougher stance with the aim of ensuring integrity and public confidence in the system of party funding, and should take a pro-active approach to the investigation of apparent non-compliance.
- D2 Legislation should where necessary provide the framework, including a graduated system of sanctions, for the Electoral Commission to become a more effective regulator.
- D3 The Electoral Commission should issue advisory opinions where appropriate, and should seek to work with the parties at both national and local level to facilitate compliance with the law.
- D4 Further anti-avoidance provisions should be developed in the course of the preparation of the legislation, and the Electoral Commission should regularly review their adequacy.

Donations

- D5 Political parties subject to the cap on donations should be legally liable if they knowingly accept multiple donations from a single source exceeding the cap, whether in cash or in kind.
- D6 The cap on donations will also apply to donations to or from regulated donees. It will be assumed under a principle of “safe harbour” that the national treasurer has accepted information about donation from regulated donees in good faith.
- D7 The cap on donations will also apply to donations to third parties.
- D8 Unincorporated associations donating to political parties should be required to identify the persons who make the decisions to donate money.
- D9 The Electoral Commission’s donor database should ensure that donors are registered consistently and should include the total amount a donor gave to third parties or to political parties so that the donor’s total financial influence may be judged.

Spending

- D10 There will be a general duty on the parties not to avoid the spending limit, and the Electoral Commission will have investigatory powers to audit compliance, identify avoidance of the provisions specified in the statute, and order expenditure returns to be restated if necessary.
- D11 Annual accounts will continue to be filed with the Electoral Commission as they are now, and an additional annual return will be made reporting expenditure against the limit.

- D12** The national registered treasurer will be responsible for compliance with the limit, and for ensuring that the central party has appropriate systems in place to monitor overall party spending, but it will be assumed under a principle of “safe harbour” that the national treasurer has accepted accounting units’ statements of accounts in good faith.
- D13** A system of graduated penalties will be available, with the Electoral Commission required to ignore non-material breaches, and to discriminate on a range from self-declared inadvertent errors to large-scale or systematic evasion. The normal sanctions for errors, misdeclarations and small-scale or opportunistic avoidance would be financial penalties levied on the national party, which would then be free to determine whether it paid the penalties from central funds or passed them onto the accounting unit(s) responsible for the breach. Criminal sanctions would be available for serious evasion and charges would have to be brought against the individual actually committing the offence.

Transitional arrangements and review

- E1 The cap on donations will be reduced to £50,000 over a period of time to give the parties time to adjust to the new system. The cap will be set at £500,000 in 2009, £250,000 in 2010, £100,000 in 2011, and reduced to its final level of £50,000 from 1 January 2012. These dates are obviously subject to the Parliamentary timetable.
- E2 The introduction of changes to the treatment of trade union affiliation fees will be phased in over time. Transitional arrangements will be developed in consultation with the trade unions and the regulatory authorities, with a view to implementing the changes as quickly as possible and in no event later than 1 January 2012.
- E3 Spending controls will be introduced the day after the next general election, or from 1 January 2010, whichever is the later. The parties have agreed to continue discussions with a view to agreeing some measure of voluntary restraint on expenditure before the next election.
- E4 To allow the accounting units and the central parties time to adapt and put in place the necessary systems and processes, the threshold of accounting unit expenditure above which it is counted against the overall party limit (see B4) will be set at £100,000 in its first year or part-year, then reduced in equal increments so as to reach its final level of £40,000 in 2012.
- E5 The matched funding scheme will be introduced on 1 January 2009, at the same time as the initial cap on donations.
- E6 The pence-per-vote scheme will be introduced on 1 January 2012, when the cap has been reduced to its final level. Policy Development Grants will end at the same time.
- E7 The Electoral Commission will report annually on progress with the implementation of the system introduced by the Act which brings this agreement into force. The effectiveness of the system will be reviewed in all its aspects, including its regulation, by a comprehensive independent review in seven years' time reporting to all parties affected. This review will specifically consider whether the candidate limits imposed by the Representation of the People Act continue to serve a useful purpose in the context of the new system of spending controls.

This document, the Party Funding Review Report
“Strengthening Democracy: Fair and Sustainable Funding
of Political Parties” (March 2007) and the Review’s Interim
Assessment (October 2006) are available to download from:

www.partyfundingreview.gov.uk

Published October 2007