The funding of political parties
Report and recommendations
Translations and other formats

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The Electoral Commission

We are an independent body that was set up by the UK Parliament. We aim to gain public confidence and encourage people to take part in the democratic process within the UK by modernising the electoral process, promoting public awareness of electoral matters and regulating political parties.

The funding of political parties
Report and recommendations

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Executive summary

Among The Electoral Commission’s general statutory functions is a duty to keep under review a range of electoral and political matters. In our report on the 2001 general election we stated that a review of the public funding of political parties was a long-term aim. The Commission’s Corporate plan 2002/03 to 2006/07 also identified the need to review the arguments for public funding and the related issue of a cap on political donations.

Political parties
Political parties have a vital role to play in our democratic system. They cannot carry out that role unless they are adequately funded. As well as generating sufficient income to fight election campaigns, parties must ensure that they have the necessary resources to fund their activities between elections. Political parties have to maintain their day-to-day business and the necessary infrastructure to ensure that they can undertake the role expected of them in our political system.

Party income and expenditure
Under the Political Parties, Elections and Referendums Act 2000 (PPERA), registered political parties are required to submit an annual statement of accounts to the Commission. The statements of accounts show that the main parties are having difficulties raising sufficient funds to meet their day-to-day costs let alone the additional burden of funding major election campaigns. It appears that some parties rely heavily on borrowing to fund their operations.

Key conclusions and recommendations
National and candidate spending limits
As part of our review we undertook to examine afresh the relationship between local and national campaign expenditure. We believe that limits on campaign expenditure by political parties are in the public interest. We also believe that the electorate is better served by campaigns that engage directly with voters,
and that the balance between national party and candidate spending limits should better reflect that principle. In particular:

• We recommend that the national spending limit applying to Westminster general elections should be reviewed following the next general election with the aim of reducing the limit to £15m.

• Alongside this, we recommend a significant increase in candidate spending limits to encourage more activity at the local level.

• We recommend that a similar rebalancing of national and candidate spending limits should then take place for all other relevant elections.

• We recommend that any increase in candidates’ expenditure limits should be accompanied by greater transparency, allowing opponents and electors to more easily review election expenses.

Political donations

Political donations constitute the primary source of income for many political parties. It is clear that a small number of large donations constitute an important contribution to the total donation income received by some parties. Despite the transparency regime introduced under PPERA there is still public unease about the size of some donations and a perception that donations may buy either influence over policy or access to decision makers. We share that unease while recognising that capping donations would itself raise some fundamental issues.

Any donation cap would need to be set at a very low level (perhaps in the region of £10,000 per donor per annum) if the public were to be persuaded that its likely effect would be to eliminate the risk of corporate, trade union or individual interests buying influence. Such a cap would have a significant impact on the funding of parties, raise questions about the acceptability of compensating public funding, about the rights of individuals to spend their money in the way they choose, and about the independence of parties from the state.

We do not believe that the introduction of a donation cap can be justified at the present time. However, the Commission would be prepared to undertake further work on the practicability and implementation of such a cap, as well as more detailed modelling of associated public funding options.

Public funding of political parties

We have further examined arguments and options surrounding the public funding of political parties. Political parties already receive varying degrees of direct and indirect state support for their activities.

Our deliberations on this issue have been guided by the principle that any additional forms of direct or indirect funding should act as an incentive to parties to develop broader based streams of income through more effective engagement with the electorate.

The policy development grant scheme has been of positive benefit, particularly to the
smaller parties who are least able to devote funds to this activity.

- We recommend a modest expansion of the policy development grant scheme so that parties with at least two members elected to either the House of Commons, European Parliament, Scottish Parliament, National Assembly for Wales or Northern Ireland Assembly would be eligible to receive a share of such funding. In order not to disadvantage existing recipients we recommend that the sum available should be increased to £3m.

- We recommend that a system of income tax relief should be introduced for donations to eligible political parties up to the value of £200. We also recommend that the benefits of such a scheme should be extended to include non-taxpayers.

- We see value in the freepost facility that is currently available to candidates contesting national elections in England, Scotland and Wales being extended to local elections to facilitate greater engagement. We therefore recommend that further work be undertaken to see how such a scheme might operate and cost.

- Beyond these measures, any further significant increase in public funding must in our view be contingent on acceptance of a cap on donations.
1 Introduction

The Electoral Commission is a public body established on 30 November 2000 under the Political Parties, Elections and Referendums Act 2000 (PPERA). The Commission is independent of Government and political parties, and is directly accountable to Parliament. Among the Commission’s general statutory functions is a duty to keep under review a range of electoral and political matters.1

Political parties

1.1 Political parties have a vital role to play in our democratic system. Political parties crystallise political, economic and social interests in society and offer voters alternative policies from which to choose at elections. As van Biezen2 has argued, in this respect they serve as a channel through which individuals and groups are integrated into the political system. In addition, political parties organise campaigns in order to mobilise voters to participate in elections and make possible the conduct of effective government. Political parties also play an important role in recruiting political players by selecting and nominating candidates who stand for public office at elections. They further fulfil an important function in relation to public policy by making and implementing political decisions.3 Indeed, it is difficult to visualise a parliamentary democracy such as ours without the role played by political parties.

1.2 In order to carry out effectively their democratic functions, political parties require appropriate funding. As well as generating sufficient income to fight election campaigns, parties must ensure that they have adequate resources to fund their activities between elections. Parties have to maintain their day-to-day business and the necessary infrastructure to ensure that they can undertake the role expected of them in our political system.

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1 Section 6 of the Political Parties, Elections and Referendums Act 2000.
3 Ibid.
During the post-war period UK political parties have been funded mainly through the voluntary donations made by their members and supporters. They also receive varying degrees of direct and indirect state support for their activities. These range from the free use of civic premises for election purposes, mail shots of literature and party broadcasts during elections to financial support for opposition front benches in the form of Short and Cranborne monies. Similar party funding arrangements are in place in the devolved legislatures. More recently Parliament has initiated a scheme to provide policy development grants to parties sitting at Westminster.4

Recent years have seen the publication of several reports on the funding of political parties. All of these have considered the financing of political parties or specific issues relating to donations, party expenditure and public funding. In 1998 the Committee on Standards in Public Life (The Neill Committee) published its report *The Funding of Political Parties in the United Kingdom*.5 Almost all of the report’s recommendations were adopted by the Government and enacted under PPERA. That Act, which established The Electoral Commission, requires political parties to register with the Commission, to disclose the source of large donations, to observe new campaign expenditure limits and to submit annual accounts. The Act also established the policy development grant scheme, which distributes the sum of £2m annually to eligible political parties.

Among those organisations that have produced more recent reports are the Hansard Society,6 the institute for public policy research (ippr),7 The Catalyst Forum8 and the New Politics Network.9 At the international level, the International Institute for Democracy and Electoral Assistance recently published a handbook on the funding of political parties,10 while the Council of Europe produced a report containing guidelines to member states on financing political parties and election campaigns.11

Despite enhanced levels of public scrutiny of party finances since the introduction of


PPERA, there is continuing public unease about the possible influence of large donations on the political process. While there is no evidence of improper influence in connection with any of these donations, the concentration on these issues by the media has impacted upon public confidence and, according to some party sources, resulted in businesses and wealthy individuals being less willing to make contributions. Alongside this, recent years have witnessed a general decline in levels of party membership. These developments have placed increasing pressure on parties to seek out and accept large donations, and stimulated interest in the regulation of party income and expenditure, and the public funding of political parties.

1.7 Our report on the 2001 general election stated that a review of the case for increased public funding of political parties was a long-term aim. The Commission’s Corporate plan 2002/03 to 2006/07 also identified the need to review the arguments for public funding and the related issue of a cap on political donations.

Review process

1.8 This report sets out the views and recommendations of the Commission. The review has been managed by Commission staff under the guidance of a project board composed of Electoral Commissioners.

1.9 In May 2003 we published an issues paper. The paper was sent to registered political parties, trade unions, members of the business community (including party donors), elected representatives, academics, think-tanks and local authority representatives. In addition, the paper was, and remains, available for the public to download from our website. The paper provided information about the review and invited responses to some questions relating to the issues. We provided 15 weeks for responses to the issues to be submitted to us, and received a total of 80 responses. A list of respondents is included in Appendix 1, and responses are available to view in person at the Commission, except where confidentiality was requested.

1.10 To accompany our issues paper we published a background paper, providing details of existing public funding, the arguments for and against public funding and examples of...
international practice. The paper is also available to download from our website.

1.11 During the early part of 2004 the Commission held public hearings in Belfast, Cardiff, Edinburgh and London. The hearings, which were open to the public, gave political parties, trade unions, major donors, think-tanks and others an opportunity to present oral evidence to Commissioners. Details of the public hearings are included in Appendix 2. In addition, we organised a series of public debates, giving members of the public an opportunity to get their views across. Details are provided in Appendix 3.

1.12 Commissioners and staff also undertook study tours to Canada, Germany, Republic of Ireland, The Netherlands and the United States of America to learn about party funding systems in other countries. Details of the tours are included in Appendix 4.

1.13 The Commission organised a series of fringe meetings on party funding at the 2003 Conservative, Labour, Liberal Democrat, Scottish National Party and Plaid Cymru conferences. The meetings provided grass roots party activists with an opportunity to debate the issues. Details of panel members at those meetings are included in Appendix 5.

1.14 We also commissioned quantitative and qualitative research exploring attitudes towards the funding of political parties. The quantitative research was conducted by MORI during May 2003 and was part of a larger research project focusing on key issues around voting and elections. The qualitative research, carried out by Cragg Ross Dawson in November 2003, consisted of in-depth interviews with grass roots party activists and focus groups with a cross-section of the general public. Further details are provided in Appendix 6.

Priorities

1.15 The Commission aims to promote and maintain openness and transparency in the financial affairs of political parties and others involved with elections. We also aim to encourage greater participation in, and increased understanding of, the democratic process. In considering any changes to the UK system of party funding we have been conscious of the need to examine how this would help or hinder political parties in fulfilling their democratic functions, engaging more effectively with the electorate and ensuring the health of our democracy. Democracy is best served through greater participation and increased confidence in the political process.

1.16 Any system of party funding should be understandable, transparent and easy to administer. It also needs to be available on an equitable basis, regardless of the ideological or policy stances of particular political parties.

Scope

1.17 This review has focused largely on those parties that have elected representatives above local government level. Nonetheless we have also examined issues relating to smaller parties seeking to establish themselves as major players, as well as the role of candidates.
1.18 The project has not examined the operation of the donation-reporting regime, which was the subject of a separate Commission review focusing on PPERA, which reported in June 2003.

1.19 This report has been submitted to the Secretary of State for Constitutional Affairs in accordance with Section 6 of PPERA. It has also been distributed to stakeholders and published on the Commission’s website.
2 Attitudes towards the funding of political parties

During our review we received evidence from a wide range of stakeholders. The arguments and views put forward by those stakeholders are detailed later in our report. We also considered it important to find out what the public thought about party funding in the UK, as well as local party activists, and their views are set out in this chapter.

Research

2.1 As part of our review we commissioned two pieces of research to inform our understanding of attitudes towards the funding of political parties. The two projects were designed to complement each other: collectively, providing both a measurement and exploration of public opinion and a rounded evidence-base. This chapter summarises the main findings from the two projects. Further information about the methodology used can be found in Appendix 6.

2.2 In May 2003, MORI conducted quantitative survey research among the general public to measure their knowledge of the current system of party funding and their attitudes towards the way this might develop in the future.15

2.3 In November 2003, the Commission retained Cragg Ross Dawson (CRD) to conduct qualitative public opinion research to further explore awareness of, and attitudes towards, party funding arrangements and potential changes to the current system. This research used a programme of focus groups to follow up in more depth some of the themes identified by MORI’s previous polling for us.16

2.4 CRD’s research also included depth interviews among grass roots local party activists who were asked to provide their own perspectives, not necessarily those of their party. This exercise was designed to complement the Commission’s consultation exercise seeking parties’ official responses to the matters under review. We also wanted to gauge the views of a sample of activists representing parties without a presence at Westminster, parties reliant on voluntary support and/or tending to focus exclusively on local issues.

2.5 The two projects sometimes reached different conclusions with respect to public attitudes towards the funding of political parties. In considering these, it is worth remembering that both projects were based on different methodologies and designed for different purposes. While the MORI survey collected ‘top-of-mind’ attitudes, CRD’s focus group discussions provided a more deliberative forum and gave the public an opportunity to learn about and debate the issues around party funding.

Public opinion
Quantitative research findings

2.6 MORI’s survey for us found that most people did not feel informed about how political parties are funded at the moment. Just over a quarter (27%) of those asked said they knew ‘a great deal’ or a ‘fair amount’, including 5% who said they knew a ‘great deal’. Most (61%) said they knew ‘just a little’ or ‘hardly anything at all’.

2.7 Reflecting this low level of awareness (and also perhaps that most people are unlikely to have considered such issues before), MORI found that views on public funding of political parties were somewhat ‘confused and contradictory’. As shown in Figure 1 opposite, although the public is strongly supportive of the principle that people should have the right to make donations to parties (79% agree), this was tempered by a majority view (70%) that this is unfair as it risks the buying of influence. The same proportion (70%) believed that there should be a limit on how much people can donate to political parties.

2.8 Also, even though there was strong support for the principle that people should have the right to make voluntary donations, the public had misgivings about inequality in party spending at election time. Three-quarters felt that elections are unfair if one party can spend more than others.

The funding of political parties: attitudes towards the funding of political parties

The funding of political parties: attitudes towards the funding of political parties

Figure 1: Public attitudes towards the funding of political parties

Q. I am going to read out a number of statements some people have made. For each one, please tell me whether you agree or disagree...

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>People should have the right to make donations to the parties they support</td>
<td>14%</td>
<td>79%</td>
</tr>
<tr>
<td>It is better that parties should be financed by their own fundraising, rather than being subsidised by taxpayers</td>
<td>16%</td>
<td>76%</td>
</tr>
<tr>
<td>It makes elections unfair if one party can afford to spend more than others</td>
<td>18%</td>
<td>74%</td>
</tr>
<tr>
<td>Funding parties by voluntary donations is unfair because there is a risk that wealthy individuals, businesses and trade unions can buy influence over parties</td>
<td>22%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: MORI.
Base: 1,500 UK adults 18+, 2-11 May 2003.
2.9 One of the main themes that emerged from our survey was the public’s instinctive hostility towards the idea of political parties being funded by taxpayers’ money. Three-quarters (76%) considered it preferable that parties should be financed by their own fundraising (53% strongly agreed), rather than being subsidised by taxpayers’ money, with 16% disagreeing. A majority (56%) did not believe that the political process would be more honest if parties were funded through taxes.

2.10 The belief that parties should stand on their own financial feet is underlined further by the third of voters who felt it would not harm the democratic process if political parties were allowed to go bankrupt.

2.11 When presented with a series of options for funding and having been given a reminder of the current situation and a brief introduction to the main arguments for and against different funding options, just 7% of the electorate believed that taxpayers should foot the total bill for party financing (shown in Figure 2).

18 The full question preamble, developed with MORI, was as follows: ‘At the moment, political parties are mainly funded by voluntary donations – they raise money from party members, businesses, trade unions and from individual people. They receive some limited funding from taxes for their activities in Parliament and for some activities at elections. Some people say that political parties should be funded through taxes, to prevent the risk of money being used to buy political power and parties with wealthy supporters having an unfair advantage. Others say that parties should depend on being able to raise money from their own supporters rather than automatically receiving money from taxes. Which of the following best reflects your view?…’.
Figure 2: Public views on how parties should be funded

Q. Which of the following best reflects your view?

- Totally by taxes, voluntary donations banned: 7%
- Mainly by taxes, some voluntary donations allowed: 9%
- Equally by taxes and voluntary donations: 17%
- Mainly by voluntary donations, with some funding from taxpayers: 26%
- Totally by voluntary donations, with no funding from taxpayers: 37%
- Don't know: 3%

Source: MORI.
Base: 1,500 UK adults 18+, 2-11 May 2003.

The funding of political parties: attitudes towards the funding of political parties.
2.12 Views were found to be consistent across subgroups of the population, and were not dependent on, for example, levels of knowledge about Parliament or the registration process. However, those who were interested in politics were more likely to favour total or partial public funding of political parties (20%), compared with those who were not interested in politics (12% of whom favour public funding).

2.13 Despite the vast majority of the public being against the funding of political parties by taxpayers' money, 70% in the MORI survey did consider the voluntary system to be unfair, as it presented a risk that wealthy donors may buy influence. Such a sentiment was similarly found in the recent Joseph Rowntree Reform Trust State of the Nation survey, and people in that survey were supportive of ‘public funds’ being used to reduce parties’ ‘dependency on donations from wealthy individuals, businesses and trade unions’.

Qualitative research findings

2.14 On our behalf, CRD conducted a programme of twelve focus groups among members of the public in November 2003. The research was designed to complement the MORI survey and explore public attitudes in more depth. The focus groups involved discussions of two hours and in their report to us, CRD pointed out that ‘the discussion groups required participants to consider the issues in a calm and relatively rational manner … [with] background discussion … not the context in which the great majority of us encounter potentially contentious or difficult issues’.21

2.15 Consistent with MORI’s findings, the focus group discussions revealed very low levels of understanding among the public about how political parties are funded currently. They also demonstrated low levels of awareness with respect to the role and functions of political parties. CRD’s researchers found that funding political parties was a topic that most people had rarely, if ever, considered in any detail before, other than in association with media stories of ‘sleaze’ and ‘backhanders’. Despite these sorts of stories often causing deep concern and anger, there was very little interest in issues of party funding.

2.16 The research also found that there was considerable uncertainty as to whether any sort of public funding was currently available to political parties. Some, including many of the least engaged, assumed that it was, or at least were unsurprised when told that some public money was available. CRD reported that this apparent familiarity might have reflected confusion between the funding of political parties and public expenditure in general. Indeed, the research showed that often the
more engaged were surprised that political parties received any public money.

2.17 On the whole, CRD found that the public were accepting of political parties being given money to help cover the costs of playing a role in Parliament, although the public struggled to imagine what these costs might be. Donations from businesses and individuals were very much expected to form the bulk of party income and the assumption was widespread that the only possible reason these donors could have for making a donation was in order to gain influence:

If someone gives money to a party they are looking for a return and something is obviously going to get paid back.

Group 9: 23-30 years, C2DE, Wolverhampton

You can’t tell me that Bernie Ecclestone put money into it and didn’t derive any benefit from it. You do not give a million pounds to a political party and not derive some benefit.

Group 6: 45-55 years, BC1, Belfast

2.18 The public rarely, if ever, regarded donations from trade unions to parties as problematic. A good proportion of the public had not even registered the relationship of the trade unions to political parties, and even when brought up for discussion, seldom thought that trade unions might be buying influence through donations in the way it was assumed individuals and businesses would be. Small donations, i.e. those that ‘an average person could afford’ were certainly not seen by the public to pose a problem, in the manner of donations from businesses or wealthy individuals.

2.19 Membership was also seldom brought up spontaneously as a source of party income. Once raised by the researchers, membership fees were expected to be only a very small proportion of parties’ total income.

2.20 The research also showed there to be some very low-level awareness that major donations to political parties need to be registered. While some viewed this in broadly positive terms, others were highly sceptical about how effective this system might be in preventing big donors or politicians from engaging in ‘sleaze’.

2.21 CRD found the public, after deliberation, to be broadly in favour of increased or total public funding of political parties, even if this would necessarily be funded through the tax system. The reasons given included:

• Less ‘sleaze’: primarily the public anticipated and hoped that increased public funding would create a cleaner, more transparent and more responsive system.

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22 C2DE denotes social grades including ‘blue collar’ skilled and unskilled manual occupation groups and those on long-term state benefit, while BC1 includes managers, professionals and other ‘white collar’ occupation groups.
The funding of political parties: attitudes towards the funding of political parties

• **Low cost for taxpayers:** when people were informed of an estimate\(^{23}\) as to how much public funding of political parties might actually cost each taxpayer they felt that this was a small price to pay for the benefits this would result.

• **A fairer system:** for a good number, the desire to give parties an equal chance and to ensure that none are disadvantaged by having fewer resources was a convincing argument in favour of increased public funding.

2.22 Although support for public funding, informed on the whole by these arguments, was found to be robust, it was not wholly unconditional. In particular, focus group participants wanted to learn how such a system might be implemented, and were keen to articulate their expectations for the practicalities of funding arrangements. In other words, the public struggled to discuss public funding in the abstract. Their understanding of, and support for, the idea were often entirely dependent on how it might be put into practice, as this provided the assurance that greater public funding would address the problems they identified with the current system. Indeed, those who did not want to see the current system changed tended to cite problems with implementation as a major reason for their opposition.

2.23 Those opposed to change expressed the view that corruption would always be present, and that no funding arrangements could create a clean system, as there would always be loopholes. They also felt that other problems with implementation – for example, deciding how levels of funding for each of the parties could be fairly arrived at – were too complex and that it was therefore best to leave the system as it was, as this probably reflected the fairest approach possible.

2.24 Those against change were in the minority, while an even smaller minority wanted to see a halt to public funding of any sort. These were the people in the sample for whom politics held the least interest and who wanted to see their taxes spent on areas that held greater priority and relevance for them, such as the National Health Service and education.

**Party activists**

2.25 In addition to focus groups with members of the public, CRD conducted thirteen paired depth interviews with party activists from a range of political parties in terms of size, role and policy focus (Appendix 6 includes further details of the research methodology and the classification of parties used). The objective of this research was to explore the views of grass roots local party activists towards the current system of party funding and the possibility of increased public funding of political parties.

2.26 The research found that activists had a range of levels of understanding of, and attitudes towards, current funding arrangements. For example, activists belonging

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\(^{23}\) Estimates of the cost of an extension of state funding tend to fall within the range of £30m to £50m per annum and ippr estimate that the system they have proposed would cost in the region of £3 per taxpayer per year or 0.001 per cent of total government spending (Matt Cain with Matthew Taylor (2002), *keeping it clean: the way forward for state funding of political parties*, ippr)
to major national parties were largely unaware that public funding was available, perhaps because they tended to be somewhat removed from their party’s central organisation.

2.27 On the other hand, activists belonging to local and regional parties, who were likely to be in closer contact with their parties’ headquarters, were frequently better acquainted with the funding options and with the state of their own parties’ finances. Often they were irked that their party did not receive public funds, or received only minimal amounts, but at the same time acknowledged that their party did not bear the same financial burden as the major parties in needing to fulfil parliamentary and other duties.

2.28 Awareness of the legislation brought in under PPERA also differed according to the type of party represented. While major national party activists showed very low awareness, local and regional party activists had often personally dealt with its effects and with ensuring that their party met its requirements. Responses to the legislation were found to vary:

- Smaller parties complained that the impact on them was unfair, particularly the accounting and administrative requirements which, in their case, had to be met by volunteers, while major parties could afford to employ professional accountants.
- Overall, most welcomed the move towards greater openness.
- A few suggested that registration of donations might actually fuel scepticism by making public the level of donating that does take place.

2.29 A good proportion of the activists interviewed had previously been exposed to the debate surrounding the issue of public funding of political parties. This tended to be in line with their role in their party structure, and the extent to which they were aware of funding as an issue for their party.

2.30 Thus activists belonging to regional and minor national parties, who reported having to work hard to raise the money they needed locally, and were aware of the challenges faced by their party at a central level, had in the main already encountered the debate around public funding. As a result, CRD found that many of these activists were able to articulate a number of pros and cons for increased public funding without any prompting. Local party activists were also aware of the issue of public funding, but to a lesser degree, while major national party activists were unlikely to have considered the issue before and were perhaps closest to the public in the way they thought the issue through.

2.31 In essence, CRD found that the arguments for or against public funding employed by party activists could be characterised in one of two ways (set out in Table 1 overleaf):

- The theoretical approach: activists were generally more able than the public to discuss public funding in principle and voiced support/antipathy according to party ideology and/or personal philosophy.
• **The pragmatic approach:** activists clearly considered whether public funding would help or hinder their particular party; in the end this tended to be the more influential factor in determining activists’ final positions on the issue.

<table>
<thead>
<tr>
<th>Table 1: Theoretical and practical arguments for and against public funding24</th>
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<tbody>
<tr>
<td><strong>For</strong></td>
</tr>
<tr>
<td>Theoretical</td>
</tr>
<tr>
<td>‘Would create a fairer system’</td>
</tr>
<tr>
<td>‘Would restore public confidence’</td>
</tr>
<tr>
<td>Pragmatic</td>
</tr>
<tr>
<td>‘More money would help us’</td>
</tr>
<tr>
<td><strong>Against</strong></td>
</tr>
<tr>
<td>Theoretical</td>
</tr>
<tr>
<td>‘Parties should raise their own funds’</td>
</tr>
<tr>
<td>‘Don’t want HQ to lose touch with grass roots’</td>
</tr>
<tr>
<td>‘Wary of control of party/individual’</td>
</tr>
<tr>
<td>Pragmatic</td>
</tr>
<tr>
<td>‘Taxpayers would be against it’</td>
</tr>
<tr>
<td>‘Our finances are fine’</td>
</tr>
</tbody>
</table>

Source: Cragg Ross Dawson (2004) *Attitudes towards the funding of political parties.*

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24 See Appendix 6 for further details concerning the political party classification system used in Table 1.

The funding of political parties: attitudes towards the funding of political parties
Attitudes towards implementation

2.32 As part of their research for the Commission, CRD asked members of the public and party activists about their views in relation to a number of possibilities with respect to how increased public funding might be implemented.

2.33 Restricting the size of donations, and perhaps banning some, was widely regarded as a minimum starting point and the option of capping campaign expenditure had strong support, even from those opposed to public funding.

2.34 Discussion about how levels of funding for the parties should be decided threw up concerns around what might constitute the ‘fairest’ system. But in the end no focus group was able to agree on a system of apportioning funds that was entirely satisfactory, although the general feeling was that funding should reflect levels of support or popularity, as well as a party’s role in governing, while also allowing smaller parties a chance to grow and increase their ‘exposure’.

2.35 Activists (particularly from the smaller parties) were keen to point out that, in order to avoid reinforcing the status quo, any system must reflect levels of support rather than current levels of income/donations or number of seats in Parliament. Many activists also highlighted the need to consider their levels of support relative to other parties within the region or devolved area and not just across the country as a whole. Concurrent with this, they anticipated that at least some portion of public funding would need to be diverted to local or branch level organisations within the parties. Indeed, there was concern expressed about any additional funding going to party headquarters and not reaching grass roots activists.
This chapter provides an overview of the financial health of the main political parties that won seats at the 2001 general election. The analysis is based upon the parties’ 2002 and 2003 statements of accounts submitted to the Commission.

The costs of democracy

3.1 Party election campaigns have become a permanent and costly feature of British politics. Historically, political parties have tended to focus the bulk of their campaigning efforts and resources on Westminster elections and have usually generated higher levels of income and incurred more expenditure during general election years. More recent decades have seen direct elections to the European Parliament, Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly, which have resulted in the major parties incurring significant levels of additional campaign expenditure and experiencing greater pressure to raise income. Parties also, of course, contest local government elections.

3.2 In addition to elections, parties also require considerable resources to cover the costs of running their organisations; that is, to cover staff salaries, the cost of renting premises, office equipment, telephone charges, postage and so on. A 1999 study by Justin Fisher found that such ‘routine’ expenditure comprised approximately 80% of the Labour and Conservative parties’ central expenditure. Political parties are also engaged in a constant battle to gain the support of public opinion, which involves the incurring of additional expenditure on research and inter-election campaigns.25

3.3 Apart from spending by parties at a national or regional level their candidates also incur


The funding of political parties: party income and expenditure
expenses at a local level during the course of their election campaigns. These expenses include payments for agents, clerks, printing and publicity and public meetings. Candidates play an essential role in the democratic process, providing a vital link between political parties and the electorate.

**Party income**

3.4 All of this means that parties require a regular flow of income in order to operate and to perform their democratic functions effectively. For much of the post-war period, the patterns of funding British political parties were relatively straightforward. The Conservative Party tended to rely on local constituency associations and corporate donations for much of its income, while The Labour Party’s historical links to the trade unions meant that the bulk of its income came from the latter in the form of affiliation fees and donations. Political parties also relied on membership fees, which brought in significant sums of income.

3.5 In recent decades, declining levels of party membership\(^\text{26}\) have brought about changes in the patterns of party fundraising. The Conservative Party has relied increasingly on large individual donations to fund its activities and entrepreneurial forms of income, while the proportion generated from constituency quota income has declined.\(^\text{27}\) Since being in opposition the party has found it increasingly difficult to attract individual and company donations and, in 2003, reported that close to a third of its income came in the form of public funding, that is, ‘Short money’, policy development grants and Scottish Parliament grants.\(^\text{28}\)

3.6 Historically trade unions have contributed significantly to The Labour Party’s finances. As well as making affiliation payments, grants and donations, the trade unions have traditionally sponsored party candidates and MPs and provided advertising (through party publications) and party conference revenue. However, Justin Fisher highlights the extent to which Labour has diversified its income base in recent years, noting that while the trade unions continue to play a significant role, the party has attracted significant income from wealthy individuals and through activities connected with its business plan.\(^\text{29}\)

3.7 The Liberal Democrats have never received funding on the scale of the Labour and Conservative parties. In recent years, the party has received significant and regular funding from a few sources, notably the Joseph Rowntree Reform Trust. Other parties, including the Scottish National Party and Plaid Cymru,

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\(^{26}\) See, for example, New Politics Network (2003) *Broadening Participation: Thinking Beyond Party Membership.*


have tended to receive their income via a mixture of membership subscriptions, bequests, personal donations and public funding. The income of the four Northern Ireland parties that won seats at the 2001 general election – the Ulster Unionist Party, Democratic Unionist Party, SDLP (Social Democratic & Labour Party) and Sinn Féin – has been a similar mixture of membership subscriptions, donations and public funding.

Party statements of accounts

3.8 More information on the income and expenditure of UK political parties is now available in the parties’ annual statements of accounts. Under PPERA, registered political parties are required to submit such statements to the Commission. For those parties that have elected representatives above local authority level the Commission has imposed a common, calendar, accounting year. Accounts have been received for 2002 and 2003. The Commission has also received some party accounts for 2001, and these are referred to below, although parties were not required to submit these by law. As 2001 was a general election year these figures provide interesting comparisons with later years although it is too soon to draw any firm conclusions. The statements of accounts referred to in this section, and for other registered political parties, are available to download from the Commission’s website.30

All numbers have been rounded to the nearest thousand pounds.

3.9 Statement of account details are provided for the following parties:

- The Labour Party;
- The Conservative and Unionist Party;
- Liberal Democrats;
- Scottish National Party;
- Plaid Cymru – The Party of Wales;
- Ulster Unionist Party;
- Democratic Unionist Party;
- Sinn Féin; and
- SDLP (Social Democratic & Labour Party).

The Labour Party

3.10 Details of The Labour Party’s income and expenditure are shown in Table 2. During the general election year of 2001, The Labour Party generated just over £35.5m in income, compared to almost £21.2m in 2002 and £26.94m in 2003. The Commission has also received some party accounts for 2001, and these are referred to below, although parties were not required to submit these by law. As 2001 was a general election year these figures provide interesting comparisons with later years although it is too soon to draw any firm conclusions. The statements of accounts...
The Labour Party’s total expenditure for that year. These costs included staff-related expenditure, the cost of building and premises, political activities, administration and publishing, and the cost of finance, IT and telecommunications. The party ended the year with an operating deficit of almost £9m, which it attributed largely to running an £11m general election campaign.

3.12 The proportion of Labour Party income received from donations dropped to 22% in 2002, with the largest share of its income – 30% – coming through affiliation fees. In terms of party expenditure, The Labour Party incurred just over £17.5m – or almost 80% of its total expenditure – on running costs. The party ended the year with an operating deficit of £901,000.

3.13 Of the £26.94m received by The Labour Party in 2003, 34% came from donations, 25% from affiliation fees and 13% from membership subscriptions. The cost of running the party was £17.3m, representing 71% of its total expenditure for the year. The party spent £982,000 on its campaigns for the election to the Scottish Parliament and National Assembly for Wales. At the end of 2003 the party had an operating surplus of approximately £2.7m.
Table 2: The Labour Party income and expenditure

<table>
<thead>
<tr>
<th></th>
<th>2003 £'000</th>
<th>2003 % of total</th>
<th>2002 £'000</th>
<th>2002 % of total</th>
<th>2001 £'000</th>
<th>2001 % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>9,058</td>
<td>34</td>
<td>4,602</td>
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<td>45</td>
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<tr>
<td>Membership</td>
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<td>3,093</td>
<td>15</td>
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<td>10</td>
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<td>Affiliation</td>
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<td>25</td>
<td>6,356</td>
<td>30</td>
<td>6,270</td>
<td>18</td>
</tr>
<tr>
<td>Grants*</td>
<td>439</td>
<td>2</td>
<td>448</td>
<td>2</td>
<td>492</td>
<td>1</td>
</tr>
<tr>
<td>Notional**</td>
<td>264</td>
<td>1</td>
<td>60</td>
<td>0</td>
<td>110</td>
<td>0</td>
</tr>
<tr>
<td>Conference</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Fundraising</td>
<td>858</td>
<td>3</td>
<td>1,086</td>
<td>5</td>
<td>638</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
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<td>23</td>
<td>5,539</td>
<td>26</td>
<td>8,528</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>26,940</td>
<td>21,184</td>
<td>35,534</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                |            |                 |            |                 |            |                |
| Expenditure    |            |                 |            |                 |            |                |
| Donations      | –          | –               | –          | –               | –          | –              |
| Grants         | 1,142      | 5               | 1,040      | 5               | 988        | 2              |
| Conference     | –          | –               | –          | –               | –          | –              |
| Notional**     | 239        | 1               | 60         | 0               | 39         | 0              |
| Cost of fundraising | 647      | 3               | 493        | 2               | 1,225      | 3              |
| Campaign expenditure | 982      | 4               | –          | –               | 11,076     | 25             |
| Other†         | 21,271     | 88              | 20,492     | 93              | 31,127     | 70             |
| Total          | 24,281     | 22,085          | 44,455     |                 |            |                |
| Surplus (deficit) | 2,659      | (901)           | (8,921)    |                 |            |                |

Notes:
* Public funds in the form of PPERA start-up grants and policy development grants.
** Where an organisation or individual bears the cost of goods/services that a party would otherwise have been liable for, that cost is referred to as notional expenditure and conversely the party is deemed to have received notional income.
† Includes party running costs and, where applicable, other items of expenditure.
The Conservative and Unionist Party

3.14 Details of The Conservative and Unionist Party’s income and expenditure are shown in Table 3. As can be seen, the party generated almost £23.3m in income in 2001, of which 75% came from donations. Only 4% came from membership subscriptions and 17% from grants. The Conservatives spent £25m during 2001, of which £11.67m (47%) was campaign expenditure. Just over £10.5m – 42% of the total – was spent on other items of expenditure such as running costs. The party recorded an operating deficit of approximately £1.7m at the end of 2001.

3.15 The Conservatives’ income dropped to below £10m in 2002. As in 2001, the majority of its income – 58% – came from donations, although the share was down on 2001. A further 29% was received through grants and 7% from membership subscriptions. The party recorded a reduced operating deficit of £558,000 in 2002.

3.16 The Conservatives’ income increased to just over £13.6m in 2003. Of that total, 56% came from donations, 30% from grants and 6% from membership subscriptions. A further 7% was notional income. The cost of running the party increased to almost £13.6m, representing 85% of its total expenditure. A further £436,000 was spent on the party’s 2003 election campaigns. The Conservatives reported an operating deficit of approximately £2.4m for 2003.
### Table 3: The Conservative and Unionist Party income and expenditure*

<table>
<thead>
<tr>
<th></th>
<th>2003 £'000</th>
<th>2003 % of total</th>
<th>2002 £'000</th>
<th>2002 % of total</th>
<th>2001 £'000</th>
<th>2001 % of total</th>
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<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Donations</td>
<td>7,647</td>
<td>56</td>
<td>5,761</td>
<td>58</td>
<td>17,495</td>
<td>75</td>
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<td>Membership</td>
<td>814</td>
<td>6</td>
<td>665</td>
<td>7</td>
<td>849</td>
<td>4</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Grants**</td>
<td>4,144</td>
<td>30</td>
<td>2,909</td>
<td>29</td>
<td>3,910</td>
<td>17</td>
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<tr>
<td>Notional</td>
<td>918</td>
<td>7</td>
<td>521</td>
<td>5</td>
<td>973</td>
<td>4</td>
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<tr>
<td>Conference</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Fundraising</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>96</td>
<td>1</td>
<td>72</td>
<td>1</td>
<td>67</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13,619</td>
<td>9,928</td>
<td>23,294</td>
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<td></td>
<td></td>
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<tr>
<td><strong>Expenditure</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
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<td>–</td>
<td></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Grants</td>
<td>–</td>
<td></td>
<td>–</td>
<td></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Conference</td>
<td>107</td>
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<td>170</td>
<td>2</td>
<td>256</td>
<td>1</td>
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<tr>
<td>Notional</td>
<td>918</td>
<td>6</td>
<td>521</td>
<td>5</td>
<td>973</td>
<td>4</td>
</tr>
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<td>550</td>
<td>3</td>
<td>1,757</td>
<td>17</td>
<td>1,557</td>
<td>6</td>
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<tr>
<td>Campaign expenditure</td>
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<td>–</td>
<td>–</td>
<td>11,670</td>
<td>47</td>
</tr>
<tr>
<td>Other†</td>
<td>14,023</td>
<td>87</td>
<td>8,038</td>
<td>77</td>
<td>10,567</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16,034</td>
<td>10,486</td>
<td>25,023</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Surplus (deficit)</strong></td>
<td>(2,415)</td>
<td>(558)</td>
<td>(1,729)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: * Figures for 2002 cover nine-month period to 31 December 2002 as reported in The Conservative and Unionist Party’s statement of accounts. Figures for 2001 cover the 12 months to March 2002.  
** Public funds in the form of ‘Short money’, policy development grants and Scottish Parliament grants.  
† Includes party running costs and, where applicable, other items of expenditure.
Liberal Democrats

3.17 The income and expenditure figures of the Liberal Democrats are shown in Table 4. The party generated considerably less income than Labour and the Conservatives in 2001, 2002 and 2003. Of the total amount received in 2001 – just over £5m – 53% came from donations, 12% from its membership, 12% from conferences and 5% from grants. The party spent almost £1.84m on campaigning during 2001, representing 36% of its total expenditure for the year. Just over £2.4m – 47% of the total – was spent on other items, including staff costs, premises and office costs. The party recorded an operating deficit of £138,000 for 2001.

3.18 The Liberal Democrats raised just under £3.7m in 2002, of which 28% came from donations, 18% from membership subscriptions, 18% from conferences and 12% from grants. The party spent just over £2.1m on staff costs, premises and office costs in 2002, representing 63% of its total expenditure. The party ended 2002 with an operating surplus of £308,000.

3.19 Party income increased to approximately £4m in 2003, largely owing to increased levels of donations. The Liberal Democrats reported spending £867,000 on campaigning in 2003 – 17% of the overall total – and just over £2.1m (54% of total expenditure) on staff costs, premises and office costs. The party recorded an operating surplus of £91,000 for the period.
### Table 4: Liberal Democrats’ income and expenditure

<table>
<thead>
<tr>
<th>Income</th>
<th>2003 £’000</th>
<th>2003 % of total</th>
<th>2002 £’000</th>
<th>2002 % of total</th>
<th>2001 £’000</th>
<th>2001 % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
<td>1,406</td>
<td>34</td>
<td>1,020</td>
<td>28</td>
<td>2,689</td>
<td>53</td>
</tr>
<tr>
<td>Membership</td>
<td>680</td>
<td>17</td>
<td>680</td>
<td>18</td>
<td>590</td>
<td>12</td>
</tr>
<tr>
<td>Affiliation</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Grants*</td>
<td>445</td>
<td>11</td>
<td>456</td>
<td>12</td>
<td>254</td>
<td>5</td>
</tr>
<tr>
<td>Notional</td>
<td>27</td>
<td>1</td>
<td>8</td>
<td>–</td>
<td>68</td>
<td>1</td>
</tr>
<tr>
<td>Conference</td>
<td>660</td>
<td>16</td>
<td>674</td>
<td>18</td>
<td>628</td>
<td>12</td>
</tr>
<tr>
<td>Fundraising</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>878</td>
<td>21</td>
<td>857</td>
<td>23</td>
<td>804</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,096</strong></td>
<td><strong>3,695</strong></td>
<td><strong>5,033</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Expenditure     |              |                |            |                |            |                |
| Donations       | –            | –              | –          | –              | –          | –              |
| Grants          | 467         | 12             | 427        | 13             | 370        | 7              |
| Conference      | 332         | 8              | 317        | 9              | 309        | 6              |
| Notional        | 27          | 1              | 8          | 0              | 68         | 1              |
| Cost of fundraising | 63        | 2              | 77         | 2              | 164        | 3              |
| Campaign expenditure | 667       | 17             | 201        | 6              | 1,836      | 36             |
| Other**         | 2,449       | 61             | 2,357      | 70             | 2,425      | 47             |
| **Total**       | **4,005**   | **3,387**      | **5,171**  |                 |            |                |

<table>
<thead>
<tr>
<th>Surplus (deficit)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Surplus (deficit)</strong></td>
<td><strong>91</strong></td>
<td><strong>308</strong></td>
<td>(138)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * Public funds in the form of PPERA start-up grants and policy development grants.

** Includes party running costs and, where applicable, other items of expenditure.
Scottish National Party

3.20 Details of the income and expenditure of the Scottish National Party (SNP) in 2002 and 2003 are shown in Table 5. No comparative information was available for 2001. Analysis of the party’s statement of accounts shows that it generated income of £973,000 in 2002. The party received 29% of that income in the form of grants, 17% from donations, 17% from conferences and 14% through its membership. The SNP spent £337,000 on campaigning in 2002 and a further £618,000 on other items of expenditure. Of that amount, £463,500 – 44.5% of its total expenditure – was used to fund staff, management and administration costs. The SNP ended 2002 with an operating deficit of £66,000.

3.21 By the end of 2003 the SNP’s operating deficit had increased to £486,000. The party generated less income that year, which totalled £908,000, but incurred higher levels of campaign expenditure arising from the Scottish Parliament and local government elections and spent a significantly greater amount on staff costs.
Table 5: Scottish National Party income and expenditure

<table>
<thead>
<tr>
<th>Income</th>
<th>2003 £'000</th>
<th>2003 % of total</th>
<th>2002 £'000</th>
<th>2002 % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donations</td>
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<td>25</td>
<td>164</td>
<td>17</td>
</tr>
<tr>
<td>Membership</td>
<td>126</td>
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<td>136</td>
<td>14</td>
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<td>Affiliation</td>
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<td>–</td>
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<tr>
<td>Grants*</td>
<td>124</td>
<td>14</td>
<td>280</td>
<td>29</td>
</tr>
<tr>
<td>Notional</td>
<td>10</td>
<td>1</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Conference</td>
<td>91</td>
<td>10</td>
<td>112</td>
<td>17</td>
</tr>
<tr>
<td>Fundraising</td>
<td>159</td>
<td>18</td>
<td>170</td>
<td>11</td>
</tr>
<tr>
<td>Other**</td>
<td>170</td>
<td>19</td>
<td>102</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>908</strong></td>
<td><strong>973</strong></td>
<td><strong>1,040</strong></td>
<td><strong>1,040</strong></td>
</tr>
</tbody>
</table>

| Surplus (deficit) | (486) | (66) |

Note: * Public funding in the form of policy development grants.
** Includes party running costs and, where applicable, other items of expenditure.
3.22 As shown in Table 6, Plaid Cymru generated income of £310,000 in 2001. Of this, 41% came from donations, 30% from fundraising and 5% from membership subscriptions. A further 23% came from other sources including trading activities, legacies and bequests, investment and sundry income. Plaid Cymru spent £79,000 on campaigning, representing 23% of its total expenditure and £45,000 on fundraising. The largest items of expenditure – recorded as ‘other’ in Table 6 and comprising 63% of party expenditure – consisted of running costs. The party ended 2001 with an operating deficit of £27,000.

3.23 The party’s income increased significantly in 2002 to £579,000, owing largely to its receipt of policy development grants worth £221,123. A further 23% of Plaid Cymru’s income came from donations, 16% from fundraising, 7% from membership and subscription fees and 15% from other sources. The vast majority of party expenditure was used to cover the costs of running the party organisation. The party ended 2002 with an operating surplus of £42,000.

3.24 Plaid Cymru’s income fell slightly in 2003 to £534,000. The party received approximately a quarter of its income from donations, with the same proportions coming from grants and fundraising. Ten per cent of party income was in the form of membership and subscription fees. With respect to expenditure, 16% was used to cover the cost of fundraising, 12% for campaigning for the 2003 National Assembly for Wales election and 72% for running the party organisation. The party reported an operating deficit of £47,000 at the end of 2003.
### Table 6: Plaid Cymru – The Party of Wales income and expenditure*

<table>
<thead>
<tr>
<th></th>
<th>2003 £’000</th>
<th>2003 % of total</th>
<th>2002 £’000</th>
<th>2002 % of total</th>
<th>2001 £’000</th>
<th>2001 % of total</th>
</tr>
</thead>
<tbody>
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<td>Grants**</td>
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<td>15</td>
<td>86</td>
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<td>579</td>
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<td>84</td>
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<td><strong>Surplus (deficit)</strong></td>
<td>(47)</td>
<td></td>
<td>42</td>
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<td>27</td>
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</tr>
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</table>

**Notes:**
* Figures for 2001 cover nine-month period to 31 December 2001 as reported in Plaid Cymru’s statement of accounts.
** Public funding in the form of policy development and other grants.
$ Includes party running costs and, where applicable, other items of expenditure.
\[ To allow consistent comparison between parties we have not included a written-off loan totalling £65,948 that is listed in Plaid Cymru’s statement of accounts for 2001. The party included this in its balance sheet, bringing its reported deficit for 2001 to just over £93,000.
Ulster Unionist Party

3.25 As shown in Table 7 the Ulster Unionist Party’s income for 2002 was £563,000, with an expenditure of £509,000. This left the party with an operating surplus of £54,000. The bulk of the party’s income came from membership fees (39%) and grants (42%), including policy development grants worth £237,317. The party’s running costs amounted to £356,000 in 2002, representing 70% of total party expenditure.

3.26 Income generated in 2003 totalled £726,000. Of this amount, 36% came from donations, 26% from membership and 18% from grants. Seventeen per cent of party income in 2003 was derived from other sources, including office services and publications, and travel income. The UUP incurred £322,000 of campaign expenditure, representing 33% of its total expenditure for 2003. Sixty-two per cent of expenditure was spent on other items, including running costs, which amounted to £453,000, or 47% of its total expenditure for that year. The party’s end of year operating deficit was £239,000.
Table 7: Ulster Unionist Party income and expenditure

<table>
<thead>
<tr>
<th>Income</th>
<th>2003 £'000</th>
<th>2003 % of total</th>
<th>2002 £'000</th>
<th>2002 % of total</th>
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<td>Donations</td>
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<tr>
<td>Membership</td>
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<tr>
<td>Grants*</td>
<td>130</td>
<td>18</td>
<td>237</td>
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<td>4</td>
<td>1</td>
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<td>Conference</td>
<td>25</td>
<td>3</td>
<td>25</td>
<td>4</td>
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<tr>
<td>Fundraising</td>
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<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>123</td>
<td>17</td>
<td>75</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>726</td>
<td>17</td>
<td>563</td>
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<td>Grants</td>
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<td>–</td>
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<tr>
<td>Conference</td>
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<td>Cost of fundraising</td>
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<tr>
<td>Campaign expenditure</td>
<td>322</td>
<td>33</td>
<td>–</td>
<td>–</td>
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<td>Other**</td>
<td>601</td>
<td>62</td>
<td>473</td>
<td>93</td>
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<tr>
<td>Total</td>
<td>965</td>
<td>509</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus (deficit)</td>
<td>(239)</td>
<td>54</td>
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<td></td>
</tr>
</tbody>
</table>

Note: * Public funding in the form of policy development grants.
** Includes party running costs and, where applicable, other items of expenditure.
Democratic Unionist Party

3.27 The income and expenditure of the Democratic Unionist Party (DUP) for 2002 and 2003 is shown in Table 8. Of the £285,000 income generated in 2002, 39% came from policy development grants, with 10% coming from donations and 8% through membership subscriptions. A further 40% came in the form of other sources, such as Northern Ireland Assembly funding and Short money. The DUP spent £14,000 on conferences and a further £240,000 on other items of expenditure, including administrative expenses, which amounted to £141,000. The DUP ended 2002 with an operating surplus of £31,000.

3.28 In 2003 the DUP saw its income fall to £192,000. The party reported a drop in the amount of income received from donations and membership subscriptions and received the bulk of its income from policy development grants and Northern Ireland Assembly funding. Eighty-six per cent of the party’s expenditure covered the costs of running the party, with 1% allocated to campaign expenditure. The DUP ended 2003 with an operating deficit of £77,000.
## Table 8: Democratic Unionist Party income and expenditure

<table>
<thead>
<tr>
<th>Income</th>
<th>2003 £’000</th>
<th>2003 % of total</th>
<th>2002 £’000</th>
<th>2002 % of total</th>
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<tr>
<td>Donations</td>
<td>6</td>
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<td>27</td>
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<tr>
<td>Membership</td>
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<td>22</td>
<td>8</td>
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<td>Affiliation</td>
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<td>–</td>
<td>–</td>
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<td>Grants*</td>
<td>144</td>
<td>75</td>
<td>111</td>
<td>39</td>
</tr>
<tr>
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<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Conference</td>
<td>2</td>
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<td>11</td>
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<tr>
<td>Fundraising</td>
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<td>0</td>
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<tr>
<td>Other</td>
<td>24</td>
<td>13</td>
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<td><strong>Total</strong></td>
<td>192</td>
<td>13</td>
<td>285</td>
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<td>Conference</td>
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<td>–</td>
<td>14</td>
<td>10</td>
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<tr>
<td>Notional</td>
<td>–</td>
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<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Cost of fundraising</td>
<td>–</td>
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<td>–</td>
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</tr>
<tr>
<td>Campaign expenditure</td>
<td>4**</td>
<td>1</td>
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<td>–</td>
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<tr>
<td>Other†</td>
<td>265</td>
<td>99</td>
<td>240</td>
<td>90</td>
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<td><strong>Total</strong></td>
<td>269</td>
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<td>254</td>
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<tr>
<td>Surplus (deficit)</td>
<td>(77)</td>
<td>31</td>
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<td></td>
</tr>
</tbody>
</table>

Note: * Public funding in the form of policy development grants.

** This figure is quoted in the DUP’s general party account. It should be noted that a further £195,478 is included under ‘election expenses’ in the party’s election fund statement of accounts for 2003.

† Includes party running costs and, where applicable, other items of expenditure.
Sinn Féin

3.29 Sinn Féin’s income and expenditure amounts are shown in Table 9. As can be seen, the party’s income amounted to £521,000 in 2002 of which 19% came from donations, 18% from grants and a further 62% from other sources, principally Member of Legislative Assembly (MLA) contributions to the party. Eighty-eight per cent of the party’s total expenditure is classified as ‘other’ items in Table 9. Of this, significant amounts were spent on wages, establishment and administrative expenses, travel, political and international development, security costs and contributions and grants to its head office in Dublin and various accounting units. The party reported a £100,000 operating surplus for the period.

3.30 In 2003 Sinn Féin received £750,000 in income, 32% of which came from donations and 20% from grants, including £82,000 in the form of the party’s Northern Ireland Assembly allowance. The party’s running costs – notably wages and related costs – increased considerably in 2003, and these account for a significant amount of the party’s increased expenditure. A further £18,000 was spent on campaigning. The party also gave £92,000 in grants to its accounting units. In total Sinn Féin spent £594,000 and reported an end of year operating surplus of £156,000.
Table 9: Sinn Féin income and expenditure

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<th>Income</th>
<th>2003 £'000</th>
<th>2003 % of total</th>
<th>2002 £'000</th>
<th>2002 % of total</th>
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<td>97</td>
<td>19</td>
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<td>Grants*</td>
<td>150</td>
<td>20</td>
<td>93</td>
<td>18</td>
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<td>10</td>
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<td>2</td>
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<tr>
<td>Conference</td>
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<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Fundraising</td>
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</tr>
<tr>
<td>Other</td>
<td>350</td>
<td>47</td>
<td>321</td>
<td>62</td>
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<tr>
<td>Total</td>
<td>750</td>
<td>521</td>
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Expenditure

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<th>2003 £'000</th>
<th>2003 % of total</th>
<th>2002 £'000</th>
<th>2002 % of total</th>
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<tr>
<td>Grants</td>
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<tr>
<td>Conference</td>
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<td>2</td>
<td>5</td>
<td>1</td>
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<tr>
<td>Notional</td>
<td>10</td>
<td>2</td>
<td>10</td>
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<tr>
<td>Cost of fundraising</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Campaign expenditure</td>
<td>18</td>
<td>3</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Other**</td>
<td>462</td>
<td>78</td>
<td>373</td>
<td>88</td>
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<tr>
<td>Total</td>
<td>594</td>
<td>421</td>
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<td>Surplus (deficit)</td>
<td>156</td>
<td>100</td>
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</table>

Note: * Public funding in the form of Northern Ireland Assembly Special Adviser Scheme and Party Allowance, and 2003 Northern Ireland Assembly election reimbursement scheme.
** Includes party running costs and, where applicable, other items of expenditure.
SDLP (Social Democratic & Labour Party)

3.31 As shown in Table 10, SDLP (Social Democratic & Labour Party) received income of £394,000 in 2001. The vast majority of this income – 77% – came from donations, with a further 17% generated through membership subscriptions. The SDLP’s campaign expenditure that year amounted to £184,000, 43% of its total expenditure. A further £244,000, or 57% of total expenditure, was incurred in relation to other items. Of this amount, £236,000 was used to run the party. The SDLP reported an operating deficit of £34,000 for the 2000/01 period.

3.32 The party’s level of income increased in 2002 to £539,000, largely owing to its receipt of policy development grants. The proportion of income gained from donations declined from 77% to 32%. A further 17% of party income came from membership and subscription fees and 13% from conferences. The SDLP incurred conference expenditure of £83,000 and campaign expenditure of £81,000. Of the £451,000 incurred by ‘other’ expenditure, £421,000 consisted of running costs. The party reported a significantly bigger operating deficit of £101,000 at the end of 2002, principally due to the significantly greater amount spent on running the party.

3.33 Of the £717,000 generated by the SDLP in 2003, 67% came from donations, 10% from membership and subscriptions and 22% through policy development grants. In terms of party expenditure, the SDLP spent £243,000 on its campaign for the Northern Ireland Assembly elections. A further £457,000 was allocated for the purpose of running the party. At the end of 2003 the party recorded an operating deficit of £33,000.
### Table 10: SDLP (Social Democratic & Labour Party) income and expenditure

<table>
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<th></th>
<th>2003 £’000</th>
<th>2003 % of total</th>
<th>2002 £’000*</th>
<th>2002 % of total</th>
<th>2001 £’000</th>
<th>2001 % of total</th>
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<td>67</td>
<td>174</td>
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<tr>
<td>Grants**</td>
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<tr>
<td>Conference</td>
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<tr>
<td>Fundraising</td>
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<td>–</td>
<td>41</td>
<td>8</td>
<td>11</td>
<td>3</td>
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<tr>
<td>Other</td>
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<td>–</td>
<td>21</td>
<td>4</td>
<td>17</td>
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<tr>
<td><strong>Total</strong></td>
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<td>394</td>
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</tr>
<tr>
<td>Donations</td>
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<tr>
<td>Cost of fundraising</td>
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<td>2</td>
<td>25</td>
<td>4</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Campaign expenditure</td>
<td>243</td>
<td>32</td>
<td>81</td>
<td>13</td>
<td>184</td>
<td>43</td>
</tr>
<tr>
<td>Other†</td>
<td>494</td>
<td>66</td>
<td>451</td>
<td>70</td>
<td>244</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>750</td>
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<td>640</td>
<td>428</td>
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<tr>
<td><strong>Surplus (deficit)</strong></td>
<td>(33)</td>
<td>(101)</td>
<td>(34)</td>
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</tr>
</tbody>
</table>

**Note:**
- ** Public funding in the form of policy development grants.
- † Includes party running costs and, where applicable, other items of expenditure.
Conclusion

3.34 The annual accounts detailed above are for national party organisations and do not cover the income or expenditure of party accounting units. That, together with the fact that accounts are not yet published covering a complete electoral cycle, means that the figures should not necessarily be seen as providing a complete picture. Nevertheless, it is clear that most parties are having difficulties raising sufficient funds to meet their day-to-day costs let alone the additional burden of funding major election campaigns. Borrowing appears to be used to meet the shortfalls. Arguably political parties that rely on significant borrowing are just as much at risk from what might be regarded as improper pressure as a party that is dependent on a small number of wealthy benefactors. It is perhaps no exaggeration to say that if political parties were businesses some could be regarded as trading while insolvent.
4 National and candidate spending limits

Prior to PPERA there was no system of regulating national spending by political parties although there were, and continue to be, limits on the election expenses of individual candidates.

4.1 Candidate expenditure limits were introduced under the Corrupt and Illegal Practices Act 1883, which was passed at a time when general elections were principally fought out at the constituency level and when national campaign spending was virtually non-existent. The Representation of the People Act 1983 sets out the amounts that parliamentary candidates can spend in relation to election expenses, the amounts being revised periodically by Parliament, usually before each general election, in order to take account of the rate of inflation since the previous election. Candidate expenditure limits also apply to other national and local elections in the UK.

Political Parties, Elections and Referendums Act 2000 (PPERA)

4.2 The Neill Committee’s recommendations concerning campaign expenditure, enacted under PPERA, reflected growing public concern about the accelerating cost of Westminster general elections and the pressure among the main parties to match or outspend each other. The Committee argued that this ‘arms race’ had brought with it an unhealthy and persistent drive to raise ever larger funds to pay for campaign spending. National spending limits would, it was argued, prevent parties’ undue concentration on fundraising, and particularly the pressure to seek out very large, individual donations. It was also considered that limits would ensure a more level-playing field and hence fairer competition between the parties. The Committee further argued that a new legal structure was long overdue, given that general election campaigns were now primarily fought...
between political parties at the national level rather than between individual candidates at the constituency level.

4.3 Since the control of campaign expenditure provisions in PPERA came into force there have been five elections at which registered political parties have been required to observe spending limits.

4.4 We believe that the relationship between local and national campaign expenditure should be examined afresh following the introduction of national spending caps in 2001. These issues are examined in this chapter.

4.5 Following an election to the Westminster Parliament, European Parliament, Scottish Parliament, National Assembly for Wales or Northern Ireland Assembly, political parties are required to submit a report to the Commission detailing the campaign expenditure they have incurred. There are no separate limits on campaign expenditure incurred during local election campaigns. However, spending incurred at local elections must be included in a party’s expenditure return if the spending is incurred during a regulated period of a relevant election. The report must itemise each individual item of expenditure, and give a breakdown of total expenditure incurred by reporting category in each part of the UK.

4.6 Reports must be submitted within three months of the election if the party incurred expenditure of £250,000 or less, or within six months of the election if more than £250,000 was spent. Parties spending more than £250,000 must submit a statement from an independent auditor with their report.

4.7 Parties’ spending limits are determined by the number of constituencies and/or regions that a party is contesting. Where expenditure is incurred across the whole of Britain, parties are required to apportion this expenditure to each of England, Scotland and Wales, in order to ensure that the individual limit for each is not breached.

4.8 Table 11 provides details of the national spending limits applying at different UK elections.
Below we present details of levels of campaign expenditure incurred by parties gaining seats at the 2001 general election and the 2003 elections to the National Assembly for Wales, Scottish Parliament and Northern Ireland Assembly. Campaign expenditure returns for parties spending more than £250,000 at the June 2004 European Parliamentary elections need to be reported to the Commission by 9 December 2004.

Table 11: National spending limits

<table>
<thead>
<tr>
<th>Election</th>
<th>Regulated period (ends with the date of poll)</th>
<th>Determination of expenditure limit</th>
<th>Maximum expenditure (based on party contesting all constituencies/regions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Westminster Parliament</td>
<td>365 days</td>
<td>£30,000 per constituency contested</td>
<td>£19.23m GB £540,000 NI</td>
</tr>
<tr>
<td>Scottish Parliament</td>
<td>4 months</td>
<td>£12,000 per constituency contested plus £80,000 per region contested</td>
<td>£1.516m</td>
</tr>
<tr>
<td>National Assembly for Wales</td>
<td>4 months</td>
<td>£10,000 per constituency contested plus £40,000 per region contested</td>
<td>£600,000</td>
</tr>
<tr>
<td>Northern Ireland Assembly</td>
<td>4 months</td>
<td>£17,000 per constituency contested</td>
<td>£306,000</td>
</tr>
<tr>
<td>European Parliament</td>
<td>4 months</td>
<td>For each region contested, £45,000 multiplied by the number of MEPs returned for that region</td>
<td>£3.375m GB £135,000 NI</td>
</tr>
</tbody>
</table>

Source: Part II of Schedule 9 to the Political Parties, Elections and Referendums Act 2000.

4.9 Below we present details of levels of campaign expenditure incurred by parties gaining seats at the 2001 general election and the 2003 elections to the National Assembly for Wales, Scottish Parliament and Northern Ireland Assembly. Campaign expenditure returns for parties spending more than £250,000 at the June 2004 European Parliamentary elections need to be reported to the Commission by 9 December 2004.

31 The campaign expenditure figures given below are based on returns submitted by political parties to The Electoral Commission, some of which were amended following compliance checks. The figures refer to campaign expenditure incurred during regulated periods for elections – for example, the 2003 Scottish Parliament election had a regulated period of 4 months (2 January-1 May 2003). It should be noted that these figures do not match those figures recorded under ‘campaign expenditure’ in the parties’ statements of accounts presented in chapter 3 of this report, which relate to an accounting year of 1 January to 31 December.
National spending at recent elections

2001 general election

4.10 The 2001 general election was the first at which party campaign expenditure was regulated. Since this provision of PPERA came into effect on 16 February 2001, the regulated period for the election ran from that date to 7 June 2001, rather than for the 365-day period that will ordinarily apply. The spending limits for the election were reduced by Parliament to account for the shorter regulated period, with parties allowed to incur up to £24,000 for each seat contested, rather than the £30,000 that will normally be applicable per constituency contested at Westminster general elections.

4.11 For a party that contested all 641 constituencies in Great Britain, the overall spending limit was set at £15.384m. Since traditionally the main parties do not contest the seat in which the Speaker is seeking re-election, the Labour, Conservative and Liberal Democrat parties could have had a maximum spending limit of £15.36m. The overall Northern Ireland limit – based on a party contesting all 18 constituencies – stood at £432,000.

4.12 Parties contesting an election in each part of Great Britain are subject to specific limits for each of England, Scotland and Wales, and are required to apportion expenditure between them. Therefore, the Scottish National Party was subject to the total limit for contesting Scotland’s 72 Westminster seats of £1.728m, while Plaid Cymru was subject to the £960,000 limit for contesting Wales’ 40 seats. Parties contesting England’s 529 seats were subject to a limit of £12.696m.

4.13 For those parties that contested a smaller number of seats, the spending limit was either the constituency amount multiplied by the number of seats contested, or £810,000 in England, £120,000 in Scotland or £60,000 in Wales, whichever limit was greater.

4.14 All registered parties, including Labour and the Conservatives, incurred expenditure that was comfortably within the overall spending limits of £15.384m in Great Britain and £432,000 in Northern Ireland. As Table 12 shows, the Conservatives and The Labour Party were by far the biggest spenders, incurring 83% and 71% of their respective spending limits. Other main parties spent between 4% and 41% of their limits.

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32 Liberal Democrats withdrew their candidate in Wyre Forest and fielded 639 candidates; they were therefore subject to an expenditure limit of £15.336m.
The funding of political parties: national and candidate spending limits

4.15 The Commission’s analysis of campaign spending at the 2001 general election found that both the Labour and Conservative parties conducted their campaigns largely on the basis of advertising. Both parties ran widespread billboard advertising campaigns that had been planned and started several months in advance of polling day. A total of 35% of the Conservative’s campaign expenditure was spent on advertising, while The Labour Party spent 46% of its budget on this category of campaign activity. The Liberal Democrats’ campaign was less based around advertising campaigns – the party spent 14% of its campaign funds on advertising – and centred more upon traditional campaigning methods, such as daily press conferences and bus campaigning tours.

33 Shows political parties gaining seats at the 2001 general election. For details of campaign spending incurred by all parties contesting the election see The Electoral Commission (2002) Election 2001: Campaign spending.

Table 12: Campaign spending at the 2001 general election

<table>
<thead>
<tr>
<th>Party</th>
<th>No. of seats contested</th>
<th>Campaign expenditure limit (£)</th>
<th>Campaign expenditure incurred (£)</th>
<th>% of limit incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Conservative and Unionist Party</td>
<td>640</td>
<td>15,360,000</td>
<td>12,751,813</td>
<td>83</td>
</tr>
<tr>
<td>The Labour Party</td>
<td>640</td>
<td>15,360,000</td>
<td>10,945,119</td>
<td>71</td>
</tr>
<tr>
<td>Liberal Democrats</td>
<td>639</td>
<td>15,336,000</td>
<td>1,361,377</td>
<td>9</td>
</tr>
<tr>
<td>Scottish National Party</td>
<td>72</td>
<td>1,728,000</td>
<td>226,203</td>
<td>13</td>
</tr>
<tr>
<td>Ulster Unionist Party</td>
<td>17</td>
<td>408,000</td>
<td>167,495</td>
<td>41</td>
</tr>
<tr>
<td>SDLP (Social Democratic &amp; Labour Party)</td>
<td>18</td>
<td>432,000</td>
<td>155,565</td>
<td>36</td>
</tr>
<tr>
<td>Plaid Cymru – The Party of Wales</td>
<td>40</td>
<td>960,000</td>
<td>87,121</td>
<td>9</td>
</tr>
<tr>
<td>Democratic Unionist Party</td>
<td>14</td>
<td>336,000</td>
<td>73,230</td>
<td>22</td>
</tr>
<tr>
<td>Sinn Féin</td>
<td>18</td>
<td>432,000</td>
<td>18,508</td>
<td>4</td>
</tr>
<tr>
<td>Independent Kidderminster Hospital and Health Concern</td>
<td>1</td>
<td>30,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

At the 2003 National Assembly for Wales election (Table 13) the biggest spender was The Labour Party, which spent £265,009, representing just 44% of the allowable amount. By contrast Plaid Cymru, incurred just below £73,000 representing 12% of its limit.

Table 13: Campaign spending at the 2003 National Assembly for Wales election

<table>
<thead>
<tr>
<th>Party</th>
<th>No. of regions contested</th>
<th>No. of constituencies contested</th>
<th>Campaign expenditure limit (£)</th>
<th>Campaign expenditure incurred (£)</th>
<th>% of limit incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Labour Party</td>
<td>5</td>
<td>40</td>
<td>600,000</td>
<td>265,009</td>
<td>44</td>
</tr>
<tr>
<td>Liberal Democrats</td>
<td>5</td>
<td>40</td>
<td>600,000</td>
<td>249,339</td>
<td>42</td>
</tr>
<tr>
<td>The Conservative and Unionist Party</td>
<td>5</td>
<td>40</td>
<td>600,000</td>
<td>80,716</td>
<td>13</td>
</tr>
<tr>
<td>Plaid Cymru – The Party of Wales</td>
<td>5</td>
<td>40</td>
<td>600,000</td>
<td>72,976</td>
<td>12</td>
</tr>
<tr>
<td>John Marek Independent Party[a]</td>
<td>1</td>
<td>2</td>
<td>60,000</td>
<td>9,633</td>
<td>16</td>
</tr>
</tbody>
</table>


35 Subsequently registered as Forward Wales.

The funding of political parties: national and candidate spending limits
At the 2003 Scottish Parliament election (Table 14) only one party came close to spending 50% of its limit. The Labour Party spent almost £727,000, representing 48% of the allowable amount. The Scottish National Party spent 31% of its limit and the Conservatives 21%. The Scottish Socialist Party incurred just 5% of its overall expenditure limit of £1.48m.

<table>
<thead>
<tr>
<th>Party</th>
<th>No. of regions contested</th>
<th>No. of constituencies contested</th>
<th>Campaign expenditure limit (£)</th>
<th>Campaign expenditure incurred (£)</th>
<th>% of limit incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Labour Party</td>
<td>8</td>
<td>73</td>
<td>1,516,000</td>
<td>726,702</td>
<td>48</td>
</tr>
<tr>
<td>Scottish National Party</td>
<td>8</td>
<td>73</td>
<td>1,516,000</td>
<td>473,107</td>
<td>31</td>
</tr>
<tr>
<td>The Conservative and Unionist Party</td>
<td>8</td>
<td>73</td>
<td>1,516,000</td>
<td>323,279</td>
<td>21</td>
</tr>
<tr>
<td>Liberal Democrats</td>
<td>8</td>
<td>73</td>
<td>1,516,000</td>
<td>130,360</td>
<td>9</td>
</tr>
<tr>
<td>Scottish Socialist Party</td>
<td>8</td>
<td>70</td>
<td>1,480,000</td>
<td>74,362</td>
<td>5</td>
</tr>
<tr>
<td>Scottish Green Party</td>
<td>8</td>
<td>0</td>
<td>640,000</td>
<td>63,864</td>
<td>10</td>
</tr>
<tr>
<td>Scottish Senior Citizens Unity Party</td>
<td>3</td>
<td>1</td>
<td>252,000</td>
<td>3,672</td>
<td>1</td>
</tr>
</tbody>
</table>

The 2003 Northern Ireland Assembly election (see Table 15) saw two parties spending more than 50% of their overall limit. The SDLP spent nearly £235,000 on its campaign, representing 77% of the total allowable amount, with the UUP spending 56% of its limit of £306,000. The lowest spender was Sinn Féin, which incurred £28,766 of campaign expenditure, just 9% of its limit.

### Table 15: Campaign spending at the 2003 Northern Ireland Assembly election

<table>
<thead>
<tr>
<th>Party</th>
<th>No. of seats contested</th>
<th>Campaign expenditure limit (£)</th>
<th>Campaign expenditure incurred (£)</th>
<th>% of limit incurred</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDLP (Social Democratic &amp; Labour Party)</td>
<td>18</td>
<td>306,000</td>
<td>234,911</td>
<td>77</td>
</tr>
<tr>
<td>Ulster Unionist Party</td>
<td>18</td>
<td>306,000</td>
<td>170,912</td>
<td>56</td>
</tr>
<tr>
<td>Democratic Unionist Party</td>
<td>18</td>
<td>306,000</td>
<td>147,867</td>
<td>48</td>
</tr>
<tr>
<td>Sinn Féin</td>
<td>18</td>
<td>306,000</td>
<td>28,766</td>
<td>9</td>
</tr>
<tr>
<td>Alliance – Alliance Party of Northern Ireland</td>
<td>18</td>
<td>306,000</td>
<td>24,631</td>
<td>8</td>
</tr>
<tr>
<td>Progressive Unionist Party of Northern Ireland</td>
<td>11</td>
<td>187,000</td>
<td>11,321</td>
<td>6</td>
</tr>
<tr>
<td>United Kingdom Unionist Party U.K.U.P.</td>
<td>5</td>
<td>85,000</td>
<td>5,190</td>
<td>6</td>
</tr>
</tbody>
</table>


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Candidate spending limits
2001 general election

4.19 Limits on the expenditure of individual parliamentary candidates, as opposed to political parties contesting national elections, have been in force for more than a century. The statutory maximum limit for candidates’ election expenses at general elections is calculated separately for each constituency, and is based on a formula that takes into account the size and nature of each individual constituency. The prescribed limit is revised periodically by Parliament, usually before each general election, in order to take account of the rate of inflation since the previous election.

4.20 At the 2001 general election, the limit was determined as follows:

• For county constituencies (mainly rural), candidates were allowed to spend 6.2p for every entry in the register of electors to be used in the election, plus a further £5,483.

• For borough constituencies (primarily urban and some suburban areas), the limit was 4.6p for every elector, plus a further £5,483.

4.21 In 2001 the average size of a constituency was just over 67,000 electors. In a county constituency of this size, each candidate would be allowed to spend up to about £9,640. In a borough constituency, the limit would be £8,965. However, given the actual variation in size of the constituencies, the prescribed limit in county constituencies ranged from £6,846 to £11,957, while in borough constituencies the expenses ranged from £7,630 to £9,461.

4.22 The average amount spent per candidate in 2001 was £3,581. Across the UK, 702 candidates (21% of all candidates) spent more than 80% of the permitted maximum in their constituency, while 1,761 candidates (53%) spent less than 30%, including 105 (3%) who declared no election expenditure.

4.23 Candidates representing the larger, more established political parties spent more than those from minor parties or independent candidates. Of the four parties fielding the largest number of candidates, those representing the Labour and Conservative parties were much more likely to spend close to the legal maximum in their constituencies than rival candidates from the Liberal Democrats or the UK Independence Party:

• Thirty-seven per cent of Conservative candidates and 23% of Labour candidates spent more than 90% of the maximum permitted amount, whereas 9% of Liberal Democrat candidates and only one candidate representing the UK Independence Party spent such a proportion of the legal maximum.

• Seventy per cent of Conservative candidates and 68% of Labour candidates spent more than 50% of the maximum permitted amount. In contrast, 52% of Liberal Democrats and 83% of UK Independence Party candidates spent less than 20% of the maximum permitted amount.

38 Representation of the People (Variation of Limits of Candidates’ Election Expenses) Order 2001.
Constituency candidates standing for election to the National Assembly for Wales are also required to observe expenditure limits. The 2003 limits were calculated as follows:

- For county constituencies, candidates were allowed to spend £5,761 plus 6.5p for every entry in the register of electors to be used in the election.
- For borough constituencies, candidates were allowed to spend £5,761 plus 4.8p for every entry in the register of electors to be used in the election.

The average size of a constituency was 55,311 electors. In a county constituency of that size the spending limit would be £9,356 and in a borough constituency £8,357. In practice, the spending limits ranged from £7,954 to £10,218 in county constituencies, and in borough constituencies from £8,508 to £8,868.

Candidates on average spent £3,691, less than half the permitted maximum for the average expenditure limits of both county and borough constituencies. Only 27 candidates – or 13% of all those candidates submitting returns – spent over 80% of the permitted maximum for their constituency.

As occurred at the 2001 general election, candidates representing the larger or more established parties spent more on average than those representing smaller parties or individual candidates. Eighty per cent of all candidates represented the Conservatives, Labour, the Liberal Democrats or Plaid Cymru, and their expenditure accounted for 95% of the total amount spent by all candidates.

The average size of a constituency was 53,116 electors. In a county constituency of that size the expenditure limit would be £9,214 and in a burgh constituency £8,311. Actual expenditure limits ranged from £6,768 to £10,119 in county constituencies and in burgh constituencies from £7,921 to £8,681.

The average amount spent per candidate was £2,871, less than half the permitted maximum figure for the average expenditure limits of both county and burgh constituencies. A total of 37 candidates – 9% of all those submitting returns – spent more than 80% of the permitted maximum in their constituency, while 305 candidates (75% of all candidates...
who submitted returns) spent less than 50% of their permitted maximum.

4.31 Seventy-two per cent of all candidates represented one of the four parties that fielded candidates in every constituency (the Conservatives, Labour, the Liberal Democrats and the Scottish National Party). Their expenditure accounted for 91% of the total amount spent by candidates.

2003 Northern Ireland Assembly election

4.32 At the 2003 Northern Ireland Assembly elections limits were calculated as follows:

- For rural constituencies (such as Fermanagh and South Tyrone), candidates were allowed to spend £5,483 plus a further 6.2p for every entry in the register of electors to be used in the election.
- For urban constituencies (such as Belfast East) candidates were allowed to spend £5,483 plus a further 4.6p for every entry in the register of electors to be used in the election.

4.33 The maximum expenditure limits were £9,854 in a rural constituency, and £7,868 in an urban constituency. The average amount spent per candidate was £3,504, less than half the permitted maximum figure for the average expenditure limits of both rural and urban constituencies as detailed above.

4.34 Just over 61% of all candidates represented one of the four main political parties (SDLP (Social Democratic & Labour Party), Ulster Unionist Party, Democratic Unionist Party and Sinn Féin). Each of these parties fielded candidates in every constituency at the 2003 election and their total expenditure accounted for 72% of the total amount spent by all candidates. A number of the smaller parties reported very little or no campaign expenditure but their candidates spent a similar amount on average to the main parties’ candidates.

European Parliamentary elections

4.35 Candidates and parties contesting elections to the European Parliament are subject to limits in relation to campaign expenditure. Details of parties spending £250,000 or less at the June 2004 European Parliamentary elections were required to submit expenditure returns by 9 September 2004. Returns in excess of this amount need to be submitted to the Commission by 9 December 2004. A full report detailing expenditure by candidates and parties at the 2004 European Parliamentary elections will be published in 2005.

Issues

4.36 As noted in the previous chapter, political parties require a steady flow of income in order to fight election campaigns on top of meeting the day-to-day running costs of the party. Yet as the statements of accounts data show, the pressure to raise significant sums of money to fund election campaigns has tended to place considerable strain on party finances, calling into question the financial viability of some. In the context of a closely-fought election...
campaign, the pressure to spend up to the current expenditure limits will be greater, placing further pressures on limited party resources.

4.37 Political parties play an essential part in our democratic system and they require adequate funding to run their campaigns and communicate with voters. That said, we do not consider that either abolishing or raising national expenditure limits would serve the interests of voters or political parties. Recent elections at which the spending limits have applied have seen parties spending well below those limits. In addition, increasing spending limits could place greater pressure on the main parties to seek out large donations, which may further undermine public confidence in the democratic process.

4.38 We consider limits on campaign expenditure by political parties to be in the public interest. The vast majority of written and oral submissions received supported this view. Most respondents to our issues paper believed that spending caps had helped to control the ‘arms race’ of spending at elections and that this was a good thing.

4.39 Our review also considered whether there was a case for reducing campaign spending limits. Some respondents to our issues paper, including The Labour Party, felt that it would be premature at this stage to recommend any reduction, given that there had not yet been a full 365-day regulated period prior to a Westminster general election. A few respondents argued that the current limits had not been properly tested and that, in the context of a closely-fought election campaign, political parties may indeed wish to spend up to the current expenditure limits.

4.40 The Conservative Party argued that reduced limits could make it harder for parties to campaign and communicate with electors and consequently did not wish to see any reduction in the current limits. The Institute of Directors considered that the current system, in which expenditure limits apply at national and constituency level, worked reasonably well and saw no need for reform.

4.41 Some, including the Liberal Democrats, took a different view, arguing that spending limits were too high:

We believe that the PPERA of 2000 had some effect in reducing the spending ‘arms race’ between the main parties at national level – but that limit of approximately £20m in a full calendar year is too high. We believe that this should be no more than £15m for a full year and that this would still be a high level given that it would have meant only a very slight reduction in declared spending at the last general election. Further consideration...
should be given to a maximum cap of around £10m for a general election.

Liberal Democrats

The current limits of roughly £20m for the large parties in general elections are much too high and well beyond the current funding capacities of the parties. This is particularly true in light of the fact that the parties have additional spending commitments as a result of the devolution legislation introduced since 1998.

The National Trade Union and Labour Party Liaison Committee

The general election cap should be reduced to £12m and remain under review by the Electoral Commission. A yearly spending cap should be introduced of £20m, being reduced over a period of five years to £15m.

institute for public policy research (ippr)

4.42 Other organisations recommending a reduction in the spending limit for Westminster general elections included the New Politics Network, which argued that the limit should be reduced from approximately £20m to £10m. This, it suggested, would reduce the amounts that parties felt they needed to raise.

4.43 Some respondents to our issues paper argued that a reduction in national spending limits could be combined with an increase in candidate-spending limits:

This could encourage political parties to put more resources into local and regional organisational structures and campaigning, which could help bring politics closer to local people.

Councillor Jessica Crowe, Deputy Mayor of Hackney

4.44 The electorate is likely to be best served by political parties and candidates running campaigns that engage directly with voters and make politics directly relevant to them. Indeed, research carried out for the Commission has consistently shown that voters respond better to local communications and campaigning than national level political advertising. The balance between national and candidate expenditure limits could better reflect that principle.

4.45 MORI’s 2001 panel survey for the Commission asked respondents whether or not they voted, and the extent to which various aspects of the 2001 general election campaign had influenced their decision on what to do on election day (see Table 16).
Using this data, Bartle, Mortimore and Atkinson argue that:

When we consider those who said that they had been influenced ‘a great deal’ by each source, we find in almost every case that those who did not vote were more likely to have been influenced than those who did; in other words, the television coverage, newspaper coverage, PEBs and adverts on billboards were all more likely to influence the public not to vote at all than to vote for a particular party. Yet, the two forms of distinctly local campaigning covered, leafletting and personal canvassing, did not have this effect; personal calls were more likely to have influenced voters than non-voters, and leaflets or letters had an equal effect on both groups.42

In addition, research by Professor John Curtice for the Commission in Scotland last year found that perceptions of, and contact with, the political parties were instrumental in determining whether people who had voted at the 1999 Scottish Parliament elections did so again in 2003. The Commission’s 2002 study

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Making an impact also found that direct contact with voters plays a significant role in motivating people to vote.43

Commission position

Spending limits

4.48 We believe that national campaign spending limits at Westminster general elections should be reduced and that the limits applying to individual parliamentary candidates should be increased.

4.49 We are aware that there has not yet been a full 365-day regulated period prior to a Westminster general election by which to test the appropriateness of the current spending limits. Nonetheless, we believe there should be a presumption in favour of reducing the limit after the next Westminster general election and a shift to allowing candidates to spend more in order to engage with the electorate. How such a rebalancing of national and local spending limits should work in practice should be determined following the next Westminster general election. But our preferred option would be to reduce the national spending limit from £20m to £15m – or from £30,000 to around £23,000 per constituency – and increase candidate-spending limits by a proportionate amount. This would effectively almost double the limit for candidates’ election expenses.

4.50 We believe that a similar rebalancing of national and candidate-spending limits should then take place with respect to Scottish Parliament, National Assembly for Wales, Northern Ireland Assembly and European Parliament elections.

We recommend that the financial limits on political parties’ campaign expenditure, together with those applying to individual candidates, be reviewed for all relevant elections, starting with a review of the spending limits for Westminster general elections.

The national spending limit applying to Westminster general elections should be reduced following the next Westminster general election.

We also recommend that candidates’ spending limits be raised to enable more activity at the local level.

4.51 As noted earlier in this report, a minority of candidates spent over 80% of the existing expenditure limits for candidates in 2001. This may well reflect cautiousness in ensuring that the limit is not breached, which, in the case of the winning candidate, would run the risk of the result being overturned, as well as lack of funds. A higher limit would provide the opportunity for candidates to run more effective campaigns to ensure that their messages reach more voters. Coupled with a lower limit for national spending, parties would be encouraged to channel more of their funds into local campaigns.

We think this needs further examination to establish whether the pattern of campaign spending for Westminster does involve significant expenditure over a longer period than four months before polling day.

Following the next Westminster general election we recommend that the regulated period for campaign expenditure be reviewed with a view to bringing the regulated period for campaign expenditure at general elections more closely in line with other major elections.

An effect of PPERA was to specify the point at which a person becomes a candidate. Under that Act, a person becomes a candidate at a local government election on the last date for publication of notice of election if before that date they have been declared or selected as a candidate; or on the date on which they are nominated or declared if they are nominated or declared after the last date for notice of election. For national elections, the relevant start date for becoming a candidate is the dissolution of the relevant legislature (or when they subsequently declare themselves as a candidate). In both cases, the start date for candidates’ election expenses is around five to six weeks before the date of the election.

In our review of PPERA we noted that numerous candidates, agents and electoral administrators had expressed concern that the start date for candidates’ election expenses was too close to the date of the election, and

The funding of political parties: national and candidate spending limits
that a significant period of campaigning would therefore not be regulated by the new controls. We also noted that some parties had complained that its effect was to render candidates’ expenses limits meaningless.

4.57 We recommended that the legislation controlling candidates’ election expenses should be amended so that the cost of any campaigning activity that takes place within a specified regulated period in advance of an election counts towards a candidate’s election expenses limit, regardless of when the person is declared to be a candidate. We considered that the appropriate regulated period would be four months ending with the date of the poll and recommended that this control should apply to all elections.

4.58 The effect of a four-month regulated period for candidates and for Westminster general elections would be to ensure parity between the regulated periods for all elections. Such a lengthened period would also increase the likelihood of candidates making full use of the raised spending limits we recommend above and better engaging with the electorate.

We recommend that the regulated period for candidates’ election expenses should be fixed at four months ending with the date of poll. This control should apply to all elections.
5 Political donations

Private political donations constitute an important source of income for many political parties. Despite the transparency regime introduced under PPERA there is still public unease about the size of some donations and a perception that donations may buy either influence over policy or access to decision makers. This is damaging to the relationship between the elector and the political process.

Background

5.1 An effect of PPERA has been to lay open to public scrutiny information relating to those who have made major political donations. Although the transparency model advocated by the Neill Committee has undoubtedly benefited our democratic system it has not had the desired effect of removing public concern about undue influence in the political process. While there is no evidence of improper influence in connection with political donations, the prominent media coverage accorded to these issues since PPERA, together with insinuations that certain large donors expect some form of return or favour, continue to undermine public confidence in parties and politicians. The Commission shares the public concern relating to large donations while recognising that capping donations would raise some fundamental issues.

5.2 At the same time, the decline of parties’ traditional support bases has led to a situation in which the major parties have increasingly shifted towards “high value fundraising”, an activity involving the soliciting of large donations from wealthy individuals. Yet the prospect of unwelcome publicity has, we are told, discouraged individuals and companies from making donations, compounding the financial uncertainty and pressures experienced by the main political parties.

45 Matt Cain with Matthew Taylor (2002) keeping it clean: the way forward for state funding of political parties, IPPR, p. 11.

The funding of political parties: political donations
International context

5.3 Some countries have attempted to address public unease about large donations or, in a few cases, corruption scandals, by imposing statutory limits on corporate, trade union and/or individual donations.

5.4 In France a ban on contributions from corporations and trade unions has been in effect since 1995. Individuals can donate up to €4,600 (approximately £3,000) per year to candidates, which are tax deductible. In the Republic of Ireland, donations to parties are capped at a maximum of €6,348 (approximately £4,000) from any one donor in any given year. Other European countries that have either imposed limits on donations or banned certain categories of donation are Belgium, Germany, Greece, Italy, Poland, Portugal and Spain.

5.5 In Japan the maximum amount any company or trade union can contribute to a political party in a year is ¥100m (£505,000). Individuals are permitted to donate up to ¥20m (£101,000) per year.

5.6 A new law in Canada limits individual donations to each registered political party to Can$5,000 (£2,200) per year. The law also bans donations from corporations and trade unions to political parties and restricts contributions to MPs' riding (constituency) associations to Can$1,000 (£435) per annum. In Québec only ‘qualified electors’ can make political donations. The total contribution allowed per elector to each of the parties, elected members and candidates during the same calendar year is Can$3,000 (£1,300).

5.7 In the United States of America, amendments to the Federal Election Campaign Act in 1974 resulted in limits being placed on contributions from individuals (US$1,000 or £550 per election) and Political Action Committees (US$5,000 or £2,800) to candidates. The 2002 Bipartisan Campaign Finance Reform Act increased these ‘hard money’ contributions from individuals to candidates to US$2,000 (£1,100) per election and banned unlimited campaign contributions – known as ‘soft money’ – to political parties.

Donations under PPERA

5.8 Prior to the passage of PPERA there was no system of regulating political donations. The Act contains various provisions relating to the control of donations to registered political parties, which are intended to promote transparency but do not restrict the amount that can be donated, although donations from certain sources are prohibited.

5.9 Under PPERA political parties must register with the Commission and submit a financial scheme showing how the party will comply with financial controls. Once registered with the Commission, political parties on the Great Britain register must comply with the regulatory framework governing political donations. Political parties on the Northern Ireland register are currently exempt from the controls on accepting and reporting donations. The Government recently announced that the current arrangements should be extended for a further two years.
The Act requires political parties to submit quarterly donation reports to the Commission (weekly during a Westminster general election). These reports must disclose all donations over £5,000 made to main political party offices and donations over £1,000 to constituency or local party offices, and must cover cash donations as well as donations in kind. Failure to submit these reports is an offence. With the exception of multiple donations, that is, donations from a single donor, the aggregate of which exceeds the specified limits, there is no requirement on parties to record donations whose value is £200 or less. The Commission has a statutory obligation to maintain a register of donations, which is published on our website.

Political donations are regulated in other ways. Under PPERA the foreign and anonymous funding of political parties is prohibited. Only ‘permissible donors’, that is, individuals who are registered to vote in the UK (including overseas voters) and companies and organisations registered and carrying on business in the UK, may make donations to political parties. In addition, the Companies Act 1985 as amended by PPERA, requires companies to obtain prior shareholder approval if they wish to make donations to any registered party. A company does not need to seek prior shareholder consent for donations that in aggregate do not exceed £5,000 in a particular qualifying period. The Companies Act 1985 also requires companies to obtain authorisation for the incurring of expenditure for political purposes.

Before examining the arguments for and against capping donations it is important to gain a sense of the size and source of political donations. Using data from the register of donations we have undertaken an analysis of reported donations in 2001, 2002 and 2003. The analysis has sought to establish the degree to which political parties rely on big donors.

It is worth pointing out that of registered political parties only two – the Conservatives and The Labour Party – have received single individual donations in excess of £1m, the largest of which was £5m accepted by the Conservatives in 2001. One other party – the Liberal Democrats – has received a cash donation in excess of £200,000. The UK Independence Party (UKIP) has received several non-cash donations, or ‘benefits-in-kind’, in excess of £200,000 since 2001, including one in 2004 worth £715,000. The Conservatives have received two large, non-cash donations, each worth more than £100,000.

In the year of the last general election political parties received 1,948 reportable donations (since 16 February 2001), totalling £1071 million. 46

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46 By donations we refer to cash and non-cash donations by individuals, trade unions, companies and other organisations, and donations by exempt trusts. Our analysis does not include party income obtained through public funding. As noted earlier, with the exception of multiple donations, there is no requirement on parties to record donations whose value is below £200 and it has not been possible to determine the volume of donation income that was not reported.
just over £28m. The largest donations were received by the Conservative Party, which accepted separate cash donations of £1m from Norbrook Laboratories (GB) Ltd, £2.45m from Mr John S. Wheeler and £5m from Sir Paul Getty. The Conservatives accepted a further five cash donations from companies and individuals of between £105,000 and £206,000, collectively totalling £775,000.

5.15 The Labour Party’s biggest individual cash donation in 2001 was a £200,000 contribution from Sir Alan Sugar, although it also received 10 cash donations of between £335,000 and £750,000 from five trade unions, and a further 16 in excess of £100,000, 15 of which were from trade unions.

5.16 During 2001, the Liberal Democrats received one cash donation in excess of £200,000 from the Joseph Rowntree Reform Trust. UKIP received three cash donations of £25,000 and £750,000 from five trade unions, and a further 16 in excess of £100,000, 15 of which were from trade unions.

5.17 More than a quarter (26%) of the £28m reported donation income received by parties in 2001 – £7.45m – was comprised of donations above £1m. Or putting this another way, two £1m+ donations out of 1,948 donations in total made up more than a quarter of the total donation income received by political parties.

5.18 The next largest share of reportable donation income – 24% – consisted of donations up to the value of £25,000. Such donations were by far the most popular, with 1,830 out of 1,948 donations, or 94% of the total number received, being within this range. Seventeen per cent of donation income consisted of donations within the £100,001 – £250,000 range, with a further 11% coming from donations whose value was between £500,001 and £1m.

5.19 More than one third of reportable donation income received by parties in 2001 came in the form of donations above £500,000, representing less than 1% of the total number of donations. Looking at the broader picture, almost two thirds of total donation income came from donations above £100,000, representing less than 2% of the total number received.

5.20 Figure 3 shows the percentage of donation income received by political parties by range in 2001, with Figure 4 showing the proportion of the total number of donations received in each donation category.
The funding of political parties: political donations

Figure 3: Percentage of donation income received by donation category, 2001

The funding of political parties: political donations

Figure 4: Percentage of total number of donations received by donation category, 2001

- £1m+
- £500,001 – £1m
- £250,001 – £500,000
- £100,001 – £250,000
- £75,001 – £100,000
- £50,001 – £75,000
- £25,001 – £50,000
- £0 – £25,000

Note: The remaining donation categories not shown in the pie chart collectively total 1% of the percentage of total number of donations.

2002

5.21 In 2002 political parties reported 1,511 donations totalling almost £17.2m. The Labour Party received a £2m donation from Lord Sainsbury, a £500,000 bequest from Lord Paul Hamlyn and three donations which, taken together, totalled £935,625 from UNISON. It also accepted 20 donations in excess of £100,000 from trade unions and a further two from individuals.

5.22 During the same year, the Conservatives received one donation worth £520,000 from IIR Ltd. It also received six cash donations of between £110,000 and £250,000, together totalling £865,500.

5.23 The Liberal Democrats received one donation of £125,000 from the Joseph Rowntree Reform Trust. Of the other registered political parties, the Democratic Party received one cash donation of £100,000.

5.24 The largest share of donation income in 2002 came in the form of donations within the £100,001 - £250,000 range. Such donations represented 30% of the total donation income received and 2% of the total number of donations reported that year. A similar proportion of party income was made up of donations below £25,000. A total of 1,421 of the 1,511 donations received (94%) were in this range.

5.25 Compared to the general election year of 2001, the parties received a smaller proportion of their donation income – just under 12% – in the form of £1m+ contributions. More than 50% of total donation income in 2002 consisted of £100,000+ donations, representing just over 2% of the quantum for that year.

5.26 Figure 5 shows the percentage of donation income received by political parties by range in 2002, while Figure 6 indicates the proportion of the total number of donations received in each donation category.
Figure 5: Percentage of donation income received by donation category, 2002

Source: Register of donations to political parties 2002, The Electoral Commission.
The funding of political parties: political donations

Figure 6: Percentage of total number of donations received by donation category, 2002

Source: Register of donations to political parties 2002, The Electoral Commission.
In 2003 political parties reported 1,907 donations totalling almost £22.5m. The Labour Party received a donation of £2.5m from Lord Sainsbury and £1m from Sir Christopher Ondaatje CBE. The party received further individual donations worth £500,000 from Lord Paul Hamlyn and £330,000 from Mr William Haughey OBE. It also accepted four donations from UNISON together totalling just under £1.4m. A further 20 cash donations of more than £100,000 from trade unions were received, 12 of which were above £200,000. The party also accepted one further cash donation of £200,000 from Sir David Garrard and one worth £250,000 from Sir Ronald Cohen.

The Conservatives accepted one donation of £504,000 from Mr John S. Wheeler and received a further five cash donations from individuals and companies of between £105,000 and £250,000.

The Liberal Democrats’ biggest donations in 2003 came from the Joseph Rowntree Reform Trust, which made four separate £125,000 donations.

The largest share of donation income in 2003 was comprised of donations up to a value of £25,000, representing just under a third of the total sum received and 94% of the total number of donations. As in 2002, a considerable proportion of donation income – 27% – came in the form of donations in the £100,001 - £250,000 range. This represented 2% of the total number of donations received. The single £2.5m donation represented 11% of total donation income. Fifty-five per cent of total donation income for 2003 consisted of £100,000+ donations, representing 2% of the total number.

Figure 7 shows the percentage of donation income received by political parties by range in 2002, with Figure 8 indicating the proportion of the total number of donations received in each donation category.
The funding of political parties: political donations

Figure 7: Percentage of donation income received by donation category, 2003

- £1m+
- £500,001 – £1m
- £250,001 – £500,000
- £100,001 – £250,000
- £75,001 – £100,000
- £50,001 – £75,000
- £25,001 – £50,000
- £0 – £25,000

Source: Register of donations to political parties 2003, The Electoral Commission.
Figure 8: Percentage of total number of donations received by donation category, 2003

Source: Register of donations to political parties 2003, The Electoral Commission.
Summary of analysis

5.32 By way of summary, Figure 9 presents the total value of donations reported to the Commission for 2001, 2002 and 2003 by donation category. Of almost £68m in reported donations to political parties, nearly £12m – approximately 18% of the total donation income – came in the form of £1m+ donations. A further £15.9m (23% of the total) was derived from donations within the £100,001 - £250,000 range. Donations below £25,000 totalled £18.7m, representing the largest share of total donation income (28%), and 94% of the 5,366 donations received by parties. In total, 58% of the donation income received by parties between 2001 and 2003 was obtained through donations in excess of £100,000.
The funding of political parties: political donations

Figure 9: Total donations 2001–3

5.33 The preceding analysis also shows the degree to which parties have been more successful in attracting very large donations in general election as opposed to non-general election years. A small number of large donations clearly constitute an important contribution to the total donation income received by political parties. In the next section we consider arguments for and against limiting donations, taking into account evidence from political parties, trade unions, MPs, think-tanks and academics.

Arguments for a limit on donations

5.34 Views on whether donations to political parties should be limited were mixed, with as many respondents to our issues paper arguing for as against. Those supporting a limit tended to argue that it would be the most effective method of removing the perception or suspicion that private interests can buy influence over party or Government policy. Several respondents to our issues paper argued that the acceptance of large donations by political parties was damaging to democracy and had contributed to declining levels of trust in the political system:

- Participation levels in democracy, together with trust in politicians and the political system are dropping too quickly to risk any further erosion of democracy, which is inevitable while political parties are accepting donations now running into millions.

Scottish National Party

There is a perception that politicians are for sale and as long as parties are dependent on a limited number of large donors this will persist.

Diana Wallis MEP

The reputation of politics has been sullied by incidents such as the donations made by Bernie Eccleston, Lakshmi Mittal and others.

Liberal Democrats

5.35 Another argument put to us was that the current system provided the main beneficiaries of large donations – the Labour and the Conservative parties – with an unfair advantage over their competitors which distorted electoral competition:

- There is a huge imbalance between political parties in terms of expenditure grounded in a small number of very large donations from wealthy donors/organisations to the two major political parties. This inequity is clearly seen in Scotland where, at the 2001 general election, Labour spent some £1.1m in Scotland, the Conservatives £0.9m and the SNP, £0.2m. The SNP has long argued the need to level the playing field.

Scottish National Party

5.36 Others suggested that a donation cap – particularly if combined with a system of match funding or tax relief for small donations – would encourage political parties to seek out donations from a broader range of supporters, resulting in more representative support bases:
This would have some degree of effect in ensuring that parties are accountable to their members and through them to the population as a whole.

**New Politics Network**

5.37 A further argument in favour of donation limits was cited in the Neill Committee’s 1998 report, namely, that a cap could prevent parties from becoming over-dependent on a narrow income base. This would enable parties to avoid apparent or real illegitimate pressures and reduce the risk of parties encountering financial difficulties following the withdrawal of a large donation.47 However, the Committee decided against a cap.

**Arguments against a limit on donations**

5.38 During our consultation, we were also presented with a number of arguments against limiting donations to political parties. One argument is that allowing individuals to make unlimited donations and political parties to compete freely for them is a sign of a healthy democracy. Several witnesses at the public hearings and respondents to our issues paper reflected this position:

> In a free society it is right that all voters, including the well-off, should be free to donate to causes in which they believe.

**The Conservative Party**

Donation caps are only another way the Government orders us about and tells us what to do with our own money. In any free country we should be able to choose whether to back a possible future government or the 3.30 at Kempton Park.

**Miss H. A. Prowse**

To stop people doing what they want to do with their own money is an extraordinary interference with their personal liberty. If you want to take that right away you’ve got to have an extremely good reason for doing so.

**Stuart Wheeler, public hearing, London**

5.39 A further point put to us was that any such ‘interference’ with individual liberty would increase the likelihood of evasion, by dividing resources among friends and relations, or by establishing subsidiary companies in order to legitimise any donations by sub-dividing them. In its review of the funding of political parties, the Neill Committee referred to the difficulties involved in detecting any such attempted evasions and the thick layer of bureaucracy that would be needed to enforce any new system. The Neill Committee concluded that such bureaucracy ‘would not be justified by the purpose of the cap’.48

5.40 Some suggested that the transparency provisions introduced under PPERA in themselves were enough:

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Transparency allows voters to make up their own minds on whether or not any donation is inappropriate depending on the circumstances, whereas fixed caps are non-discretionary and arbitrary.

The Conservative Party

The judgement about whether large donations are in themselves a good thing or a bad thing, or a wise or an unwise thing to accept by parties is for the electorate to decide, and largely that means rather relentless media interest in who’s giving what to whom.

The Labour Party, public hearing, London

As long as donations are transparent, honest and accountable, then there should not be a cap. The electorate is aware of who donates to whom and how much; it is for them to make a judgement on whether that is acceptable.

USDAW (Union of Shop, Distribution and Allied Workers)

5.41 The Labour Party, together with a large number of trade unions, argued that statutory limits on donations could inadvertently and unjustifiably affect the constitutional or membership structure of political parties. Under Section 50 of PPERA, fees paid for affiliation to political parties are defined as donations. Some argued that unless it were accepted that affiliation fees paid to The Labour Party should be treated differently to large individual donations, a statutory cap would undermine the trade unions’ historical link to The Labour Party:

There is a danger that if a contribution cap were to be introduced, the constitutional structure of the Labour Party would in effect be unlawful. Trade unions would no longer be able to affiliate to the party on the basis of their levy paying membership, but would be constrained by an artificial limit imposed by law. All unions regardless of size would be able to affiliate the same number of members. That would be absurd.

The National Trade Union and Labour Party Liaison Committee

We would strongly oppose any reform which would have the effect – directly or indirectly – of undermining the historic constitutional structure of the Party. . . . Political parties must be free to determine their own composition.

The Labour Party

5.42 On a related point, most trade unions argued that the choice of affiliation was a democratic decision of union members and that a donation cap could undermine, rather than facilitate, participation in that democratic process:

Any system of donation caps which includes affiliation fees would do huge damage to the most powerful and demonstrably successful way of ensuring wide and active participation in politics.

UNISON

The GPMU does not see how withdrawing the right from seven million trades union

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members to decide for themselves if they wish their union to affiliate or donate to a political party, will create greater participation in and interest in British politics.

Graphical, Paper & Media Union

5.43 The issue of affiliation fees, trade unions and The Labour Party was examined in detail in a recent paper published by The Catalyst Forum.49 In the paper, Professor Keith Ewing argued that any statutory contribution limits would mean changes to the constitution of The Labour Party and, furthermore, would probably contravene the principle of freedom of association enshrined by the Human Rights Act 1998.

5.44 A possible way around this problem, suggested by one respondent, would be to make an exception to any donation cap for ‘stakeholder funds’, such as trade union affiliation fees or funds from public limited companies that had complied with consent provisions in PPERA and the Companies Act:

The effect of this procedure would be that although large sums would be transferred to parties, in excess of the general contribution cap, it would have been done on the part of large numbers of stakeholders – invariably meaning that the average donation would thus have been below that threshold, although the aggregate sum would not. Not only does such a scheme preserve the democratic linkage between parties and supporters, it eliminates the distorting effects of vast donations in an even handed manner along the political spectrum. Any other donations would be constrained by the basic donation caps.

Navraj Singh Ghaleigh

5.45 Another option, suggested by the New Politics Network, is as follows:

Reform the way trade unions affiliate allowing individuals to knowingly opt in or out of paying the affiliation fee and not just the political levy. While also ensuring that individuals are informed of their rights, in return the requirement to hold political fund ballots every 10 years should be scrapped.

New Politics Network

5.46 As well as these issues, several respondents pointed out that a statutory donation cap would mean a significant shortfall in party income, which would in turn necessitate a large increase in levels of public funding. The extent to which this would be an issue would depend on the level at which any cap were set, and that is what we turn to now.

Proposed levels of donation limit

5.47 Of those who supported a donation cap, most argued that it would need to be set at a level sufficiently low to ensure an end to public suspicion that influence in the political process could be bought. Table 17 provides details of levels of donation cap proposed by various...
organisations and individuals. As can be seen, the most common level proposed was £5,000 per year, with two suggestions that the limit should be set somewhere between £5,000 and £10,000. The Liberal Democrats suggested an annual limit of £50,000.

5.48 Some have argued that setting a cap low in order to eliminate the perception of influence being bought was of lesser importance than eliminating very large, individual donations.

According to this view, there is a danger that a single individual’s wealth could, under present arrangements, distort the political process because an individual’s ability to donate large amounts of money could affect political outcomes. To address this issue a cap might be set at £500,000 or £1m.

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<th>Organisation/individual</th>
<th>Donation cap (£)</th>
<th>Further information</th>
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</thead>
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<tr>
<td>Plaid Cymru - The Party of Wales</td>
<td>5,000</td>
<td>Per donor</td>
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<tr>
<td>Scottish National Party</td>
<td>5,000</td>
<td>Per individual or organisation</td>
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<td>institute for public policy research</td>
<td>5,000</td>
<td>Per individual, company or trade union</td>
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<tr>
<td>Michael Foster MP</td>
<td>5,000</td>
<td>Per individual</td>
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<tr>
<td>New Politics Network</td>
<td>5,000 - 10,000</td>
<td>Per individual, group, company or trade union. Cap level to be set by The Electoral Commission.</td>
</tr>
<tr>
<td>Diana Wallis MEP</td>
<td>5,000 - 10,000</td>
<td>Per individual, company or trade union</td>
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<td>Ron Davies</td>
<td>10,000</td>
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<td>Charter 88</td>
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<tr>
<td>Liberal Democrats</td>
<td>50,000</td>
<td>Per individual or organisation</td>
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</tbody>
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Source: Written and oral evidence submitted to The Electoral Commission.
Financial implications of limiting donations

5.49 In chapter 3 of this report we highlighted the considerable resources needed by parties to fund their campaigns, to run their organisations and more generally to carry out their democratic functions.

5.50 As part of our review we sought to establish the likely effect that a limit on donations would have on the financial health of political parties. We undertook an analysis of capping, based upon reported donations for 2001, 2002 and 2003.

5.51 Figure 10 shows the likely loss in income that would result were donations capped at £5,000, £10,000 and £50,000. Between 2001 and 2003 the total value of cash donations, non-cash donations and donations from exempt trusts was just under £68m. Had donations been capped at £5,000 during this period, political parties would have had to reject 3,002 donations totalling just under £60m, leaving just under £8m in reported donation income.

5.52 A similar situation would have arisen had a capping threshold been set at £10,000. Under this scenario, 2,940 donations totalling almost £56m would have been disallowed, leaving the parties with approximately £12m in reported donation income.

5.53 If the capping threshold were set even higher at £50,000 political parties would, between 2001 and 2003, have refused 2,747 donations worth £46m in total. The total amount received by parties in donations would have been almost £22m.

50 Our capping analysis was undertaken on the basis that where a donor had given multiple donations of which a single donation breached the capping threshold the donation amount was reduced to the threshold and the number of donations shown as one. The projected loss in the number of donations was increased by the number of other donations given by the donor in the same calendar year. Where a donor had given multiple donations that did not breach the capping threshold there was no projected loss in the number of donations. For example: if the same donor had given one donation of £65,000, two donations of £20,000 and five donations of £1,000 in the same calendar year and donations were capped at £50,000 the projected income would be £50,000 and one donation and the projected loss would be £60,000 and seven donations.
The funding of political parties: political donations

Figure 10: The financial impact of different capping thresholds

Commission position

5.54 The disclosure provisions introduced by PPERA have undoubtedly been a positive development and opened up party finances to public scrutiny. However, we believe that transparency may have further stimulated public disquiet about the funding of political parties – particularly large donations – and impacted on levels of public confidence. Yet the evidence discussed in this chapter highlights the disagreement that exists on whether limiting donations is a necessary next step after transparency.

5.55 We believe that a donation-capping regime could have the effect of rebuilding or increasing levels of public confidence in the political party system. We also recognise that there are different views with respect to the intended objective of any capping regime and, accordingly, the level at which any cap should be set. However, in attempting to persuade members of the public that the likely effect of a donation cap would be to minimise the risk of corporate, trade union or individual interests buying influence, and to maximise the likelihood of enhancing public confidence, we are firmly of the view that it would need to be set at a relatively low level – that is, in the region of £10,000 per individual donor or organisation per annum. Even so, we acknowledge that relatively small donations have been the cause of controversy.

5.56 We also recognise that political parties are essential to the functioning of a sustainable, representative democracy and, as such, require adequate funding. In order to ensure that political parties would continue to be able to perform their democratic functions, the introduction of a donation cap would need to be combined with the state stepping in to provide substantially more financial support than it does at present. We believe that before this could take place there would need to be firm evidence that any changes would work in practice and be acceptable to the majority of people. The Commission would be prepared to develop and assess alternative propositions in order to permit an informed debate to take place.

5.57 Clearly, any regime to cap donations would need to demonstrate that it was capable of being effectively applied and would not act as a hindrance to the emergence of new parties or the effective operation or organisation of existing parties. While we believe that a donation-capping regime could be made to work – indeed, such regimes are made to work elsewhere in the world – in order to be effective it would undoubtedly require effective powers of enforcement and the introduction of additional compliance burdens that would fall on political parties.

5.58 One of the arguments put to us was that people should be free to spend their own money in the way they choose. While this argument of individual freedom is clearly a strong one it has to be balanced by issues of wider public good. We have not sought to establish a view about the application of human rights legislation but any move towards capping would need to take this into account. In this context we note that the current rules prohibit...
paid political advertising in the broadcast media.

5.59 Assuming these issues were resolved, it would then be necessary to develop a system of public funding based on understandable, transparent and uncomplicated eligibility and distribution criteria, which would not entrench the existing party system nor inhibit the development of new parties. The Commission would again be ready to commence work in relation to the development of such a scheme.

5.60 While we are not in principle opposed to the introduction of a donation cap, we do not believe that such a major departure from the existing system now would be sensible. The transparency reform brought in by PPERA is still relatively new and a good deal more work would need to be done before any cap (and the major accompanying increase in public funding that would be necessary) could be introduced that would be both practicable and acceptable.

Existing checks and balances, including disclosure requirements and donation controls, should be maintained. At present the Commission considers that it would be inappropriate to introduce a limit on donations together with a comprehensive system of public funding.

Should circumstances change, however, following implementation of other changes we recommend, a further review could be undertaken, focusing more specifically on the practicability and operation of a donation-capping regime and any associated system of general public funding.

5.61 We are, however, of the view that political parties should be encouraged to seek out more small-scale donations as a means of better engaging with and developing their grass roots support and membership, and reducing the level of dependence on a small number of wealthy donors. This issue is explored in greater depth in the next chapter.
Since the early twentieth century British political parties have benefited from limited state assistance. Candidates currently receive free mailings and use of public rooms at elections, while the larger parties get free airtime for political broadcasts. Opposition parties additionally receive ‘Short money’ to assist with the performance of their parliamentary duties and there are equivalent schemes in the House of Lords (‘Cranborne money’) and devolved legislatures. More recently Parliament has initiated a scheme to provide policy development grants to parties sitting at Westminster.

Background

6.1 In its 1998 report the Neill Committee concluded that the time had not yet come for substantially increasing public funding of political parties, if it ever would. It did not consider that the parties were in a general sense under-funded, in view of the parties’ spending levels at the 1997 general election. The Committee recommended that ‘no new system should be introduced whereby the state is obliged for the indefinite future to provide financial support for the political parties’. However, it did recommend a policy development grant scheme ‘to enable the parties represented in the House of Commons to fulfil better what is, after all, one of their most vital functions’. This scheme was implemented following the passage of PPERA.

6.2 Since the publication of the Neill Committee report the public funding debate has continued. Those in favour of increased public funding, who have also tended to favour a donation cap, have argued that such measures would ‘purify’ the political process and do much to restore public confidence in the political process. If, as is often suggested, political parties are, through lack of adequate funds, struggling to fulfil their democratic functions, there is a further argument that the provision of further state aid would be in the public interest.

6.3 Others have argued that political parties are essentially voluntary organisations that should not rely on the public purse for funds. Critics of public funding argue that taxpayers should not be forced to contribute to the support of political parties with whose politics they...
strongly disagree. In addition, it is argued that most regimes of public funding favour the major parties, causing party systems to ossify and preventing new or minor parties from gaining an effective foothold in the political system. It has further been suggested that increased levels of public funding could undermine levels of civic engagement, since any new system might result in parties being tempted to abandon fund-raising activities at the grass roots level.

6.4 In the previous chapter we concluded that we did not believe the time was right to introduce a cap on donations, nor a comprehensive system of public funding to compensate for the loss of party income arising from any such cap. However, we do believe a case can be made for providing additional financial support to parties. In this chapter we provide an assessment of existing forms of public funding. We also recommend some modest changes to the current system that we hope will assist parties and candidates in the fulfilment of their democratic remit.

Direct public funding
Short and Cranborne monies

6.5 As mentioned, political parties already benefit from modest public support for their activities, although there is no direct public funding for political parties to fight elections. Perhaps the best known form of public funding of parties is Short money, given to opposition parties to assist with the performance of their parliamentary duties. The system was introduced in 1975. The amount given to opposition parties in the House of Commons is related to the number of seats and votes obtained at the previous general election. There are two additional components of funding:
- funding for the running costs of the Leader of the Opposition’s office; and
- a travel fund for opposition frontbenchers set up in 1993, for travel expenditure related to parliamentary business.

6.6 There has been a significant increase in Short monies in recent years. In 1998-9 Short money totalled £1,696,127 but following a 270% increase in 1999, the 2001-2 and 2002-3 figures were each around £5m. The most recent allocations of Short money – pertaining to the 2004-5 period – amounted to £5,350,509. This general increase has in part been a reflection of the Neill Committee’s observation that ‘the adequate funding of the office [of the Leader of the Official Opposition] remains a problem and has been a cause of embarrassment and distraction to successive Opposition leaders for some time’.53

6.7 Short money is largely spent on research support for front-bench spokesmen, assistance in the Whips’ offices and staff for the Leader of the Opposition.54

53 The Committee on Standards in Public Life (1998), Fifth report, The Funding of Political Parties in the United Kingdom, Cmnd. 4057, October.
6.8 Equivalent funding for opposition parties in the House of Lords, known as Cranborne money, was introduced in 1996. This totalled £138,048 in 1998-9 and £316,867 in 2001-2. It increased significantly in 2002-3 to £620,555. The amount payable in 2003-4 was £639,792, increased to £656,426 in 2004-5.

6.9 The amounts paid to opposition parties through Short and Cranborne monies are updated annually on 1 April by the percentage increase in the Retail Price Index in the year to March.

Devolved bodies

6.10 An equivalent scheme is in place in the Scottish Parliament and transitional systems are in place in the National Assembly for Wales and Northern Ireland Assembly. Section 97 of the Scotland Act and the Scottish Parliament (Assistance for Registered Parties) Order 1999 allows for funding of the opposition parties and partners in coalition government. The National Assembly for Wales does not have the power to establish a funding scheme equivalent to Westminster Short money. However, Section 16 of the Government of Wales Act 1998 provides the power to pay salaries and allowances to Assembly members. There is currently an allowance payable to party leaders. The Northern Ireland Assembly approved a motion on payments to parties on 25 June 2002. The level of funding provided has been set on a scale reflective of the level of representation.

Policy development grants

6.11 The Neill Committee identified policy-related research and development as being especially important to opposition parties because they lack the resources of the civil service available to the governing party. It estimated that in 1997 the three main parties spent less than £1.5m on research and recommended the introduction of policy development grants to ‘enable the parties represented in the House of Commons to fulfil better what, after all, one of their most vital functions’. Payments were introduced through the Elections (Policy Development Grants Scheme) Order 2002, which prescribed how a total spend of £2m per annum was to be split among parties with two or more sitting members of the House of Commons who had taken the oath. The fund is administered by the Commission and the first grants were paid out in 2002.

European Union

6.12 In February 2003, the European Commission published its proposal for a council regulation on the statute and financing of European political parties. The proposal stated that in order to be eligible for financing from the European budget, ‘parties should be represented by elected members in the European Parliament, or in the national or regional Parliaments of at least one third of the

56 Statutory Instrument No 1745.
Member States. Alternatively, it should have received at least five per cent of the votes cast at the most recent European elections in at least one third of the Member States. The funding of political parties at the European level would not be used for the direct or indirect funding of other political parties, and in particular national political parties, which would continue to be governed by national rules.

Use of such money is restricted to expenditure directly linked to the fulfilment of parties’ European political programmes, and can assist with administrative expenditures and expenditure linked to technical assistance, meetings, cross-border events, studies, information and publications.

The European Commission proposed that €8.4m be committed for the financing of European political parties. Of this amount, 15% is distributed equally to all qualifying parties, with the remaining 85% being distributed among the European parties with MEPs. Legal provision for such funding was made in a regulation of the European Parliament and of the Council on 4 November 2003. The European Parliament will publish a report not later than 15 February 2006 on the application of this regulation and the activities funded.

Referendums

Referendums also represent an area where political parties can receive state subsidies. Subject to certain conditions, PPERA allows the Commission to appoint a ‘designated organisation’ for each possible referendum outcome in a referendum campaign. These would be the lead campaign organisations on either side of the referendum debate and it is open to political parties, as well as to other campaign organisations, to apply to the Commission for such designation, provided they have also registered as ‘permitted participants’ for that referendum. Designated organisations are entitled to financial assistance. Up to £600,000 can be given to either side in a national referendum.

PPERA start-up grants

The Political Parties, Elections and Referendums Act 2000 (PPERA) allowed for the Commission to provide one-off financial assistance to political parties registered before the Act came into force, to facilitate registration and compliance with the Act’s requirements. A total sum of £700,000 was made available to political parties under this one-off scheme.

Indirect public funding

Party political and party election broadcasts

In the UK the purchase of media airtime for political advertising is prohibited. However,

The funding of political parties: public funding of political parties

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60 See PPERA Sections 108–110 (Assistance for designated organisations) and Schedule 12 (Assistance available to designated organisations).

61 See Section 36 of PPERA.
the BBC (by convention) and certain independent television and radio broadcasters (by statute) provide airtime free of charge to qualifying parties at the time of elections and at other key events in the political calendar. This does not constitute direct state aid since it is provided at no cost to the public purse. However, it is, in effect, an indirect subsidy of the activities of political parties. Under current arrangements, any party fielding candidates in one-sixth of the seats being contested at an election qualifies for a party election broadcast, and major parties are allocated series of broadcasts.

Free postage and distribution of election communication

6.18 Public monies are used to finance the distribution of candidates’ election addresses at parliamentary elections and European parliamentary elections, free of charge to the parties. The Representation of the People Act 1983 allows free postage for one election communication to every address or elector within the relevant electoral area.62 The free postage allowance is also available at elections to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly and reimbursement made to the universal service provider (Royal Mail) by the Scotland Office, the National Assembly for Wales, the Northern Ireland Office and the Department for Constitutional Affairs. Local mayoral elections also have freepost for candidates’ literature, which is paid for by the relevant local authority.63

6.19 Under the Greater London Authority Elections (Election Addresses) Order 2003 all mayoral candidates were entitled to put an address in a booklet prepared, produced and distributed by the Greater London Returning Officer. The budget for the booklet was £1.3m, with each voter – 5.2m in total – receiving a booklet. Those choosing to include an address in the booklet were required to contribute £10,000 towards the booklet’s printing and distribution costs.

Free use of public buildings

6.20 The provision of free postage and distribution of candidates’ election addresses does not apply at local elections in Great Britain, although such a facility has existed for candidates at local elections in Northern Ireland since 1985.

6.21 The Representation of the People Act 198364 provides for the free use of public buildings – schools or any other building maintained by public money – for public meetings during campaigns for parliamentary elections, local elections, European Parliamentary elections, and by-elections. In the case of devolved elections, this provision is also available for elections to the Scottish Parliament and National Assembly for Wales. However, this provision does not

62 Section 91(1) (as amended).

63 Representation of the People Act 1983, Section 91, as applied by the Northern Ireland Assembly (Elections) Order 2001. Article 64 National Assembly for Wales (Representation of the People) Order 2003; The Scottish Parliament (Elections etc.) Order 2002 also makes provision for access to buildings (Section 3.15).

64 Section 95(1).
apply to any elections in Northern Ireland. Expenditure on this is likely to be relatively minimal and the decline in the practice of holding election meetings will have reduced this.

**Electoral register**

6.22 Electoral Registration Officers are required by statute to make available a copy of the electoral register for electoral purposes to elected representatives and candidates, registered political parties and local constituency parties.\(^{65}\)

**Additional public funding**

6.23 Some politicians and commentators have suggested that politicians’ salaries represent public funding of political parties (not least because of the blurred distinction between parliamentary and party activities) as does state security at party conferences and events, time off for councillors to carry out their civic duties and allowances for them to do their job.

**Stakeholders’ views**

6.24 In general most of those who gave evidence during our enquiry were strongly supportive of the principle that existing levels of state support for political parties should continue. However, there were three areas of the existing system which generated differences of opinion.

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**Short and Cranborne monies**

6.25 With respect to Short and Cranborne monies, the Conservative Party argued that the system:

… has been shown to be of benefit to the political process, helping ensure effective Parliamentary scrutiny of the government of the day.

The Conservative Party

6.26 The Labour Party in its submission referred to the uncontroversial nature of this form of subvention but stated that:

It is curious that Short/Cranborne funds and their devolved equivalents do not apply to the party of Government or, in devolved settings, the sole (or majority) party of the Executive. The party in Government has no lesser need to develop politically and organisationally than those in opposition.

The Labour Party

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We consider that both the Short and Cranborne money systems, together with their devolved equivalents, serve the democratic system well. It is important that opposition parties with representation should have sufficient resources to hold the governing party or parties to account and we believe that the systems should continue. We are not persuaded of the need to extend the systems to the party or parties of Government, which are backed by the full resources of the civil service.
A second issue concerns the free delivery of election addresses. Some respondents suggested that this provision could be extended to local elections:

Candidates for the House of Commons, Scottish Parliament and Welsh Assembly all receive significant financial support through the Post Office delivery of election addresses and the London Mayoral candidates pay a token contribution to the printing and distribution of a booklet featuring all the candidates. The principle could be extended to local elections where turnouts are usually lower. The costs to the public purse of local election Freeposts could be reduced by combining deliveries in some cases with poll cards.

Liberal Democrats

Survey research for the Commission in areas of England with local elections in 2002 found that 61% of the public said they received too little information about the candidates in their ward – higher than the equivalent 55% at the 2001 general election.

In 2002, MORI found that three-fifths (61%) said they would be more likely to vote in local elections if they had more information about who their candidates were, and what their views were. Other research has found that both Electoral Registration Officers and voters considered direct methods of communication to have a greater impact on turnout than either the information conveyed via the media or other forms of campaigning such as posters and roadshows.

However, this needs to be balanced against a realistic assessment of what such initiatives might achieve in terms of actual differences to turnout. In May 2002, Hyndburn Borough Council, situated in Lancashire, ran an electoral pilot scheme designed to test whether extending the availability of information about candidates to voters would increase participation in the local election. Although the final turnout of 35.8% was slightly higher than both the most recent comparable election (32% in 2000) and the national average in 2002, turnout did not appear to be substantially affected by the pilot arrangements. In addition, the council’s own survey, based on a relatively small sample of 144 people, found that a significant majority (78%) felt that receiving the leaflets made no difference to whether or not they voted.

Of course, better information provision at the local level should not be judged solely against levels of participation. In so far as it is possible to causally link the two, and as evidenced by a recent Commission audit, awareness/understanding represents just one of many facets of political engagement.

66 MORI Telephone Surveys/Local Government Information Unit, 1 May 2002.


same time, there is much to suggest that the provision of more, and better, information about local election candidates and party policies would enhance the reach of local election campaigns and facilitate public interest and participation in them.

6.32 In principle we would favour the extension of the freepost facility to candidates standing at local elections in England, Scotland and Wales. However, we are concerned that such a measure could have considerable logistical and financial implications, both in terms of the management of the printing and distribution of election addresses in local government areas with large numbers of candidates contesting seats across a large number of wards, and in terms of obtaining the necessary financial and staff resources to fund such an operation.

6.33 The third area of public funding which proved controversial concerned policy development grants. Several respondents to our issues paper argued that the current means of allocating the grants was unfair. The system was strongly criticised by several parties without representation at Westminster, but which had nevertheless secured representation at the devolved, local or European level:

The Green Party of England and Wales has had local councillors for over two decades. It has also had two MEPs for nearly five years. The Scottish Green Party has had one MSP from 1999 to 2003 and has had seven MSPs since May 2003. Yet neither party qualifies for a policy development grant. Is this situation justifiable on any grounds? … We suggest there is an undeniable case for extending policy development grants to any political party with elected representatives at any level.

Scottish Green Party

Alliance is most unhappy with the current scheme for the distribution of policy development grants. The distortions arising from the current application of policy development grants are most acute in relation to Northern Ireland. At present, three local parties have access to these grants through their representation in Westminster: the UUP, DUP and SDLP. The main focus for all Northern Ireland parties is now the NI Assembly. These parties are able to use these funds in relation to institutions other than Westminster; in practice, there are no obstacles to deploying such grants in support of Assembly activities. This creates a severe disadvantage to those parties represented in the Assembly but not in Westminster.

Alliance – Alliance Party of Northern Ireland
While some parties were critical of the scheme for its exclusively Westminster focus, others raised different concerns. The Liberal Democrats argued that the current distribution of funds should be ‘more closely related to the number of constituencies fought across the UK with a serious candidature as determined by a test such as returned deposits’. They also argued that the system should be extended to encompass the promotion of parties’ policies as well as their development.

The Conservatives argued that the Commission should review the current method of allocating policy development grants, ‘so there is a stronger link between allocation of funding and parties’ House of Commons representation’.

The Labour Party welcomed the continuation of policy development grants but argued that ‘the sums involved under the scheme do not begin to meet the policy development requirements of the political parties’.

Commission position

As illustrated earlier in this report, parties have a continuing battle to raise funds to meet their day-to-day operating costs. Although we are very much of the view that parties must operate in a free market with their financial viability ultimately determined on the ability to attract supporters, we feel that the state does have responsibility to facilitate the role that they play in a democratic system. It already does so by the means described above, but we believe there are grounds for providing a modest increase in levels of financial support.

These should not undermine the need for parties to solicit donations. Indeed, we are firmly of the view that conditions should be set which will encourage parties to broaden the basis of their funding sources in order to reduce as much as possible the dependence on small numbers of wealthy donors to meet day-to-day expenses. We suggest in the following paragraphs a number of ways in which this can be achieved involving a modest increase in direct funding to enable parties to better carry out their democratic functions. We very much consider that parties should bear the main responsibility for raising funds to fight election campaigns.

Reforming the policy development grant scheme

Assessment of existing scheme

The Commission’s own assessment of the policy development grant scheme reveals that the scheme has had a beneficial effect on the political parties’ long-term policy development. The three largest parties previously had a policy development capability, which has now been supplemented by the grant and this has led to these parties’ policy units having more consistent communication and involvement with party members and stakeholders.

In Wales, Scotland and Northern Ireland, the policy development grant has ensured that the parties who operate only there employ permanent policy staff, consult with members and conduct research. Very little of this activity had been carried out prior to the introduction of the scheme. Where parties had previously had
some policy process in place, we found that it was mainly research-based, with little or no consultation with party members. The processes were ad hoc and relied on the work of volunteers.

6.41 In Northern Ireland the grant has enabled permanent policy teams to develop policies relating to the devolved powers of the Assembly. This has enabled the parties' manifestos to concentrate on developing policies in these areas.

6.42 We believe the scheme has been effective in meeting its objectives and sets a useful precedent for targeted funding which serves to meet a democratic need.

Broadening the eligibility criteria

6.43 The current policy development grant scheme splits the sum of £2m among parties with two or more sitting members of the House of Commons who have taken the oath. Section 12 of PPERA enables eligible parties to use policy development grants in the development of policies for inclusion in any manifesto. We believe that such grants should not be restricted to those parties with representation at Westminster, but should be extended to any party with at least two sitting members in either the House of Commons, European Parliament, Scottish Parliament, National Assembly for Wales or Northern Ireland Assembly. However, we consider it important that no party should be awarded less than it currently receives as a consequence of broadening the eligibility criteria. That is why we are proposing that the annual amount provided for policy development grants should be increased from £2m per annum to £3m per annum.

We recommend that the achievement of a defined level of representation in specified elected institutions should be the only criterion determining political parties' eligibility for receipt of policy development grants.

We recommend that the eligibility criteria for the policy development grant scheme be broadened so that parties with at least two members elected to either the House of Commons, European Parliament, Scottish Parliament, National Assembly for Wales or Northern Ireland Assembly would be eligible to receive a share of such funding.

In order that existing payments are not reduced, we recommend that the annual amount provided for policy development grants should be increased from £2m per annum to £3m. This would ensure that the six new eligible parties would also receive the basic payment of £125,000 and a variable amount based on electoral success. This sum should be reviewed by The Electoral Commission on a periodic basis.

New forms of public funding

6.44 Under the Inheritance Tax Act 1984, donations made to political parties with two members elected to the House of Commons, or to those parties that have one elected member and gained at least 150,000 votes are exempt.
One way of encouraging political participation in the democratic process and democratic renewal at the grass roots level would be to introduce income tax relief on small donations to political parties. In 1998 the Neill Committee recommended tax relief, limited to the basic rate, on donations of up to £500 a year to ‘eligible’ registered political parties. The Committee argued that in order to provide a check against any potential abuse of such a system only political parties that had two members elected to the House of Commons at the last general election, or which had one member elected and gained at least 150,000 votes would be eligible for such tax relief. The Government did not take up the Neill Committee’s proposals on tax relief.

6.45 Another means of encouraging participation and parties to solicit a broader range of small donations would be match funding. Such systems operate in a number of countries but essentially the state contributes a sum of money in proportion to the size of the donation. Under New York City’s voluntary Campaign Finance Program, each dollar given to a candidate up to US$250 is matched with four dollars of public funds. The maximum amount payable in public funds per contributor is US$1,000. The total amount each candidate can receive in match funding is capped at 55% of the spending limit. When running against a high-spending non-participant in the Program, a participant benefits from an accelerated rate of public funding, which allows up to two-thirds of the spending limit to be received via public funds. In Germany a political party receives €0.38 for every euro that it attracts in membership subscriptions, contributions by elected representatives and donations up to a total of €3,300 per person per year. While such approaches can also be a stimulus to broadening the donation bases of parties they require a greater degree of administration than a tax relief scheme. For reasons of simplicity we prefer a tax relief scheme to a match-funding scheme. As described below, there is also a precedent of sorts for tax relief on donations in the charity sector.

6.46 Under the Gift Aid scheme, registered charities can reclaim tax on donations, whether large or small, regular or one-off, provided certain conditions of the scheme are satisfied. Gift Aid offers an opportunity for donors to increase the value of their donations to charities which they support.

6.47 We believe that a similar scheme should be introduced for political parties. This would serve to reinforce the principle that political parties contribute to the public good. Income tax relief would encourage political parties to broaden the base of their finances, so becoming less reliant on large donors. A further advantage is that such schemes depend on individual donors deciding where they wish their money to go.

6.48 Critics of tax relief schemes have argued that poorer supporters of political parties would be disadvantaged, since the scheme would only apply to taxpayers:

70 The Inheritance Tax Act 1984, Section 24. Gifts and bequests to political parties made on or after 15 March 1988 are exempt from inheritance tax with no limitation on value.
It is a form of political participation which is not available to citizens on an equal basis, and it is a form of public funding of the parties which discriminates between parties according to the bank balance of their members and supporters rather than the depth or breadth of their electoral support.

The Catalyst Forum (Professor Keith Ewing)

6.49 The Neill Committee concluded that it was very unlikely that many people with income at a level which did not attract income tax would be paid-up members of political parties. We do not think that possibility can be excluded. However, neither do we consider the fact that there would be no tax to be reclaimed from non-taxpayers’ donations to be a good reason for not introducing such a scheme.

6.50 In order for any income tax relief system to be fair, we consider that it should be limited to relatively small donations. A reasonable figure would be £200 in any one year (or the first £200 of larger donations), up-rated in line with inflation. There should be no minimum donation amount required to qualify for tax relief.

6.51 Table 18 gives an indication of what different donations would be worth to political parties were an income tax relief system along the lines of the Gift Aid scheme introduced. Calculations are made on the basis of the basic rate of income tax, which is currently 22%.

<table>
<thead>
<tr>
<th>Proposed donation (£)</th>
<th>Calculation on basic tax rate (£)</th>
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<tbody>
<tr>
<td>25</td>
<td>32.05</td>
</tr>
<tr>
<td>50</td>
<td>64.10</td>
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<tr>
<td>100</td>
<td>128.21</td>
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<td>150</td>
<td>192.31</td>
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<tr>
<td>200</td>
<td>256.41</td>
</tr>
</tbody>
</table>

6.52 Under such a scheme a political party which received a £50 donation from each of 50,000 of its members in any one year would potentially yield tax relief worth £705,000. Were the same party able to attract the same number in £100 donations, the potential tax relief would be worth more than £1.4m. We believe that such a scheme would be attractive to political parties and would encourage them to seek out larger numbers of smaller donations and increase their support and membership bases.

6.53 We agree with the Neill Committee’s recommendation that tax relief should be given on membership subscriptions and cash donations, although not on benefits-in-kind or on payments which involve a potential benefit.

71 The level of income tax parties could reclaim is based on the Gift Aid formula for calculating tax relief, i.e. amount of gift multiplied by 22/78. For a person donating £100, for example, the calculation would be thus: £100 x 22/78 = £28.21, meaning that their donation would be worth £128.21.
to the donor, such as the purchase of raffle tickets.  

6.54 As mentioned, the Neill Committee proposed the application of an eligibility threshold for the receipt of tax relief on donations. While we believe that some criteria would need to be imposed in order to ensure that any system is not abused, we are not persuaded that restricting tax relief to those parties with representation at Westminster is the most effective way of assisting political parties in the performance of their democratic functions, chief of which are participation in elections and the mobilisation of voters. That is not to say that we believe tax relief should be available to all registered political parties; rather, we consider that it should be available to those which can demonstrate representation or a significant level of electoral activity at the European, devolved or local level, as well as parties represented in the House of Commons.

A system of income tax relief on small donations to political parties should be introduced. The scheme should be limited to relatively small donations, up to a value of £200 (or the first £200 of larger donations) in any tax year, the value being up-rated in line with inflation. We recommend that tax relief should be given on membership subscriptions and cash donations, but not on benefits-in-kind or on payments which involve a potential benefit to the donor.

The system should be open only to those registered parties that can demonstrate representation or a significant level of electoral activity at the Westminster, European, devolved or local level.

Non-taxpayers

6.55 As mentioned above, one criticism of a tax relief system for political parties is that, if based on the Gift Aid formula, it would only apply to taxpayers and therefore not be available to citizens on an equal basis. We believe that all political parties and their supporters should be able to benefit from such a scheme and would recommend that the practicability of extending the benefits of a tax relief system to non-taxpayers be explored. If this were not considered achievable, we think it would be worth exploring the extent to which a match-funding system could be introduced for non-taxpayers. In this respect, the amount to be paid to the party would be equivalent to the level of tax relief that the donation would have attracted had it been made by a taxpayer.

Any tax relief scheme should extend to non-taxpayers, possibly through a match-funding system.

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7 The way forward

In this chapter we set out our conclusions on the funding of political parties.

The importance of political parties

7.1 Political parties are essential to the functioning of a sustainable, representative democracy. In order to carry out their core activities political parties require adequate levels of funding. Political parties need resources to fund their campaigns, conduct research and develop policies and manifestos to present to the electorate. They also require resources to meet the day-to-day administrative and other costs associated with running a political party.

7.2 The Commission aims to promote and maintain openness and transparency in the financial affairs of political parties and others involved with elections. We also aim to encourage greater participation in, and increased understanding of, the democratic process. While conducting our review we have considered a broad range of options, and from the outset have been guided by the principle that any proposed new system of party funding would need to demonstrate that its implementation would help political parties to fulfil their democratic functions and to maintain the health of our democracy. We have also been guided by the principles that any system of party funding should be practical, transparent and straightforward, and that any public monies should be available to all meeting the entry-level criteria, regardless of the ideological or policy stances of particular political parties.

7.3 During our review we have gathered a large amount of evidence from political parties, trade unions, individual donors, elected
representatives, think-tanks and other stakeholders. We have also commissioned research exploring public attitudes towards the funding of political parties. We have examined all of the evidence carefully and have developed a package of proposals that we believe will be of benefit to political parties, candidates and the electors which they serve. In the paragraphs below we summarise our proposals for reform.

The way forward

Party income and expenditure

7.4 Our review of party income and expenditure has shown that most political parties experience difficulties in raising sufficient funds to cover their day-to-day costs let alone the costs of running national election campaigns. Our analysis of the main parties’ statements of accounts demonstrated that the five parties which submitted details of their income and expenditure for the general election year of 2001 ended that year in deficit. Levels of debt ranged from £27,000 in the case of Plaid Cymru to almost £9m in the case of The Labour Party. The financial position of The Labour Party, Conservatives, Liberal Democrats and Plaid Cymru improved in 2002, largely owing to the fact that there were no major elections to contest. The devolved elections in 2003 clearly placed financial pressures on several parties – including the Scottish National Party, Plaid Cymru, Ulster Unionists and Democratic Unionist Party – all of which experienced increased levels of deficit.

7.5 While ultimately the sustainability of a party must depend on their ability to attract support and raise funds, the accounts show the extent to which some parties are already relying on significant contributions of public monies to fund their activities.

Campaign and candidates’ expenditure

7.6 The campaign spending limits introduced under PPERA were designed to reduce the fundraising pressures on political parties and to engender a situation in which parties felt less obliged to increasingly outspend each other.

Our analysis of campaign expenditure at the 2001 general election and Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly elections in 2003 showed that all parties were comfortably within their spending limits. In order to reduce the pressure on parties to spend large sums on national election campaigns, we recommend that national expenditure limits for all relevant elections be reduced, beginning with the limits applying to parties contesting Westminster general elections. The limit should be reviewed following the next Westminster general election but our preferred option would be to reduce the national spending limit from £20m to £15m.

7.7 At the same time, we consider that candidates’ expenditure limits should be significantly increased and in principle doubled. Research shows that voters respond more positively to the direct campaigning efforts of candidates than to political parties’ advertising campaigns and we would wish to see more party resources being channelled into campaigning at the local and constituency
levels. The increase that we recommend should be accompanied by greater transparency, allowing opponents and electors to review campaign spending. A similar rebalancing of national and candidate spending limits should take place for all other relevant elections.

7.8 We are also recommending that the regulated period for candidates’ election expenses and for national spending by parties should be fixed at four months ending with the date of poll.

Donations

7.9 Our review has also considered the issue of donations to political parties and, in particular, whether there is a case for introducing contribution limits. We recognise and share public concern relating to large donations and believe that such concern is damaging to the relationship between parties, politicians and the electorate.

7.10 We believe that any cap would need to be set at a very low level (in the region of £10,000 per individual donor per annum) if the public were to be persuaded that its likely effect would be to eliminate the risk of corporate, trade union or individual interests buying influence. That said, we acknowledge that even relatively small donations have been the cause of controversy. Such a cap would have a significant impact on the funding of parties, raise questions about the acceptability of compensating public funding, about the rights of individuals to spend their money in the way they choose, and about the independence of parties from the state.

7.11 We recognise the strength of the argument for a cap as one means of rebuilding or increasing public confidence in the political party system. We also recognise that political parties are essential to the functioning of a sustainable, representative democracy and, as such, require adequate funding. In order to ensure that political parties could continue to perform their democratic functions, the introduction of any donation cap would need to be combined with the state stepping in to provide substantially more financial support than it does at present. We believe that before this could take place there would need to be firm evidence that any change would work in practice and be acceptable to the majority of people.

7.12 We do not believe that the introduction of a donation cap can be justified at the present time. However, the Commission would be prepared to undertake further work on the practicability and implementation of such a cap, as well as more detailed modelling of associated public funding options.

Public funding

7.13 We have further examined arguments and options surrounding the public funding of political parties. During our review we have considered whether there is a case for maintaining, increasing or reducing current levels of public funding. Our deliberations on this issue have been guided by the principle that any additional forms of direct or indirect funding should be used to assist parties in their policy development role and to foster public confidence and participation in the democratic process.
7.14 We have recommended that existing forms of public funding, including Short and Cranborne monies, free mailings and use of public rooms at elections, free airtime for political broadcasts and other benefits-in-kind should continue. In addition to existing public funding, we recommend a modest expansion of the policy development grant scheme so that parties with at least two members elected to either the House of Commons, European Parliament, Scottish Parliament, National Assembly for Wales or Northern Ireland Assembly would be eligible to receive a share of such funding. The annual amount provided for policy development grants should be increased from £2m per annum to £3m and reviewed by the Commission on a periodic basis.

7.15 We do, however, believe that parties should be encouraged to broaden their support bases and seek a larger proportion of their income from smaller donations. Public perceptions of improper influence would be considerably lessened if political parties were not over-dependent on limited sources of income. That is why we are recommending that income tax relief be introduced for donations to eligible political parties up to the value of £200. We also recommend that the benefits of such a scheme should be extended to include non-taxpayers.

7.16 Finally, we are in principle in favour of extending the freepost facility that is currently available to candidates contesting national elections to local elections in England, Scotland and Wales. However, this recommendation is subject to there being a fuller analysis of any such scheme’s practicability.
Appendix 1

Respondents to our issues paper

Political parties
Alliance – Alliance Party of Northern Ireland
The Citizens Party of Halton
Communist Party of Britain
The Conservative and Unionist Party
Durham County Labour Party
The First Democrat Party
The Green Party
The Labour Party
Liberal Democrats
Plaid Cymru – The Party of Wales
The Plymouth Party
Scottish Green Party
Scottish National Party
SDLP (Social Democratic & Labour Party)
Stoke Central Constituency Labour Party
UK Social and Countryside Party

Individuals
Richard Balfe MEP
David Barnby
Councillor Richard Bertin, Vale of Glamorgan County Council
Steve Brunt
Councillor Will Charlton, Vale Royal Borough Council
Michael Connarty MP
Councillor Mrs A. Cook, Sevenoaks District Council
Councillor Jessica Crowe, London Borough of Hackney
Patricia d’Ardenne
Michael V. Davies
Chris Ffelan
Trevor Fisher
J. Fortin
Michael Foster DL MP
Councillor Ted Fry, Plymouth City Council
Peter Gardner
Navraj Singh Ghaleigh
Councillor Martin Jennings, Wychavon District Council
Dr Gaye Johnston
Patrick Kelly
Peter Kenyon
Max Lang
Bob Laxton MP
Councillor Keith Loney, Sevenoaks District Council
Neil MacCormick MEP
Alice Mahon MP
John Maples MP
Philip Narbrough
Councillor Tim Palmer, Dorset County Council
H. A. Prowse
Tim Root
D. Shepherd
Matthew Taylor MP
Dr David A. Tibbutt
Michael J. Wade
Diana Wallis MEP
Harry Watson
Councillor Kevin Wigens, Plymouth City Council
Mick Williams

Trade unions
Amicus
Amicus-AEEU
Associated Society of Locomotive Engineers and Firemen
Communication Workers Union
Connect
The Fire Brigades Union
The General Federation of Trade Unions
GMB
Graphical, Paper & Media Union
ISTC – The Community Union
National Union of Rail, Maritime & Transport Workers
Transport and General Workers Union
Transport Salaried Staffs’ Association
Union of Construction, Allied Trades and Technicians
Union of Shop, Distribution and Allied Workers
UNISON

Others
The de Borda Institute
Institute of Directors
The Joseph Rowntree Reform Trust
Labour Reform
Local Government Association Independent Group
The National Trade Union and Labour Party Liaison Committee
New Politics Network
Popularis

Local authorities
Leicestershire County Council

The funding of political parties: appendix 1
Appendix 2

Programme of public hearings

London, Royal Institute of British Architects (RIBA)
Monday 1 March 2004
Dr Justin Fisher, Senior Lecturer, Brunel University
Ian Geary, Political and Parliamentary Organiser, AMICUS-AEEU
Matthew Cain, institute for public policy research
Dave Prentis, General Secretary, UNISON
Peter Facey, Director, New Politics Network
Paul Ogden, Head, Local Government Association Independent Group
James Walsh, Parliamentary and European Advisor, Institute of Directors
The Green Party: Penny Kemp, Former Chair; Hugo Charlton, Executive Committee Chair
Tuesday 2 March 2004
Stuart Wheeler, Conservative Party donor
The Labour Party: Chris Lennie, Deputy General Secretary; Peter Watt, Head of Legal and Constitutional Unit; Gerald Shamash, solicitor and electoral lawyer to The Labour Party; Professor Keith Ewing, Professor of Public Law, King’s College London
Jessica Crowe, Deputy Mayor of Hackney
The Conservative and Unionist Party: Gavin Barwell, Registered Treasurer; David Simpson, Head of Compliance; Sheridan Westlake, Assistant Director of Conservative Research Department
Liberal Democrats: Chris Rennard, Chief Executive; David Allworthy, Head of Compliance and Constitutional Support
The Joseph Rowntree Reform Trust: Lord Shutt of Greetland, Sir Archy Kirkwood MP
Patrick Kelly, local government commentator
Tony Dubbins, General Secretary, Graphical, Paper & Media Union, Joint Chair, The National Trade Union and Labour Party Liaison Committee; Byron Taylor, Secretary to The National Trade Union and Labour Party Liaison Committee

Belfast, Spires Conference and Exhibition Centre
Thursday 11 March 2004
Alliance - Alliance Party of Northern Ireland: Stephen Farry, General Secretary; Ian Parsley, Party Organiser; David Ford, Party Leader
Sinn Féin: Francis Molloy, Member of Legislative Assembly; Margaret Adams, Treasurer; Séamus Drumm

Friday 12 March 2004
SDLP (Social Democratic & Labour Party): Gerry Cosgrove, General Secretary; Yvonne Byrne, Vice Chairperson
Ulster Unionist Party: James Cooper, Party Chair; Jack Allen, Honorary Treasurer

The funding of political parties: appendix 2
Edinburgh, Business Centre, Edinburgh City Council
Tuesday 23 March 2004
Scottish National Party: Peter Murrell, Chief Executive; Craig Milroy, Head of Policy Unit
Scottish Labour Party: Murdo Mathison, Deputy General Secretary
Scottish Liberal Democrats: Dr Derek Barrie, Chief of Staff
Navraj Singh Ghaleigh, Lecturer in Public Law, Edinburgh Law School, University of Edinburgh

Cardiff, St. David’s Hotel & Spa
Thursday 1 April 2004
Plaid Cymru – The Party of Wales: Dr Dafydd Trystan, Chief Executive; Dai Lloyd Evans AM; Helen Mary Jones AM
Welsh Labour: David Costas, Deputy General Secretary; Mike Penn, Head of Assembly Unit
Welsh Liberal Democrats: Chris Lines, Chief Executive
Forward Wales: Ron Davies

The funding of political parties: appendix 2
Appendix 3
Programme of public debates

London, House of Commons
Monday 1 March 2004
Chair: Sam Younger, Chairman, The Electoral Commission
Panel members: Andrew Tyrie MP, Shadow Minister for Economic Affairs; Tom Watson MP, West Bromwich (Labour); Peter Facey, Director, New Politics Network

Belfast, Spires Conference and Exhibition Centre
Thursday 11 March 2004
Chair: Wendy Austin, BBC Northern Ireland
Panel members: Brian Feeney, Irish News; Dr Stephen King, Belfast Telegraph

Edinburgh, Business Centre, Edinburgh City Council
Tuesday 23 March 2004
Chair: Kit Fraser, BBC Scotland
Panel members: Alex Johnstone MSP, Scottish Conservatives; Nicola Sturgeon MSP, Scottish National Party

Cardiff, St. David’s Hotel & Spa
Thursday 1 April 2004
Chair: Glyn Mathias, Electoral Commissioner
Panel members: Tamsin Dunwoody-Kneafsey AM, Welsh Labour Party; Helen Mary Jones AM, Plaid Cymru; Ron Davies, Forward Wales; Dr Jonathan Bradbury, University of Wales Swansea; Paul O’Shea, UNISON Cymru/Wales
Appendix 4
Programme of study tours

United States of America
Commission representatives:
Sam Younger, Chairman
Karamjit Singh CBE, Electoral Commissioner
Mark Williams, Assistant Policy Review Manager

Washington, Monday 1 and Tuesday 2 December 2003
Meetings held with:
Joe Sandler, General Counsel, Democratic National Committee
Charles R. Spies, Election Law Counsel, Republican National Committee
Professor Roy A. Schotland, Professor of Law, Georgetown University Law Center
Bob Schiff (Sen. Russ Feingold, Democrat Wisconsin, sponsored 2002 Bipartisan Campaign Finance Reform Act)
Donald J. Simon, Counsel for Common Cause and Democracy 21
Kenneth Lin, Legislative Assistant to Senator John McCain, Republican
Ellen Weintraub (Chair), Federal Election Commission

Working dinner with Professor Paul Herrnson, Director, Center for American Politics and Citizenship, University of Maryland; Richard Soudriette, IFES President; Trevor Potter, Campaign Legal Center; Thomas Mann, The Brookings Institution; Michael Malbin, Campaign Finance Institute

New York City, Wednesday 3 and Thursday 4 December 2003
Meetings held with:
Gene Russianoff, Senior Attorney, New York Public Interest Research Group/Straphangers Campaign
Matthew Tollin (Speaker Gifford Miller’s office), Counsel to the Governmental Operations Committee, New York City Council
Ed Koch, former Major of New York City
Richard Briffault, Vice-Dean, Columbia Law School; Joseph P. Chamberlain, Professor of Legislation, Columbia Law School
Lawrence A. Mandelker, Lawyer
Fritz Schwarz, Chair, New York City Campaign Finance Board
Nicole Gordon, Executive Director, New York City Campaign Finance Board

Canada
Commission representatives:
Karamjit Singh CBE, Electoral Commissioner
Mark Williams, Assistant Policy Review Manager

Ottawa, Monday 26 and Tuesday 27 January 2004
Meetings held with:
Jean Pierre Kingsley, Chief Electoral Officer, Elections Canada
Diane Davidson, Deputy Chief Electoral Officer, Elections Canada

The funding of political parties: appendix 4
Janice Vezina, Senior Director – Elections Financing, Elections Canada
James Sprague, Senior Practitioner & General Legal Services, Elections Canada
Johanne Massicotte, Senior Council to Commissioner of Canada, Elections Canada
Leslie Seidle, Senior Director, National and International Research and Policy Development, Elections Canada
Claudine Renaud, Director of Communications, Elections Canada
Howie Wilson, Ethics Commissioner
Chris Watson, Federal Secretary, New Democratic Party of Canada; Eric Herbert, Assistant Federal Secretary, New Democratic Party of Canada
Jamie Innes, Director of Organization, Liberal Party of Canada; Jonathan G. Herman, General Counsel, Director of Legal Affairs, Liberal Party of Canada
Jerry Rice, Senior Policy Advisor, Conservative Party of Canada
Informal discussion meeting hosted by Public Policy Forum. Participants were:
Nancy Averill, Director of Research & Methodology, Public Policy Forum
Bill Neville, Chairman of Strategies Group, Public Policy Forum
Anita Mayer, Vice President, Public Policy Forum
Rishi Datta, Research Associate, Public Policy Forum

Professor Jon Pammett, Carleton University
Hon. Senator Terry Mercer, former Liberal Party National Director and Chair-elect of the Association for Professional Fundraisers

Québec City, Wednesday 28 January 2004
Meetings held with:
Marcel Blanchet, Chief Electoral Officer of Québec and Chairman of the Commission de la représentation électorale du Québec
Jean Chartier, Director of Investigations, Legislation and Special Projects, Commission de la représentation électorale du Québec
Adèle Dugal, Co-ordinator for the Department of Political Party Financing, Commission de la représentation électorale du Québec
Francine Barry, Assistant to the Chief Electoral Officer and Chairman of the Commission de la représentation électorale du Québec and General Secretary

Montréal, Thursday 29 January 2004
Meetings held with:
Robert Parent, Director General, Parti Libéral du Québec
Daniel Turp, Member of the National Assembly of Québec and Parti Québécois Spokesperson on intergovernmental relations and external affairs
Pierre Seguin, Director of Administrative Services, Parti Québécois
Professor Louis Massicotte, University of Montréal

The funding of political parties: appendix 4
L. Ian MacDonald, Editor, Policy Options, Institute for Research on Public Policy

Republic of Ireland
Commission representative:
Sam Younger, Chairman

Dublin, Friday 26 March 2004
Meetings held with:
Sean Dorgan, General Secretary, Fianna Fáil
Stiofan Nutty, General Secretary, The Green Party
Mike Allen, General Secretary, The Labour Party
Tom Curren, General Secretary, Fine Gael
Brian Allen, Secretary of the Standards in Public Office Commission

Germany
Commission representatives:
Glyn Mathias, Electoral Commissioner
Mark Stratton, Policy Officer

Berlin, Monday 29 and Tuesday 30 March 2004
Meetings held with:
Frau Wettig-Danielmeier, Social Democratic Party
Dr Winter, Chief Financial Officer, Christian Democratic Union
Herr Strehl, Treasurer, Bündnis 90/The Greens

Herr Eschweiler, Plenipotentiary of the Treasurer, Free Democratic Party
Dr Janss, Party Finance Section, Preidum Bundestag

The Netherlands
Commission representatives:
Karamjit Singh CBE, Electoral Commissioner
Mark Williams, Assistant Policy Review Manager

The Hague, Monday 10 and Tuesday 11 May 2004
Meetings held with:
Mr Meine-Henk Klijnsma, Head Strategic Policy Unit, Ministry of the Interior
Mr M. Siebes, Ministry of the Interior
Mrs H. Bruins Slot, Ministry of the Interior
Mr R. Koole, Chairman of the Labour Party (PvdA)
Mr M. Stolk, Director CDA-Bureau, Christian Democrats

The funding of political parties: appendix 4
Appendix 5

Fringe meetings at 2003 party conferences

Plaid Cymru Conference
19 September 2003
Chair: Glyn Mathias, Electoral Commissioner
Panel member: Sam Younger, Chairman, The Electoral Commission

Liberal Democrat Conference
24 September 2003
Chair: David Griffiths, Registered Treasurer, Liberal Democrats
Panel members: Lord Rennard, Chief Executive, Liberal Democrats; Sam Younger, Chairman, The Electoral Commission; Sir Neil McIntosh, Electoral Commissioner

Scottish National Party Conference
25 September 2003
Chair: Sir Neil McIntosh, Electoral Commissioner
Panel member: Sam Younger, Chairman, The Electoral Commission

Labour Party Conference
1 October 2003
Chair: Professor Keith Ewing, Professor of Law, King’s College London
Panel member: Peter Hain, Leader of the House of Commons, Lord Privy Seal and Secretary of State for Wales

Conservative Party Conference
8 October 2003
Chair: Dr David Butler, Fellow of Nuffield College, Oxford University

Panel members: Sam Younger, Chairman, The Electoral Commission; Roger Creedon, Chief Executive, The Electoral Commission
Set out below are methodological details relating to the two pieces of funded research discussed in chapter 2 of this report. Both reports can be downloaded from The Electoral Commission website:
www.electoralcommission.org.uk/elections/research.cfm

MORI – Attitudes towards voting and the political process in 2003
This project, conducted by the MORI Social Research Institute on behalf of the Commission looked at key issues around voting and elections. Eight questions on the subject of the funding of political parties were included in MORI’s survey.

MORI interviewed a representative sample of 1,500 UK (including Northern Ireland) adults aged 18+ by telephone. Interviews were carried out from 2-11 May 2003. Quotas were set by gender, age, working status, and Government Office region. Fieldwork was monitored closely to ensure the number of people in the sample living in areas of England where there were local elections on 1 May 2003 was in line with the true proportion of the UK living in those areas (these results were based on 1,026 interviews, or 68% of the UK population). Data were weighted by gender, age, working status, social class, tenure and Government Office Region to the known population profile.

Cragg Ross Dawson – Attitudes towards the funding of political parties
Cragg Ross Dawson undertook qualitative research in November 2003 in order to explore public and political party activists’ attitudes towards the funding of political parties.

Focus groups with members of the public
Twelve focus groups were held with the general public, between 3 and 10 November 2003. Each group comprised seven or eight people, and lasted around two hours. The groups were devised to ensure that the study as a whole spoke to a cross-section of the electorate across the UK, although, for ease of discussion and analysis, each group comprised a fairly homogeneous demographic sample, as set out below.
Recruitment ensured that each group was made up of a cross-section of political allegiances, levels of interest in or awareness of politics, and past participation in voting.

**Depth interviews with local party activists**

Local party activists were consulted in pairs (both from the same party) via depth interviews lasting between 45 and 90 minutes. The sample ensured that a range of types of party were included, in terms of size, role and policy focus. The interviews took place with activists working at a local/branch level in areas similar to the locations used for the general public groups. The activists were speaking purely from a personal perspective.

Thirteen paired depth interviews were held, between 31 October and 12 November 2003, with activists from the following parties or organisations:

- The Conservative and Unionist Party;
- The Green Party;
- Independent Kidderminster Hospital and Health Concern;
- The Labour Party;
- Liberal Democrats;
- Morecambe Bay Independents;
- Plaid Cymru – The Party of Wales;
- Scottish National Party;

<table>
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<tr>
<th>Table A1: Focus group demographic sample</th>
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<tr>
<td><strong>Location</strong></td>
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A fourteenth interview was scheduled to take place with activists from Sinn Féin. However, Cragg Ross Dawson was unable to secure an interview with such activists either side of the Northern Ireland Assembly election in November 2003.

For the purposes of their analysis Cragg Ross Dawson divided the activists’ sample into four categories. These are set out below:

- Scottish Socialist Party;
- Thames Ditton/Weston Green Residents’ Association;
- UK Independence Party; and
- Ulster Unionist Party.

The classification was not intended as an ‘objective’ description of the parties’ size, status or political reach. Rather it reflected activists’ self-perceptions of the role and scope of their party. Cragg Ross Dawson used the classification to demonstrate the common threads running through activists’ responses and because activists themselves largely related the nature of the problems faced by their party to its current position in the national political scene.

Both the Liberal Democrats and the UK Independence Party have been shown as being within two categories because at times their activists’ responses and the issues they cited meant that they had points in common with different types of party.

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<tr>
<th>Local parties</th>
<th>Regional parties</th>
<th>‘Minor National’ parties</th>
<th>‘Major National’ parties</th>
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<tr>
<td>Thames Ditton Residents’ Association</td>
<td>Scottish National Party (SNP)</td>
<td>Green Party</td>
<td>Conservatives</td>
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<td>Independent Kidderminster Hospital &amp; Health Concern</td>
<td>Scottish Socialist Party (SSP)</td>
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<td>Labour</td>
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<td>Morecambe Bay Independents</td>
<td>Ulster Unionist Party (UUP)</td>
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<td></td>
<td>UK Independence Party (UKIP)</td>
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</table>
We are an independent body that was set up by the UK Parliament. We aim to gain public confidence and encourage people to take part in the democratic process within the UK by modernising the electoral process, promoting public awareness of electoral matters and regulating political parties.