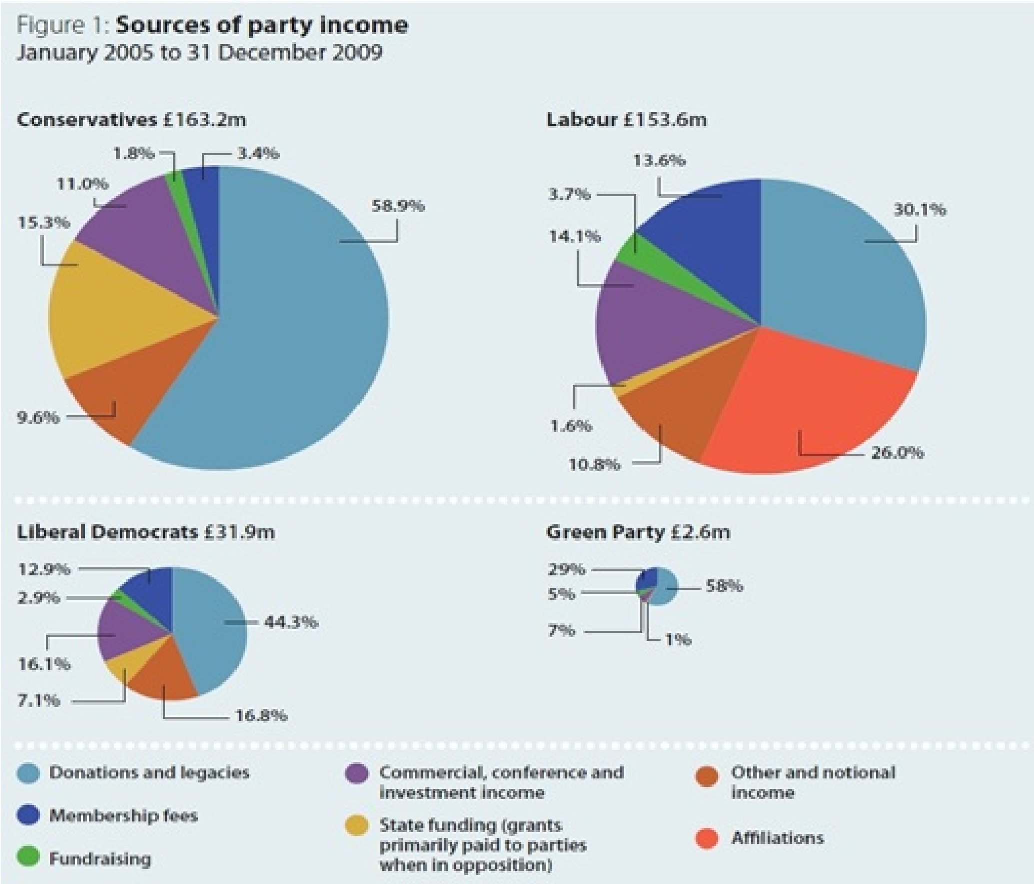
Party funding reforms are overdue in the UK, but they should not be rushed

Nov 26 2010

At the 2010 election the Conservatives and Labour each spent five times more than the Liberal Democrats, and over 62 times the expenditure by the Greens. The scramble after donors by the top three parties is clearly now distorting British politics, and leading to constitutional tensions – revived last week by the prominence of major party donors amongst new members of the House of Lords. The coalition government's inaugural agreement pledges to 'limit donations and reform party funding in order to remove big money from politics.' ***Stuart Wilks-Heeg and Stephen Crone*** *agree that a more sustainable model of party funding is needed, based on fairness and diversity. But they warn that precipitate moves may occasion a 'funding gap', so that looking for quick-fix changes is not the best strategy.*

UK party politics takes place on a notoriously unequal playing field. The two major parties, already protected by first-past-the-post elections, also enjoy huge financial advantage over their would-be competitors. As we show in a recent Democratic Audit report, the income of both the Conservatives and Labour exceeded that of the Liberal Democrats by a factor of five to one during 2005-09. Smaller parties like the Greens suffice with around 1/60th of the resources available to either of the two main parties. These stark income differentials are displayed in the figure below:



These contrasts in party income should not be interpreted as a reflection of Labour and the Conservatives being 'more popular' as political parties. Recent electoral trends provide ample evidence of an emerging multi-party system, and it is clear that a funding formula based on levels of electoral support would significantly reduce the financial advantage enjoyed by the two main parties.

Neither do the contrasts have anything much to do with differences in levels of party membership – as the chart highlights, membership fees constitute a modest proportion of the central income of all three main parties. Instead, the relative 'wealth' of the parties derives from their relative capacity to attract big donations.

The latest data on donations released by the Electoral Commission yesterday illustrate this point dramatically. From a total of £7.2 million donated to UK political parties in the third quarter of 2010, £3.7 million (52 per cent) went to the Conservatives, £2.3 million to Labour (32 per cent) and just £350,000 (5 per cent) to the Liberal Democrats. Significantly, the Commission's figures also highlight that all three main parties are serving significant levels of debt – on which, more in a moment.

Concerns about a 'big donor culture' are not new. Donations to political parties had become a significant issue by the time of the 1997 General Election, resulting in a new regulatory framework being established. Backed by cross-party support, the Political Parties, Elections and Referendums Act 2000 (PPERA) introduced public disclosure requirements for donations and spending limits for election campaigns, as well as establishing the Electoral Commission to regulate these, and other, aspects of the electoral process.

However, the Act represented only a partial solution. There is now far greater transparency about how UK political parties are funded, but also more 'big money' in UK politics than ever before. The suspicion that 'big donors' expect, and often get, something in return has certainly not diminished, while opinion polls highlight that levels of public concern about the issue are at least as great as they were in the 1990s.

So, how can PPERA be build on if the objective is to 'take big money out of politics'? The most obvious answer is a cap on donations. In 2007, the Phillips review highlighted broad consensus on the principle of capping donations at £50,000 per annum from any source and a reduced cap on general election spending.

However, Phillips recognised that a short-term, 'big bang' approach to capping would carry enormous risks, not just to the viability of party finance but also to the capacity of the parties to engage with the electorate. The table below shows that, everything else remaining equal, a £50,000 cap on donations received during the 2010 General Election would have cut the donation income of each of the three main parties by between one-third and three-quarters:

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Party	Total donation income	Value of donations above £50,000	% of donation income lost	Current value of outstanding loans
Conservatives	7.3 million	2.5 million	35	2.8 million
Labour	5.3 million	4.1 million	79	9.8 million
Liberal Democrats	0.7 million	0.4 million	48	0.5 million

Quite apart from the profound effect which a combined reduction of £7 million in party income would have had on the general election campaign, a donation cap would clearly pose major challenges for organisations already 'living beyond their means'. As the final column in the table shows, each of the parties owes more money that the substantial amount each would have forgone as a result of a £50,000 donation cap being in place during the election campaign

It was for these reasons that Phillips proposed a variety of transitional arrangements, including a phased introduction of a donation cap over a three-year period (2009-2012). In our report, we argue that there is a powerful argument for extending transitional arrangements over a longer period and eliciting cross-party support for a reform package that includes:

1. A phased, independently-monitored, introduction of donation caps, set initially high and tapering down over 10-15 years
2. Progressive reduction of election expenditure limits over three parliamentary terms
3. The immediate introduction of tax-efficient options for donations to political parties
4. A detailed overhaul of the existing funding arrangements, including state support, to ensure they are 'fit for purpose' for 21st century party politics
5. A parallel commitment to review a range of proposals for ways in which state funding could be allocated to increase democratic engagement

While 10-15 years may sound like a long timeframe, any attempt to move party funding onto a fairer and more sustainable pathway would need to be made very soon. Agreement will be far easier if there are a minimum of two years before the next General Election. The next 6-12 months will therefore be critical.

As with other aspects of constitutional reform, events are moving fast (while evoking a profound sense of deja-vu). The Committee on Standards in Public Life is currently carrying out the fifth major inquiry into party funding since the late 1990s. It is due to report in mid-2011, making recommendations which will provide the basis for fresh inter-party talks and subsequent legislation. Yet, the Committee has already admitted that there are no ‘quick wins’ in party funding reform.

In the absence of any ‘short-term fix’, this inquiry’s measure of success will therefore need to be a long-term one. It should aim to ensure that, by 2030, major inquires into party funding will be seen as a thing of the past.

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