

The way forward for party funding reform: an overview of the options

Reform option	How would it work?	Case for the reform	Possible problems	Options/areas for negotiation	Extent of support	Scope for agreement
1. Cap donations to political parties	A ceiling is introduced on the amount which any individual or organisation is permitted to donate to a political party – either in each financial year or over a Parliamentary term. A limit of £50,000 has widely been suggested, although some favour a cap of £10,000 or less.	Donation caps would reduce the reliance of the parties on large donors and force them to generate income from a larger number of donors, from membership drives and other forms of fund-raising. A donation cap would be the most effective way of taking ‘big money’ out of politics and would help tackle public perceptions that large donations are used to buy honours and/or influence government policy.	Because all three main parties are heavily reliant on large donations from a small number of sources, an effective cap would reduce income dramatically. With everything else remaining equal, a donation cap of £50,000 would have reduced the income made available to all three main parties during the 2010 General Election period by between 35 and 79 per cent. Any donation cap may lead to various forms of evasion or ‘gaming’ the system. For instance, front organisations’ could be created to channel large donations from a single source via multiple bodies donating £50,000 each. Alternatively, wealthy families could switch from making a large single donation (e.g. £250,000) to making several £50,000 donations.	The level of the cap would need to be agreed, as would the time period over which it would apply. The granting of additional powers to the Electoral Commission would probably be necessary, and the parties/donors would need to accept the possibility of EC investigations into the possible evasion. One option would be to introduce the cap at a relatively high level and to progressively taper it down over a 5-10 year period, allowing the parties time to diversify their income base. The progressive lowering of expenditure caps over the same period might also assist the parties in adjusting to any loss of income. An increase in state funding could also compensate for the reduction in donation income.	This reform is strongly supported by The Liberal Democrats, the SNP, Plaid Cymru, and the Greens – all of whom would advocate a cap of significantly less than £50,000. Labour’s stance is sceptical, on the grounds that caps are unlikely to have the desired effect, particularly in relation to the scope for the Conservatives to generate donation income. The Conservatives would accept a £50,000 donation cap as part of a broader package of reforms.	The proposal for a £50,000 donation cap was broadly accepted by the parties in their response to the Phillips review. There is no fundamental opposition to a donation cap, although neither of the main two parties is an enthusiastic supporter. Conservative support would be contingent on agreement about the trade union levy. A donation cap would have to be combined with either greater state funding (see reform option 4) and/or a reduction in campaign expenditure limits (see reform option 2).
2. Lower the cap on campaign spending at general elections	The current expenditure limit for political parties at general elections (currently around £20 million each) is lowered by an agreed amount	Party spending at general elections remains high by historical standards. Reducing the amount which parties can spend would create a more level playing field and reduce the dependency of parties on large donations.	It is difficult to agree a comprehensive definition of campaign spending – and parties may increase spending on related items which they argue fall outside of the regulated categories.	The reduction in expenditure limits could be phased-in over the period of several general elections. A phased approach could also be linked to the introduction of either a donations cap and/or a future increase in the availability of state funding.	The Liberal Democrats and Labour would support reduced spending limits, as would the smaller parties. All parties agree that money is wasted in election campaigns and spending could be reduced.	It is likely that all parties would accept this proposal with or without a broader reform package. None of the parties argues against lowering the current expenditure ceiling.
3. Apply a cap on all party expenditure over a full Parliamentary term – to cover operational costs as well as spending at all types of election.	The existing regulations about party spending limits at elections would be removed and replaced by an agreed single sum available to parties to spend over a full Parliamentary term.	Parties find it difficult to manage/plan campaign spending when the dates of general elections are not known. The proposal would grant maximum flexibility to political parties in how they spend their money and help facilitate medium-term planning around agreed priorities.	This system would carry the risk of political parties reducing campaign expenditure at local, devolved and European elections in order to increase spending at general elections – generating a fresh spending ‘arms race’.	It would be possible to supplement the five-year expenditure ‘window’ with levels of maximum spend for any individual financial year, thus preventing parties from further concentrating available resources on general elections.	Support for a proposal along these lines has not been fully tested, but it is likely that the Conservatives would oppose unless the arrangements represented a reduced regulatory burden for political parties.	There is likely to be limited prospect in the short-term to agree expenditure limits for 5 year periods. However, an reform package could potentially include agreement to review the case for limits over full Parliamentary-terms following the 2015 General Election.

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4. Introduce higher levels/new forms of state funding of political parties	Political parties would receive a direct subsidy from general tax revenues, allocated on the basis of electoral performance (votes or seats won) and/or as match-funding for membership fees or revenues generated by local parties.	Any restrictions on donations will create a shortfall in party funds which will seriously reduce the capacity of parties to undertake the tasks expected of them. State funding of political parties have become the international norm, particularly in Western Europe. It is the only viable alternative to parties seeking donations from large organisations and/or wealthy individuals. Funding could be directed towards specific objectives such as increasing party membership, engaging with younger voters, or reviving campaigning by local parties.	State funding can create a culture of political parties becoming dependent upon public subsidy and removes the motivation for parties to recruit and retain members. Parties may become more a part of the machinery of government than a part of civil society. Public support for state funding has never been strong and the case for state funding would be especially difficult to make during a period of deep public expenditure cuts.	State funding could be phased-in over the medium term as the public finances stabilise and likely voter hostility lessens. Alternatives to additional direct public subsidies could also be considered. For instance, existing indirect subsidies could be extended and parties could be encouraged to make fuller use of them. Another option would be to re-direct some existing state subsidies (e.g. Short money, policy development grants) to other purposes. State funding options should also be considered alongside the possibility of granting special tax status to political parties/donations.	<p>Increased state funding is supported by The Liberal Democrats, the SNP, Plaid Cymru, the Greens and UKIP – all of whom recognise the difficulty of introducing it in the short-term.</p> <p>Labour is likely to be ‘moderately in favour’ of higher state subsidy over the medium-term.</p> <p>The Conservatives remain sceptical about the proposal to increase state funding.</p>	<p>While agreement on state funding was reached in cross-party talks in 2007, any short-term increase in state funding is effectively ruled out by all three main parties.</p> <p>There is some scope to agree on state funding in the medium-term.</p> <p>The Conservatives would probably accept proposals for more state funding if a) it was crucial to reaching a settlement; b) it could be reconciled with public opinion; and c) Labour and the Trade Unions would agree to clear ‘opt-in’ arrangements for the payment of affiliation fees.</p>
5. Grant donations to political parties special tax status, such as would apply to charitable organisations	Extend all or some of current options for ‘tax efficient’ charitable giving to political parties – e.g. Gift Aid, payroll giving, Capital Gains Tax relief, income tax relief.	The policy would help encourage more people to donate to political parties. Treating donations to political parties as equivalent to donations to charitable causes would help remove the implied stigma associated with supporting a political party financially. One-third of European countries already offer some form of tax-based incentives for donors to political parties. Tax-relief would be less controversial than an increase in direct public subsidy.	Any form of tax-relief would exclude millions of electors who do not pay income/capital gains tax and would have a disproportionate appeal to those on high incomes or with extensive financial wealth/assets. Any such scheme could be portrayed as state funding ‘via the back door’ and could risk public backlash – especially if such schemes appeared to offer the ‘usual’ wealthy donors scope to evade payment of income or capital gains tax.	The options for tax-relief in relation to donations are potentially broad-ranging, but have not previously been considered in any detail.	<p>Tax-relief was put forward by the Neill Committee in 1998 but was not taken up. The Phillips review put the emphasis on direct state funding rather than indirect subsidy via tax-relief.</p> <p>Labour advocated that donations be eligible for gift-aid in its submission to the Phillips review.</p> <p>Conservatives would potentially support this proposal, particularly if there was evidence that it could broaden the base of donations.</p>	There appears to be no major opposition to this as a reform option. However, more detailed proposals would need to be brought forward. In particular, modelling of the likely impact on party funds would be needed, particularly if a donation cap were also applied.