

TAKE BACK CONTROL

How Big Money Undermines
Trust in Politics

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Take Back Control

How big money undermines trust in politics

10

donors accounted for over half of the reported donations to EU referendum campaigners.

19

the number of donors it took to bankroll the spending of both the official lead 'in' and 'out' campaigns during the EU referendum period.

100

donors accounted for 95 per cent of all reported donations to EU referendum campaigners. Over half of these donors had previously made significant donations to political parties.

76%

of UK respondents to Transparency International's latest Global Corruption Barometer (GCB) survey thought wealthy individuals often use their influence on government for their own interests and there should be stricter rules to prevent this.

£125million

is the amount of reported donations to political parties in the last 15 years that were made by companies – around a sixth of all published contributions since records began in 2001.

59%

over half of UK GCB respondents thought financial support by companies to political parties and candidates should be banned completely.

28%

of UK GCB respondents thought 'most' or 'all' Members of Parliament are involved in corruption.

27%

of UK GCB respondents thought 'most' or 'all' Prime Ministers and officials in their office are corrupt.

Introduction

UK democracy is suffering from a crisis of confidence. According to Transparency International's (TI) latest Global Corruption Barometer (GCB)¹, over a quarter of UK respondents **(28 per cent) thought that most or all MPs were corrupt**. A similar proportion **(27 per cent) thought the same of Prime Ministers and officials in their office**.

Mistrust in politics is corrosive. When people feel their voices are not heard and their representatives are only out to serve themselves, it undermines their faith in the political process. As crises across Europe and the EU referendum have shown, this can lead to a wholesale rejection of the established order and a radical reshaping of the political landscape.

To remain relevant in a rapidly changing and uncertain world, UK political parties and politicians need to win back the trust of citizens. To start with, they need to deal with the perception and reality about the corrupting influence of money on UK politics.

Across Europe and the Western world there is a perception that wealth can buy access and influence; the UK is no exception. The GCB survey found that **76 per cent of UK respondents strongly believed that wealthy individuals exert undue influence on governments and action needs to be taken to stop this**. There was also significant concern about corporate influence, with **59 per cent of respondents agreeing that financial support by companies to political parties and candidates should be banned completely**. Taken together, our survey clearly shows that the public want tougher controls on money in politics and action to prevent corruption.

Since 2000, there have been several positive reforms in this area with cross-party support. From 2001 substantial donations to political parties have been made transparent, and since 2006 loans have been disclosed, too. However, these were knee-jerk responses to corruption scandals that shook Westminster out of complacency, and have not gone far enough to engender the trust of the public. Fundamental reforms that would significantly reduce the risk of corruption in politics have remained elusive, despite being manifesto commitments made by most of the larger parties in the UK Parliament.

Without these essential reforms there will undoubtedly be more damaging corruption scandals for years to come. In the absence of greater controls on the supply of funding, political parties will continue to face accusations about selling access and influence in return for money. Without greater transparency about their finances, it will be all too easy for them to evade scrutiny of their probity. In the absence of tighter controls on election campaign spending, the demand for funding will continue to push political parties to bend the rules and solicit funds with subsequent recognition.

This is not to say that change isn't achievable; however, it should not be led by crisis. This reactive, short-termist approach to reform shows a lack of leadership from political parties and fuels distrust in the democratic process.

In 2015, the Conservatives, Labour and Liberal Democrats all pledged to reform how political parties are funded. There is also a clear pathway for reform, started by Sir Hayden Philips in 2007, built-upon by the Committee on Standards in Public Life (CSPL) back in 2011, and continued by the Lords Select Committee on party funding in 2016²; and there has been a lot of rhetoric from all sides for change. It's time all of the main players in this debate prioritise building public trust in politicians and show leadership by taking big money out of politics for good.

¹ This is a cross-national survey tracking peoples' experiences of corruption in their own countries. Data is based on GCB surveys during 2015 http://www.transparency.org/research/gcb/gcb_2015_16 [Accessed: 4 October 2016]

² <http://www.parliament.uk/trade-union-party-funding-committee> [Accessed: 30 September 2016]

Recommendations

In order to reduce the risk of corruption in UK politics the funding of political parties and their candidates needs to be reformed in three key areas:

- the **supply** of funding
- **transparency** of finances
- the **demand** for money

Before the next scheduled UK Parliamentary general election, UK political parties should collectively agree on and implement a package of reforms that would:

Recommendation 1: introduce tougher controls on the supply of money to political parties and their candidates by introducing a cap of £10,000 on donations per donor per year.

Recommendation 2: introduce tighter restrictions on corporate political donations by only allowing companies to donate if they can demonstrate that they are trading in the UK and earning sufficient income here to fund any contribution they make.

Recommendation 3: increase transparency and simplify reporting requirements in UK politics by reducing the reporting threshold for donations and loans to £500 in-line with the current threshold for 'permissible' political contributions.

Recommendation 4: introduce transparency about the funding of political parties in Northern Ireland before the end of 2017 by bringing forward the necessary secondary legislation that would implement the recommendations of the independent Electoral Commission.

Recommendation 5: relieve the demand for funding by reducing the national election campaign spending limit for political parties by 15 per cent in-line with the 2011 proposals by the Committee on Standards in Public Life and extending the scope of the limits to cover expenditure on all campaign staff.

There are a number of factors required to make these reforms effective.

As we have learnt from painful experience abroad, these need to be **implemented as a package** in order to ensure that existing corruption risks are not simply displaced elsewhere. This is not a pick-and-mix list of measures that can be adopted piecemeal.

The public are clear that they think money has a corrupting influence, so to address these concerns political parties will need to show they fully comply with both the spirit and the letter of the new rules. Tackling corruption requires **a change of mind-set** as well as amendments to laws, so publicly having the full support of political parties and their candidates is essential to preventing the new system from being undermined in practice.

The new rules also need to be enforced, which requires **a well-resourced and independent regulator**. This paper does not examine this issue; however, the Speakers' Committee on the Electoral Commission should ensure that the Commission has the sufficient resources and expertise necessary to effectively advise and police any proposed changes to these rules.

There should also be recognition that the pressures of political competition will inevitably push corruption to new and previously unseen areas. These are not reasons to stall reform, but recognition that there will be future challenges to removing corruption from UK politics.

Control the supply of contributions

In the UK, there is no limit on how much an individual or organisation can make in political contributions. So long as the donor or lender has a connection to the UK – for example, they are on a register of UK electors, are a UK-registered trade union or a UK registered company ‘carrying on business’ within the UK – they can contribute as much as they want.³ This free-for-all has seen the larger political parties in Westminster increasingly rely on a small number of big contributors.

This heavy reliance on a small number of donors leaves the door open to corruption, with contributions being offered in exchange for access and apparent influence, or subsequently being recognised with honours and positions; and political parties being unduly conscious of the policy positions of wealthy backers.

Millionaires’ club

Based on data published by the Electoral Commission, there are 52 individuals who have donated over £1million to a political party or referendum campaign since 2001. Their contributions total over £135million during this period. Although these 52 donors make up less than 0.0001 per cent of individuals who were eligible to donate, their contributions account for over 16 per cent of all donations reported by parties and referendum campaigners.

This corruption risk isn’t just evident in political party funding, referendum campaigns – which are often linked to parties’ policy agendas – are also heavily reliant on a small number of donors to fund their activities. Based on Electoral Commission data we found that:

- **over half of all reported donations to EU referendum campaigners came from just 10 donors⁴**
- **the official ‘in’ and ‘out’ campaigns received more money from just 19 private donors than the £7million they could each legally spend during the whole EU referendum period⁵**
- **95 per cent of all of the reported donations to EU referendum campaigners came from just 100 donors**
- **over half of all reported donors to EU referendum campaigners had also made significant donations to political parties in the past, totalling £76million**

Capture

When political parties and politicians become reliant on a small number of donors for their income they become more susceptible to ‘capture’ by sectional interests. This can involve big donors holding parties and politicians to ransom – for example, threatening to withdraw funding if a certain decision or course of action is or isn’t adopted – or parties and politicians mimicking what they think their big donors want them to do in order to retain their funding. This may be completely legal and the prerogative of the donor however it can contribute towards the perception, and possibly the reality, that donors have ‘captured’ certain policies or structures of political parties for their own ends.

³ The list of ‘permissible’ donors and lenders is defined in the Political Parties, Elections and Referendums Act 2000 (PPERA). Anyone who isn’t a permissible donor cannot donate or lend over £500 to political parties, politicians or non-party campaigners. This limit is £50 for donations to candidates at elections.

⁴ This is based on pre-poll donation reports to ‘permitted participants’ at the referendum – campaigners who weren’t political parties and wanted to spend over £10,000 on activities promoting either outcome during the regulated ‘referendum period’ from 15 April to 23 June 2016. It does not include donations to political parties during this period.

⁵ This is excluding the £600,000 in public money they were each provided under the referendum rules.

Case study: Labour leadership election

In the run-up to the Labour leadership contest in 2015, five individual donors who had historically contributed large amounts of money to the party publicly stated they would discontinue their financial support if Jeremy Corbyn was elected.ⁱ In the news reports of these announcements, it was noted that this would make the party heavily reliant on trade unions, some of whom have also threatened to withdraw funding in the past in response to disagreements with the party's leadership.ⁱⁱ

i <http://www.telegraph.co.uk/news/politics/labour/11792195/Labours-biggest-donors-pledge-to-stop-giving-cash-if-economically-illiterate-Jeremy-Corbyn-wins-race.html> [Accessed: 4 October 2016]

ii <http://www.telegraph.co.uk/news/politics/4799932/Union-threatens-to-withdraw-1-million-Labour-funding-over-Post-Office-row.html> [Accessed: 4 October 2016]

Cash for honours and peerages

Peerages are disproportionately awarded to big party donors, which creates a strong suspicion that they are illegally being awarded in return for cash and favourable loans from wealthy political funders. Research by academics at Oxford University backs this up. They calculated that the chances of the relationship between donations and the award of peerages being purely coincidental was equivalent to winning the lottery five times in a row.⁶ Since 2005, at least 28 big donors have been awarded peerages.⁷

There are also allegations that honours, such as knighthoods, are also used as a 'cheap' way of rewarding big donors. Whether these allegations or perceptions are true, the mere involvement of substantial political contributions constantly raises significant concerns about cronyism and public positions being given in recognition of donations.

Case study: David Cameron's resignation list

After a UK Prime Minister resigns, they are entitled to nominate individuals for honours and peerages. Since 1997, no Prime Minister has used this power. In August 2016, it was reported that David Cameron had included big donors to the Conservative Party in his resignation honours list, including Ian Taylor, who was reported to be nominated for a knighthood.ⁱ

Ian Taylor has personally made £1.67million in donations to the party since 2006 and £409,000 to various referendum campaigns that supported David Cameron's position on Scottish independence and the UK's membership of the EU.

The revelations attracted significant media attention including allegations about Ian Taylor's oil company, Vitol, and its operations in Serbia, Libya, Iran and Iraq. In response, he requested that his Knighthood not be taken forward by the new Prime Minister, Theresa May.

i <http://www.dailymail.co.uk/news/article-3724040/Cameron-s-OFFICIAL-resignation-honours-reveal-knighthood-spinner-gong-losing-Remain-campaign-chief-peerages-staff.html> [Accessed: 30 September 2016]

⁶ Andrew Mell, Simon Radford and Seth Alexander Thévoz, *Is there a market for peerages? Can donations buy you a British peerage? A study in the link between party political Funding and peerage nominations, 2005-14*, Working Paper (March 2015) <http://www.economics.ox.ac.uk/materials/papers/13888/paper744.pdf>

⁷ Andrew Mell et al, *Is there a market for peerages?* p.28

Cash for access

In a democracy, citizens should have an equal opportunity to access and make their case to politicians. However, some political parties openly sell privileged access to senior UK Government Ministers. Soliciting cash for access and potential influence is exactly the kind of behaviour that makes citizens think that politicians are working to further the interests of a small group of wealthy individuals and organisations.

Case study: Leader's Group

The Conservative Party openly advertises a donor club – the Leaders Groupⁱ – which solicits donations of £50,000 in return for dinners with senior Conservative Party figures, which have included Cabinet Ministers. Based on available data, 101 individuals have donated exactly £50,000 to the central party between January 2013 – when the club was started – and September 2016.

ⁱ https://www.conservatives.com/donate/donor_clubs [Accessed: 30 September 2016]

Offering access in return for political contributions undoubtedly has a negative impact on public perceptions about political parties' and politicians' probity. According to a survey by the Committee on Standards in Public Life in 2011, 81 per cent of respondents thought donors gave money to political parties with the expectation of receiving special favours in return or gaining access to decision-makers. Only 16 per cent of respondents thought donors gave money because they truly believed in the ideals and principles of the party.⁸

Cash for influence

In some cases, politicians have been willing to accept money in return for favours. Although most recent cases have involved politicians agreeing to lobby for commercial interests on a contractual basis, some have involved the direct promise of influence in return for donations. This is the crudest way in which money can distort the democratic process whereby a public official attempts to affect a course of behaviour or action in return for remuneration.

Case study: Ibrahim Taguri

In 2015, the Liberal Democrat's head of fundraising and then Parliamentary candidate for Brent Central, Ibrahim Taguri, was caught on camera offering an undercover journalist from The Telegraph access and influence in return for political contributions. When Ibrahim Taguri was specifically asked if he could secure influence for the potential donor, he replied "when you do this [make a donation of between £50,000 to £100,000], the doors will open for you".ⁱ

As well as promising influence in return for cash, he also highlighted ways in which the prospective contributions could be made anonymously by evading the transparency rules. Evading the rules on political donations is a criminal offence under the Political Parties, Elections and Referendums Act 2000 (PPERA).

As a result of the affair, Ibrahim Taguri resigned as the Liberal Democrats Parliamentary candidate for Brent Central. The party's vote share in that constituency also dropped the most out of all seats they contested.

ⁱ <http://www.telegraph.co.uk/news/politics/liberaldemocrats/11465752/How-dodgy-donor-was-courtied-by-Liberal-Democrats.html> [Accessed: 30 September 2016]

⁸ Committee on Standards in Public Life, *Political party finance: Ending the big donor culture* (November 2011) p.22 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228646/8208.pdf

Although there have not yet been any criminal bribery cases in the UK involving political contributions being made in return for influence, there is a significant public perception that big money is having an undue effect on UK politics. TI's latest GCB survey found that **76 per cent of respondents strongly believed that wealthy individuals often use their influence on government for their own interests and there should be stricter rules to prevent this.**

Case study: Peter Cruddas

In March 2012, The Sunday Times published a number of articles alleging that Conservative Party Treasurer, Peter Cruddas, had offered privileged access and influence to undercover reporters in exchange for large political donations.

After an initial legal challenge by Cruddas, the Court of Appeal found these allegations to be true.

When summing-up, Lord Justice Jackson concluded:

*"Mr Cruddas was effectively saying to the journalists that if they donated large sums to the Conservative Party, they would have an opportunity to influence Government policy and to gain unfair commercial advantage through confidential meetings with the Prime Minister and other senior ministers"*ⁱ

ⁱ http://www.thesundaytimes.co.uk/sto/multimedia/archive/01136/Cruddas_v_Calvert_1136659a.pdf

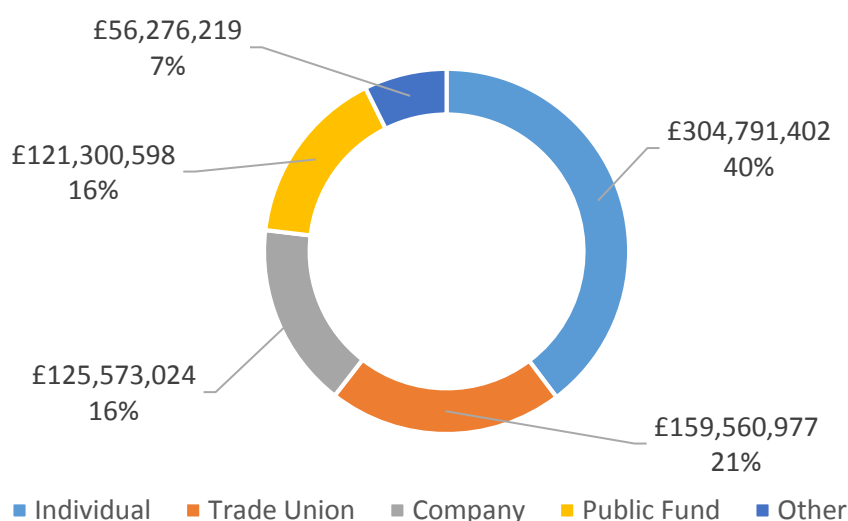
Without imposing limits on the amount that can be contributed to political parties, the corrupting influence of big money on government will surely continue.

Recommendation 1: introduce tougher controls on the supply of funding for political parties and their candidates by introducing a cap of £10,000 on donations per donor per year.

Corporate donations

Unlike the US and France, the UK has not imposed a ban on companies donating to political parties. As of September 2016, companies had given over £125million to political parties since 2001, around a sixth (16 per cent) of all published donations.

**PERCENTAGE OF DONATIONS TO POLITICAL PARTIES BY DONOR TYPE
(JAN 2001 - SEPT 2016)**



According to TI's latest GCB survey, there are significant concerns amongst the UK's general public about political contributions from companies – **59 per cent of respondents agreed that financial support by companies to political parties and candidates should be banned completely**. It is not clear why there is such a high level of suspicion about corporate donations however it could be connected to concerns about the undue influence of wealthy donors on UK politics.

Case study: Brian Souter

In September 2016, the Labour Party raised questions about a £7.3million public grant given by Scottish Enterprise – a Scottish Government non-departmental public body – to bus manufacturer Alexander Dennis Ltd (ADL). The majority of ADL shares are owned by another company, HGT Investments Ltd (HGT), whose largest shareholder is Brian Souter. Souter also owns the transport company Stagecoach, which is a bus operator in Scotland, and has given £2.6million to the Scottish National Party (SNP) since 2007. He is not a director of ADL and is reported not to have a role in the day-to-day business of the company.

Although there is no evidence to suggest that the award was given in response to Souter's past political donations, this case highlights the potential for conflicts of interest.

http://www.heraldsotland.com/politics/political_news/14735761.Row_over_7.3m_grant_to_firm_linked_to_SNP_donor_Sir_Brian_Souter/ [Accessed: 30 September 2016]

TI-UK's guidance to companies is not to make political contributions because of the associated reputational risks involved for them.⁹ Shareholders may not approve of the donations, it could adversely affect their standing amongst customers and could lead to suspicions of a reciprocal arrangement with the recipient. If they must make a contribution, it is recommended that the contribution is made transparently and preferably limited to initiatives that are aimed at providing genuine support for a democratic process. However, there are also significant risks for political parties when accepting corporate contributions.

Foreign interference in UK politics

To contribute to a UK political party, politician or other political campaigns¹⁰, companies only have to be registered and 'carrying on business' in the UK. Previous casework into alleged breaches of these rules has shown that this is a relatively low bar for companies to pass and difficult to enforce in practice.¹¹ This means there is a risk the ban on donations from overseas individuals can be easily circumvented, leading to potential outside influence in UK political affairs. In the US there have been allegations about Paul Manafort – Donald Trump's former campaign manager – channelling Ukrainian money to US lobbying firms, and in Australia there have been concerns about donations from Chinese firms to its political parties. These examples show this is a real, significant and present risk to Western democracies.¹²

⁹ Transparency International UK, *Wise Counsel or Dark Arts? Principles and guidance for responsible corporate political engagement* (December 2015) <http://www.transparency.org.uk/publications/wise-counsel-or-dark-arts-principles-and-guidance-for-responsible-corporate-political-engagement/>

¹⁰ For example, referendum campaigners and 'non-party campaigners' seeking to influence how the electorate votes at elections whilst not standing candidates.

¹¹ The Electoral Commission, *A regulatory review of the UK's party and election finance laws* (June 2013) pp.41-43 http://www.electoralcommission.org.uk/_data/assets/pdf_file/0008/157499/PEF-Regulatory-Review-2013.pdf

¹² http://www.huffingtonpost.com/entry/paul-manafort-russia-ukraine-money-lobby_us_57b4736ae4b04ff88399a5f0 [Accessed 29 September 2016] and <http://www.news.com.au/finance/business/political-donations-highlight-growing-concerns-over-chinese-influence-in-australia/news-story/4dd02ea4f22f7a42a187cd930d5275a5> [Accessed: 30 September 2016]

Case study: EU referendum and Better for the Country Ltd

According to data published by the Electoral Commission, a company called Better for the Country Ltd donated £2.1million to five different 'leave' campaigners between March and June 2016, just before polling day for the EU referendum. The company was incorporated on 25 May 2015. At the time of writing the company was yet to submit its first annual accounts, which are due on 27 February 2017.

It is legal for UK registered companies 'carrying on business' in the UK to make political donations and there is no evidence to suggest that Better for the Country Ltd was involved in channelling illegal donations to campaigners. However, the fact that it was able to make contributions so soon after being incorporated and without a history of trading raises questions as to the purpose and effectiveness of the current rules, which are supposed to ensure companies are not used as discreet vehicles for funds that would otherwise have been illegal.

In order to ensure that funds aren't channelled through companies to political parties, there needs to be a requirement to show that the money involved is genuinely from commercial activities. This could be done by only allowing donations if they could be covered by the operating profit of the company in the same way as for dividends. There would be some technical details to define how this would work in practice, but this is an obvious way to raise the currently low threshold for making permissible corporate contributions.

Reputation laundering

Through our research on grand corruption we have identified that corrupt individuals, organisations and regimes often try and use UK institutions and professional services to hide their crimes.¹³ This can include courting political connections to help secure impunity or ingratiating themselves with elites to help present their ill-gotten wealth with an air of legitimacy. The same type of behaviour has also been identified amongst fraudsters and those under investigation for handling illicit funds. Accepting donations from these individuals and organisations may help parties' finances in the short term, but it can also cause significant reputational damage to them when the donor's past is exposed.

Case study: Michael Brown and 5th Avenue Partners Limited

In the run-up to the 2005 UK Parliamentary general election, the Liberal Democrats received £2.4million from a company called 5th Avenue Partners Limited. The company's Director, Michael Brown, was later arrested and then convicted of large scale fraud involving more than £60million. During his trial, the court was told that Brown had given the donation to the Liberal Democrats in order to give himself an air of respectability.ⁱ Although the party was cleared by the Electoral Commission of any wrongdoing, it faced numerous calls to return the money.

ⁱ <https://www.theguardian.com/uk/2012/apr/22/lib-dem-donor-michael-brown-missing-millions> [Accessed: 30 September 2016]

Political donations from companies can be a corruption and reputational risk for both the donors and the recipients. To help mitigate these risks we encourage companies to only make political contributions in limited circumstances where it is for a specific purpose that is in the public interest. To help prevent companies being used as vehicles for illicit funds and undue influence from abroad, there also needs to be tighter rules on when companies can donate to political parties, politicians and other political campaigners.

Recommendation 2: introduce tighter restrictions on corporate political donations by only allowing companies to donate if they can demonstrate that they are trading in the UK and earning sufficient income here to fund any contribution they make.

¹³ Transparency International UK, *Paradise Lost: Ending the UK's role as a safe haven for corrupt individuals, their allies and assets* (April 2016) <http://www.transparency.org.uk/publications/paradise-lost/>

Increase transparency about money in politics

Reporting by political parties

Although political parties have to check the identity and legality of those contributing over £500, they only have to report donations and loans over this amount to the Electoral Commission when they aggregate over certain thresholds. This is currently £1,500 for local branches and £7,500 for parties' HQs.

The original intent of the thresholds was to provide a balance between the imperative of transparency and the need for proportionality, both in terms of the administration for parties and the privacy of individuals making political contributions.¹⁴ However, in a world with annual donation caps of £10,000, monitoring smaller contributions becomes a necessity to ensure compliance with the rules and smaller amounts of money become proportionately more important. The same principle is already applied to donations given to candidates at elections, who have to report every donation they receive over £50.

Although there may be concerns about the administrative burden of lower reporting thresholds, feedback by political parties to a review of the rules in 2012 highlighted that administratively it would be easier to report contributions over £500, which they have to check anyway in order to comply with the law.¹⁵ Therefore, to ensure there continues to be meaningful transparency about money in UK politics and to reduce the administrative burden on parties, the reporting threshold for donations and loans should be reduced to £500.

Recommendation 3: increase transparency and simplify reporting requirements in UK politics by reducing the reporting threshold for donations and loans to £500 in-line with the current threshold for 'permissible' political contributions.

Northern Ireland

Whilst there is transparency around the funding of political parties in Great Britain, there is still no public information about who contributes to political parties in Northern Ireland. This was originally meant as a precautionary measure to protect the security of individuals and businesses after the ending of the troubles in this part of the UK. Since then the security situation there has changed and in 2014 the UK Parliament passed a law to enable these contributions to be made publicly available.¹⁶ This initiative has support from the independent Electoral Commission and voters¹⁷, and some parties are already publishing their donations online voluntarily.¹⁸ However, the transparency arrangements for Northern Ireland still have not been brought into line with the rest of the UK.

Opacity poses a corruption risk and should be removed at the earliest possible opportunity.

The UK Coalition Government published and consulted on draft secondary legislation that would introduce transparency over the funding of Northern Irish political parties.¹⁹ This should now be brought before Parliament to show the current UK Government it is committed to opening-up politics to greater transparency.

Recommendation 4: introduce transparency about the funding of political parties in Northern Ireland

before the end of 2017 by bringing forward the necessary secondary legislation that would implement the recommendations of the independent Electoral Commission.

¹⁴ CSPL, *The Funding of Political Parties* pp.51-53

¹⁵ Electoral Commission, *A Regulatory Review* p.28

¹⁶ <https://www.gov.uk/government/news/northern-ireland-bill-published> [Accessed: 28 September 2016]

¹⁷ Electoral Commission, *Winter Tracker Research Survey* (January 2016) p.5

http://www.electoralcommission.org.uk/_data/assets/pdf_file/0009/196767/Winter-Tracker-public-opinion-survey-2015-toplines.pdf

¹⁸ <http://www.greenpartyni.org/donate-2/published-donations/> and <http://allianceparty.org/page/donation-reports> [Accessed: 28 September 2016]

¹⁹ <https://www.gov.uk/government/consultations/increasing-the-transparency-of-donations-and-loans-to-northern-ireland-political-parties> [Accessed: 28 September 2016]

Limit the demand for funding

The demand for funding has long been recognised as a key vulnerability of politicians to corruption.

The demand for big money in UK politics is fuelled by the weak controls on spending by political parties. Currently, each political party can spend up to just under £19million on 'national' campaigning at UK Parliamentary general elections.²⁰ These limits were introduced in order to provide a level ceiling on spending by the larger parties and prevent a never-ending 'arms race', which would put pressure on them to accept money from illegal or ethically questionable sources. However, there are two major issues with these rules, which mean they are not achieving their intended purpose.

Limits set too high

When the Committee on Standards in Public Life first considered national spending limits for election campaigns back in 1998, it saw they could help "prevent undue concentration on fundraising".²¹ The limits on national campaign spending introduced in 2000 have certainly helped check a never-ending competition to spend more and more funds. And the UK's ban on paid-for TV advertising – something that fuels significant amounts of expenditure in the US – helps to confine spending to less costly items, such as leaflets, billboards and increasingly online media. However, the Committee noted in its most recent report on party funding the "There is no evidence, however, that the limit on national campaign spending has been a constraint in practice" and that "if a reduction in spending limits is to have any effect in reducing the pressures on political parties to raise funds the cuts need to be significant."²²

Case study: Loans for honours and the 2005 general election

In the run-up to the 2005 general election, the Labour Party was spending more than it was receiving in donations and had to take out a number of private loans from individuals to fund its campaign.ⁱ Although these contributions were substantially over the reporting threshold for donations to political parties, they were not made public because they were technically 'commercial loans' – a significant loophole in the rules.

In March 2006, the Metropolitan Police initiated an investigation into allegations that a number of these loans had been solicited in return for peerages. Although this did not result in any criminal convictions, the four nominated peerages involved were all blocked by the House of Lords appointments commission. In July 2006, Parliament passed a law extending the existing controls and reporting requirements to include commercial loans to political parties and politicians.

ⁱ http://news.bbc.co.uk/1/hi/uk_politics/5190232.stm [Accessed: 30 September 2016]

ⁱⁱ <https://www.theguardian.com/politics/2007/oct/11/partyfunding.uk> [Accessed: 30 September 2016]

²⁰ These are separate from the 'local' candidate spending limits, which have their origins in laws developed at the end of the nineteenth century to provide for a relatively level playing field on how much individual candidates could spend on their election campaign.

²¹ Committee on Standards in Public Life, *The Funding of Political Parties in the United Kingdom* (October 1998) p.120
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/336870/5thInquiry_FullReport.pdf

²² CSPL, *Political party finance* pp.55-56

Staff costs excluded

One of the biggest costs incurred by political parties is staff expenditure. On average, the Conservatives, Labour and Liberal Democrats collectively spend £27million every year on employees.²³ Although many of these will be core personnel, there are increases in staff costs during UK Parliamentary general election years. Based on our analysis, the Conservatives, Labour and Liberal Democrats spent at least £30m on staff costs in 2015 alone. This constituted over a third of their spending in that year.

Despite staff costs taking-up a significant proportion of parties' annual expenditure, they are not covered by the national campaign spending limits at major elections. This allows parties to spend unlimited amounts of money on campaign staff costs, which puts more pressure on their finances. The independent Electoral Commission has recommended that campaign-related staff costs should be subject to the existing controls on spending to make the limits meaningful.²⁴ There are also controls on staff costs for candidates and other political campaigners at elections and referendums, which shows these proposals are workable in practice.

To help reduce the pressure on fundraising for parties, which can increase the risk of money being solicited in return for favours, access and influence, there should be tighter controls on what they spend at major elections.

Recommendation 5: relieve the demand for funding by reducing the national election campaign spending limit for political parties by 15 per cent in-line with the 2011 proposals by the Committee on Standards in Public Life and extending the scope of the limits to cover expenditure on all campaign staff.

²³ This is based on data between 2010 and 2015 and only includes the details of staff employed by the parties' headquarters, it does not include those employed by their regional or local branches.

²⁴ Electoral Commission, *A regulatory review of the UK's party and election finance laws: Recommendations for change* (June 2013) p.50 http://www.electoralcommission.org.uk/_data/assets/pdf_file/0008/157499/PEF-Regulatory-Review-2013.pdf

