

The limitations of illustrating our package of recommendations

The Committee on Standards in Public Life's 13th Report on Political Party Finance contains headline illustrations of the possible impact of various levels of donation cap and different methods of public funding. These illustrations are based on historical information only and show what the impact of a donation cap or additional public funding might have been, had they operated over the period 2001-2010. The illustrations make no assumptions about how the parties might adapt to any of the recommendations contained in the report.

It is important to draw attention to a number of important limitations and caveats with the illustrations.

Firstly, the data on donations provided by the parties to the Electoral Commission is not directly comparable with the information they provide in their statements of account. The data on donations provided to the Electoral Commission is consolidated to include accounting units as well as the central parties. The information in the central party statements of accounts does not include information about accounting units¹ but does include unreported donations at the central level. Each party has different practices for receiving and handling donations.

Unless otherwise stated, the income and expenditure information we have used throughout the report is taken from the accounts of the central parties only. The accounts for the different parties are not directly comparable because each party uses a number of different accounting practices. For the Liberal Democrats we combined the central party accounts with those for their Parliamentary Office, through which they receive and account for Short and Cranborne money so that they were more comparable with the accounts for the Conservative and Labour Party central parties, through which those parties receive and account for their Short and Cranborne money.

Illustrations were only prepared for the three main parties on the basis that the smaller parties rarely receive large donations and most would fall outside of the proposed regime.

Despite the significant caveats we believe there is value in illustrating what the impact of our package of recommendations might have been. It would certainly have been remiss of us to disregard the possible financial effects because of limitations in the available data.

Donation caps

The data on reported donations covers the period 01/01/2001 to 31/12/2010 and was taken from the Electoral Commission database. This includes information about donations over £1,000 to accounting units and donations over £5,000 to central parties (or over £1,500 and £7,500 since the *Political Parties and Elections Act 2009*). Public funds, rejected donations and donations to regulated donees were excluded from the donation cap modelling.

The names of donors and the bodies to which they donated are not fully standardised on the Electoral Commission database. In our attempt to illustrate a donation cap, certain assumptions were made about similar named individuals and organisations in order to allocate donations to unique donors. There may be instances where this attempted standardisation has been incorrect.

The historical impact of different donation caps was estimated by isolating the relevant data and reducing all donations above the respective cap level down to the level of the cap. The formula assumed that a cap had been introduced which limited the amount that a unique donor could have given to a single party (including all of its accounting units) over the course of a calendar year.

The donation caps were calculated by year and by Parliament. Because donations are only reported on a quarterly basis, the Parliament was approximated to the closest calendar year.

To illustrate the possible effect of donors spreading large donation over a number of years, it was assumed that all donations over the relevant cap level were spread over the course of a Parliament. For example, if a donor gave £1 million, a £50,000 cap would have allowed them to give £50,000 a

¹ There are a number of intra-party transfers, the extent and destination of which cannot be determined from the accounts.

year for five years, thereby reducing the £1 million to £250,000. A Parliament was approximated to the closest calendar year.

A number of assumptions were made in order to illustrate the potential impact of excluding affiliation fees from the donation cap. Only affiliation fees from trade unions were isolated. It is not possible to tell from the Electoral Commission database which donations from trade unions were affiliation fees and which were other forms of donation. For the purposes of this illustration it was assumed that the amounts declared as affiliation fees in the central Labour Party statements of account were the only affiliation fees. This is likely to be an underestimation as trade unions also affiliate at the local level. It is also possible that trade unions affiliate additional members at the local level but the amounts are under the reporting threshold.

The relevant calculation assumed that affiliation fees were excluded but all other contributions from trade unions were subject to the donation cap. To estimate the impact of various donation caps, it was assumed that each trade union paid the same percentage of affiliation fees and donations each year (or Parliament). In reality, the ratio of donations to affiliation fees varies from union to union and so the impact of a cap might be higher or lower in any given year.

Tax relief

The illustrations for basic rate tax relief were calculated in two stages. For reported donations, donations from individuals were isolated. The value of individual donations up to £1,000 was increased by 25%. The same uplift was applied to membership fees as declared in the parties' statements of account. This is likely to be an underestimate as the parties process membership fees at different levels so some may not be declared in the central party accounts. In addition, and more significantly, £1,000 is below the reporting threshold for donations to local and central parties so we do not know the exact value of those donations. To partially address this issue, we estimated unreported donations.

For unreported donations, the calculation was split into two stages. For the central parties, the value of donations declared to the Electoral Commission was subtracted from the value of donations (and affiliation fees) declared in the parties' statements of account. It was assumed that the proportion of donations from individuals was the same for unreported donations as for reported donations. It is not possible from the available data to isolate which of these donations were below £1,000. All were assumed to qualify for basic rate tax relief.

For unreported donations to accounting units, the calculation required more assumptions. Accounting units are only required to submit statements of account to the Electoral Commission if their gross income or total expenditure exceeds £25,000 over the financial year. Donations to accounting units that submitted accounts in both 2008 and 2009 were subtracted from the donations that they reported to the Electoral Commission in the same period to determine an average level of unreported donations. All accounting units that did not submit accounts to the Electoral Commission were assumed to have received 10% of the donations received by those which did submit accounts. 10% was used on the basis that the parties told us a number of accounting units that do not submit accounts are not operational and those which are receive few donations. The proportion of unreported donations to accounting units that came from individuals was assumed to be the same as for reported donations. All unreported donations to accounting units from individuals were assumed to qualify for basic rate tax relief, even though some donations may have exceeded £1000.

Pence per vote

The number of votes a party received in general elections, elections to the devolved legislatures and to the European Parliament was multiplied by varying monetary amounts. The elections used for the purpose of these illustrations were those that would have generated funding payable during 2001-2010.