

# Who pays for the party, and why?

## Stuart Wilks-Heeg discusses why party funding reform has failed to allay concern about possible corruption

In the mid-1990s, as accusations of 'sleaze' in British politics mounted, concerns were expressed in the media and by opposition parties about the governing Conservative Party's sources of income. Despite the efforts of senior Conservatives to keep sources of the party's funding secret, even from its own board of finance, details began to be made public. Evidence of Conservative Party reliance on corporate donations was painstakingly compiled from the annual accounts of large public companies by the Labour Research Department (LRD) and reported regularly in its monthly magazine, *Labour Research*. Reports of large donations from wealthy foreign businessmen, notably John Latsis, Y K Po and Asil Nadir, appeared in the press. Details also emerged of a variety of conduit organisations used to channel money from big companies to the Conservatives, and the party's use of disguised off-shore accounts for some donation income was admitted.

The apparent secrecy surrounding the Conservative's funding arrangements in the mid 1990s inevitably gave rise to suspicion. Accusations were made, some more concrete than others, that many of these large donations were one side of a *quid pro quo*, with donors receiving honours or policy influence in exchange for their generous 'gifts'. Analysis demonstrated that the top executives of companies donating to the Conservatives were far more likely to receive honours than their counterparts in companies which had not supplied funds (Linton, 1994). The apparent correlation was routinely dismissed by Conservative

Party politicians and officials as sheer coincidence, particularly in the absence of evidence that honours had ever been promised.

Nonetheless, there was a growing public perception of party funding as 'sleazy' and Tony Blair's Labour Party was keen to capitalise on the issue. Labour's 1997 manifesto promised 'reform of party funding to end sleaze' as part of a package of measures to 'clean up politics'. Yet, within weeks of taking office, the incoming Blair government found itself accused of 'sleaze'. Following ministerial attempts to persuade the EU to exempt Formula 1 from a ban on tobacco advertising in sport, it emerged that Labour had received a £1 million pre-election donation from Bernie Ecclestone, Chief Executive of Formula 1. Claims of impropriety were, of course, denied and no evidence of any agreement or understanding could be produced. But the Ecclestone affair underlined the need for reforms to tackle popular perceptions of possible corruption (Wilks-Heeg and Crone, 2010).

### The theory: sunshine is the best disinfectant

New Labour's reforms were duly delivered by the *Political Parties, Elections and Referendums Act 2000*. Under this legislation, and subsequent amendments, political parties in Great Britain are currently required to disclose the source of all donations and loans over £7,500 to the Electoral Commission on a quarterly basis. These donations are published on the commission's website via a fully searchable register. Donations from overseas are prohibited as are anonymous donations of any kind. There are also

limits on how much political parties can spend nationally on general election campaigns.

There can be no doubt that the 2000 Act has removed a great deal of secrecy in the funding of political parties. The Electoral Commission's registers of donations and loans are used routinely by journalists, bloggers and campaigners concerned about the possible influence of money on political decision-making. These forms of scrutiny are precisely what disclosure of donations is intended to facilitate, based on the principle that 'sunshine is the best disinfectant'. In other words, the very act of bringing party finance into the light is supposed to ensure the highest standards of probity and integrity.

### Hiding donations where the sun don't shine?

Unfortunately, the theory behind the 2000 Act did not quite translate into practice. Donors have sometimes channelled money via unincorporated associations to disguise their sources (Wilks-Heeg, 2008). Several of the Conservative's most generous benefactors have split their donations between multiple family members and businesses, presumably to make the source of the money more difficult to trace (Wilks-Heeg et al., 2012). There are also concerns that transparency regulations may have prompted some donors to opt to instead channel their money to think-tanks with close connections to their favoured political party, for which no disclosure requirements exist (Beetham, 2011).

Even the apparently simple principle of outlawing donations from overseas has proved more difficult to enforce than anticipated. Consider, for instance, the donations to the Conservative Party made by Michael Ashcroft, Party Treasurer from 1998 to 2001, a Conservative Peer since 2000 and Conservative Party Deputy Chairman from 2005 to 2010. Ashcroft admitted in July 2010 that he was domiciled in Belize for tax purposes. Prior to this, he had donated more than £5 million to the Conservatives, primarily through one of his companies, Bearwood Corporate Services (BCS).

Complaints that BCS was not a permissible donor, because it was not trading in the UK, led the Electoral Commission to investigate. Since BCS was a UK registered company, the Commission was unable to say that the law had been breached, and no action was therefore taken. Yet it was clear from the Commission's report on its investigation that the source of the money donated by BCS appeared to originate from overseas:

*Funds passed on three occasions to BCS by way of share purchases. On two occasions, funds passed from a Belizean based company, Stargate Holdings Limited (Stargate), to a UK based company known as Astraporta UK (AUK). Funds then passed through share purchase from Astraporta UK to Bearwood Holdings Limited, another UK based company. The final step was for the funds to be passed through share purchase from Bearwood Holdings Limited (BHL) to BCS. There was subsequently a third purchase of shares in BCS - this time directly by Stargate. Stargate is registered in Belize and the Commission was unable to obtain any meaningful information about the sources of its funding.* (Electoral Commission, 2010)

### The 'risk' of corruption remains

Neither has the 2000 Act helped remove the perception of impropriety in party funding arrangements. Scandals associated with party finance have remained frequent. Accusations of 'loans for peerages' emerged in the mid-2000s. Police investigations of a potential breach of the *Honours (Prevention of Abuses) Act 1925* did not result in any prosecutions (indeed, nobody has been convicted for the sale of honours since 1933). However, the episode did prompt Labour to legislate to close the loophole in the 2000 Act which had meant that loans had hitherto gone undeclared.

Meanwhile, the reliance of the political parties on big donations has grown, with just 60 donors accounting for two-fifths of the

combined donation total income of the three main UK political parties (Wilks-Heeg et al., 2012). Given the relative ease with which donors can be identified, accusations continue to surface that largesse is frequently rewarded with honours. Claims that large donors are also able to influence policy through the granting of privileged access to senior party figures, including ministers, have also emerged. For example, Adrian Beecroft, a venture capitalist who has donated around £0.5 million to the Conservatives, was asked by the party to undertake a review of employment law. The report, published in May 2012, proposed significant dilution of workers' legal rights. Again, any suggestion that influence over party, or government, policy was being bought was vehemently denied.

Widespread suspicion of impropriety in party funding has a corrosive effect on British democracy. Surveys reveal considerable public disquiet about the extent to which political parties are influenced by their donors. Meanwhile, Transparency International UK (2006) has stressed that party funding arrangements in the UK create a vulnerability to fraud, 'increasing the risk of corruption and exacerbating public unease about influence over politicians'.

### The shortcomings of monitory democracy

The recent history of party funding reform has been typical of a wider shift in established democracies towards what John Keane (2009) has described as 'monitory democracy'. Keane posits that politics has transformed a system that is primarily about elections and representation into one in which democratic values and practices are embedded in the roles of a wide-range of democracy 'monitors', such as media outlets, think tanks, independent regulatory bodies, human rights organisations and so on. Keane describes monitory democracy as 'the deepest and widest system of democracy ever known' and a 'weapon for publicly exposing corruption ... bad decisions and hurtful acts'. Yet, the

recent experience of party funding arrangements in the UK suggests that while monitory democracy may well make it more likely that instance of potential corruption may be highlighted, there is little evidence that the public are assured by the process.

Certainly, mechanisms of monitory democracy subject the powerful to greater scrutiny than ever before. As a result, citizens are able to know a great deal more about politics than we used to. However, greater transparency and monitoring clearly does not enable us to be any more confident that opportunities for corruption are being minimised in UK politics. Crucially, the mechanisms of monitory democracy offer little in the way of response, once the dust has settled on media revelations about possible corruption. If revelations of apparent misconduct or corruption appear to result in no action, public confidence in democratic institutions can only continue to erode. ■

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