# Party Finance. Not a Broken System, but Some Reforms are Required

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**Abstract**
Elon Musk's rumoured donation of some £78 million to Reform UK has recently sparked off debate about party financing in the UK. Political party financing periodically appears on the political radar, with resulting calls for reform; some narrowly focussed, others calling for a complete overhaul, with some suggestions that the system is 'broken'. It would be an error, however, to suggest that the entire system of party finance regulation is 'broken'—reforms introduced in 2000 have actually been remarkably effective. But tweaks are required to ensure that it remains fit-for-purpose, including: additional regulation governing corporate donations; greater transparency related to donations made by citizens based overseas; and entrenching regular reviews of election spending limits. This short paper outlines the case for each of these proposed reforms.

**Keywords:** political finance, UK, donations, election spending, overseas voters, electoral law

## Introduction

THE RUMOURED DONATION of some £78 million to Reform UK by Elon Musk has recently sparked debate about party finance in the UK.[1] Party finance periodically appears on the political radar, with resulting calls for reform; some narrowly focussed, some calling for a complete overhaul, with some suggestions that the system is 'broken'. All systems of regulation face this from time to time, but party finance is one where these discussions often generate more heat than light. Certainly, at first glance, it could appear that the regulatory system cannot cope with the possibility of such a significant donation—particularly as the individual rumoured to be behind it is not even a British citizen. And if such a donation were to be made, it would surely challenge some of the foundations of the ways in which we regulate party finance in the UK. But that does not necessarily mean that the whole system requires an overhaul, not least because large elements of it continue to work well.

To get a more complete view of party finance, it's worth dwelling on what works and then considering what may need fixing. The main legislation covering matters of party finance is the Political Parties, Elections and Referendums Act 2000 (PPERA). In many ways, the act has been a success. Prior to PPERA, political party financing was effectively unregulated, save for candidate spending limits and limited declaration of donations by institutions (in company reports and trade union returns to the Certification Office). PPERA has successfully embedded many aspects of party finance regulatory reform. It has delivered transparency through the regular declaration of donations (including those made by individuals); created rules to restrict who may or may not make a donation (individuals must be on the electoral register and institutions must be operating in the UK); delivered election spending limits for party (in addition to the existing candidate) election expenses; and it has set up a permanent regulator (the Electoral Commission) to oversee things and deliver transparency. Moreover, repeated evidence shows that there are high levels of satisfaction with the Commission's work from those who are most likely to use its guidance.[2]

[1] W. Turvill, 'Will Elon Musk give Nigel Farage $100m to make him PM?', *Times*, 30 November 2024.

[2] J. Fisher, D. Cutts, E. Fieldhouse and B. Rottweiler, *Attitudes of Electoral Agents on the Administration of the 2015 General Election*. Electoral Commission,

But of course, no regulatory regime is free from challenges, and party financing is no different, with the rumoured Musk donation heightening concerns in some quarters about whether the regulatory system remains fit for purpose. Certainly, in recent years, three particular areas of concern have emerged: the risk of foreign money funding parties through company donations; the risk of money from outside the UK funding parties from UK citizens resident abroad; and the level of caps on election spending.

## Company donations

The Musk situation has reignited recent discussions about company donations. At the outset, it's worth making it clear that Musk cannot make the donation personally because he is not on the electoral register in the UK. Such a donation could only be made by one of his companies operating in the UK and as things stand, it would be permissible if the money came from these companies. The permissibility of any institutional donation means that there will always be a route for some foreign money to enter into domestic politics. Many corporations operate across several borders: even if a company's headquarters are in one country, a major client may be abroad and the meaningful differentiation between domestic and foreign money for the purposes of regulation becomes near impossible. At the time of writing (March 2025), no such donation from a Musk-owned company has been declared. Nevertheless, the potential for such a donation has focussed attention—largely because of its reported size—on whether the existing rules are in need of reform to prevent foreign money supporting UK parties, a principle PPERA outlaws.

There are four potential responses. The first would be to do nothing. In effect, while the risk has always been present, the potential Musk company contribution is very much the exception in terms of size. Nevertheless, even if such a donation does not materialise, doing nothing would mean there is the risk of a similar issue in the future.

The second option would be to follow the proposal of the Committee on Standards in Public Life report from 2021, which argued that donations from companies should be restricted such they can only come from profits generated in the UK.[3] This recognises the challenge of companies who operate across national borders, but restricts the donations to come from activity in this country. It is a sensible approach, but would unlikely prevent a potential sizeable donation from Musk-owned companies operating in the UK because they themselves generate substantial profits here. Good regulation is seldom generated from extreme cases, but equally, a legal donation of the size reported from such companies—even from profits generated in the UK—would be unlikely to pass the 'sniff test'.

The third option would be to place a cap on the size of any donation. Official reviews have proposed this type of approach in the past, with caps of either £10,000 or £50,000 suggested.[4] This would restrict any potential concerns with foreign influence via donations, but there would be other implications. It is very unlikely that the loss of party income as a result of caps would be made up from other existing sources.

A fourth option would be to prohibit institutional donations altogether, adopting a similar approach to that employed in Canada, where only individuals on the electoral register are permitted to make political donations, thereby banning donations from institutions. Such a move would have a simple appeal. Institutions (unlike citizens) do not have the vote, so it is not unreasonable to bar them from the possibility of influencing electoral outcomes by banning any donations from them. In addition, this would reduce the risk of foreign money entering domestic politics.

There are, however, possible consequences. First, barring institutional donations would

2015; J. Fisher and B. Rottweiler, *Research Among Permitted Participants at the EU Referendum*, Electoral Commission, 2016; J. Fisher and Y. Sällberg, *Attitudes of Electoral Agents on the Administration of the 2017 General Election*, Electoral Commission, 2017; J. Fisher and J. Kumar, *Attitudes of Electoral Agents on the Administration of the 2019 General Election*, Electoral Commission, 2020.

[3]Committee on Standards in Public Life, *Regulating Party Finance*, 2021.

[4]H. Phillips, *Strengthening Democracy: Fair and Sustainable Funding of Political Parties. The Review of the Funding of Political Parties*, HMSO, 2007; Committee on Standards in Public Life, *Political Party Finance. Ending the Big Donor Culture*, Cm 8208, 2012.



 

not only affect companies, but trade unions and other voluntary bodies would also be banned from making financial contributions. That may not be a concern, but equally in the UK context, some trade unions are closely linked with the Labour Party, enjoying a formal organisational status within it. A bar on donations from these institutions may threaten these historic links.

If a cap or a ban were to be considered, it is worth stressing that company donations remain important to parties financially, constituting 17 per cent of the amount of all declared donations since 2001 (when declarations were first recorded) and never less than 15 per cent in any Parliament. Unless donations from individuals increased substantially (a highly unlikely scenario based on past practice), parties would be left in significant financial trouble in the absence of discovering an alternative source of income. The only realistic option to make up this shortfall would be enhanced state funding. Certainly, when the ban on institutional donations was introduced in Canada, an extension of public funding for political parties softened its financial impact.

Given the historic reluctance of either main party to introduce significant public funding for parties, such a move would be far from certain.[5] As a consequence, there is a trade-off between the risk of foreign money entering domestic politics via institutional donations and the financial viability of political parties. On balance, the most workable current solution is the restriction on donations based on UK profits. It may risk failing the 'sniff test' in an extreme case, but routinely, it strikes a good balance between desirability and what can be implemented without huge difficulty.

## Overseas voters

Perhaps the greater risk in terms of money from outside the country entering UK politics stems from individuals registered to vote overseas. PPERA stipulated that if a citizen is registered to vote, they are permitted to make donations. UK citizens resident overseas have been entitled to register to vote in UK elections since 1985. This was initially limited to a period of five years, then extended to twenty years in 1989. Following PPERA, the limit had been fifteen years. The risk of money emanating from outside the UK legally entering domestic politics has existed for some time. However, the risk was mitigated somewhat by the numbers actually registering to vote (and therefore being eligible to donate). Before 2015, that figure never exceeded 35,000.[6] However, at the 2015 general election, it increased to 106,000, rising to 285,000 at the 2017 general election and then 233,000 (of an estimated 1.4 million eligible citizens) in 2019.[7]

This potential problem of a significant increase in the number of donors based overseas, eligible by virtue of their voter registration, has been amplified by provisions in the Elections Act 2022. This act removed the fifteen-year limitation on registration, and in 2024, 191,338 overseas voters registered for the general election.[8] This was lower than in 2019, but considerably higher than the pre-2015 norm, and this number is likely to grow. The Electoral Commission reports that awareness of the franchise change in 2024 was low (only 26 per cent).[9] As awareness grows, so—in all likelihood—will registrations and, therefore, potential donors. Government estimates put the number of eligible British citizens resident overseas as being 3.2–3.4 million and that, by 2029, the number registering to vote would be around 302,000.[10] However, were registration to be at the level of the 2017 general election (just over 20 per cent of eligible voters), this would be around 692,000 (based on an eligible population of 3.4 million).[11] The possible impact of so many registered overseas voters and, therefore, possible donors is significant. The removal of the time limitation on the right

[5]J. Fisher, R. G. Boatright, eds., *Britain's Stop-Go Approach to Party Finance Reform*, in *The Deregulatory Moment? A Comparative Perspective on Changing Campaign Finance Laws*, University of Michigan Press, pp. 152–74.

[6]N. Johnston and E. Uberoi, *Overseas Voters*, CBP 5923, House of Commons Library, 2024, p.5.

[7]Ibid, pp. 25–27.

[8]Electoral Commission, *Report on the 2024 UK Parliamentary General Election and the May 2024 Elections*, 2024, p. 24.

[9]Ibid, p. 22.

[10]Johnston and Uberoi, *Overseas Voters*, pp. 27–28.

[11]J. Fisher, 'The regulation of political finance. Choppier waters ahead?', Institute for Government/Bennett Institute for Public Policy Review of the UK Constitution, 2023.

to register to vote in the UK has the potential to lead to significant sums of money feeding into British domestic politics from abroad (even though the donors are themselves British citizens).[12] Such a situation is unlikely to be politically palatable and, more significantly, would be likely to undermine public trust.

One possible response to this issue would be to introduce greater transparency. At present, we have no idea of the extent of any potential problem. The Electoral Commission does not (and is not required to) collect data on donations made by citizens based abroad. Political parties are similarly not required to declare such data. So, the issue may be negligible, but equally, it may potentially be a very significant one if substantial levels of donations are made by voters who do not live in the country. In that respect, there is a case for the published register of donors to indicate whether the citizen is resident overseas. Such a move would clearly be in line with PPERA's principles of transparency, and like other transparency requirements, would both deliver the means by which reasonable levels of scrutiny could occur and ensure that those making declarable donations would build this knowledge of potential scrutiny into their decision-making processes.[13] Greater transparency about donations made by citizens based abroad would be a useful solution to this issue and would be straightforward to implement without any significant cost.

## Party spending limits

Before the 2024 election, significant increases in campaign spending limits in line with inflation were introduced. The government indicated its desire to do this in 2020.[14] However, it was not until 2023 that details were announced, with donation declaration thresholds also increased on the same basis.[15] PPERA introduced party (rather than candidate) spending limits in 2000. The act devised a formula for parties based on the number of constituencies in which a party fielded a candidate, multiplied by £30,000. If a party fielded candidates in the 631 constituencies in Great Britain (assuming they did not contest the Speaker's seat), the national party spending limit would be £18,930,000. However, the sum per constituency (£30,000) had never been adjusted for inflation, and as a result, the national party limit in 2023 was approximately 45 per cent lower in real terms than when it was introduced.

The increase in the limit was a sensible one, most obviously as the value of the limits introduced in 2000 bore little relation to their real value in 2023. The costs of campaigning had increased, while the limit had not. Moreover, the previous failure to adjust party spending limits for inflation presented a challenge to a principle PPERA laid out—namely that parties and candidates should be the principal actors in elections. Third-party (sometimes known as non-party) campaigning was growing. In 2019, there was a record number of registered non-party campaigners (sixty-one), together with a record level of expenditure—more than £6 million—compared with less than £2 million (at 2019 prices) in 2015. These levels of third-party activity had the potential to threaten the primacy of parties in electoral contests—particularly if the distribution of third-party activity was asymmetric and overwhelmingly negative towards one party.[16]

The previous limit informing the national party spending was raised from £30,000 per constituency contested to £54,010, such that overall, the limit for a party contesting 631 constituencies was now £34,080,310. Candidate spending limits were also increased in line with inflation. These were justifiable increases, but they produced a significant step change in election expenditure limits, which had the potential to favour a party with the capacity to expand its fundraising. As it happens, this was the Labour Party in 2024, despite the increases having been introduced by a Conservative government.[17] However, to avoid any potential partisan advantage in the future, it

[12]Ibid.
[13]J. Fisher, 'Party finance: Labour exploits its advantage' *Parliamentary Affairs*: *Britain Votes 2024*. 2025 (forthcoming).
[14]UK Parliament, *Election Spending Limits Uprating*, Hansard, vol. 685, 3 December 2020.
[15]UK Parliament, *Written Statement Made by Michael Gove, Secretary of State for Levelling Up, Housing and Communities and Minister for Intergovernmental Relations*, Statement UIN HCWS985, 20 July 2023.
[16]Fisher, Party finance: Labour exploits its advantage.
[17]Ibid.

would make good sense for spending limits to be routinely reviewed—perhaps every two to three years—and adjusted for inflation accordingly. Such an approach would mean that the limits would quite properly increase in line with costs, but not as a potentially distorting step change.

## Conclusions

Once again, it is important to stress that the regulation of party finance that PPERA introduced has been broadly successful. But there is always room for improvement, which Musk's rumoured donation has highlighted. Party financing can be a challenging area to regulate, and international comparisons demonstrate that many issues (such as foreign money and significant third-party activity) are commonplace. One solution is to ban certain types of donations. This approach may have an appealing logic. After all, why should companies and trade unions enjoy the capacity to seek to influence elections when they themselves cannot vote? But there are always balances to be struck.

Citizens benefit from parties and parties need income to operate. The removal of some forms of income therefore need to be made up from elsewhere, and enhanced state support is the only realistic alternative. There is little evidence at present that there is a significant appetite for such a move, so small adjustments as outlined here arguably make for the best current solutions. Restrictions on the source of institutional donations and greater transparency about donations made by overseas voters are relatively straightforward to implement. They would also achieve improvements in the regulatory system that PPERA introduced, which has UK-based donations and transparency at its core. Equally, there is a case for being a little more proactive. The step change in expenditure limits at the 2024 general election occurred because successive governments had failed to address the falling value of the limits introduced at the beginning of the century. A better and more equitable approach would be to keep these limits under systematic and regular review. Party finance regulation in the UK is by no means broken, but arguably, modest reforms are required to ensure that its broad success continues.

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