

John Penrose MP
Minister for Constitutional Reform
Cabinet Office
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22 January 2016

Dear Mr Penrose

Policy development grant scheme – reduction announced in UK Government Spending Review and Commission recommendation on implementation of reduction

Under the Electoral Commission's statutory responsibility for administering the grant scheme under section 12 of the Political Parties, Elections and Referendums Act, I am writing to inform you of the Commission's recommendation on implementing a reduction to the level of grant funding allocated through the scheme. This follows the 25 November Spending Review and Autumn Statement proposal by the UK Government to reduce the Policy Development Grant (PDG) fund by 19% (subject to confirmation by Parliament).

We understand that the Government intends for the reduced level of grant funding to be in place for the 2016-17 financial year. In order to achieve this, the scheme must be amended by statutory instrument before 7 March 2016.

Recommendation

We recommend that the scheme continues to operate by allocating funds through the two parts of the formula specified in the Elections (Policy Development Grants Scheme) Order 2002 and subsequently in the 2006 Order. The two part formula provides a baseline amount for policy development and also a variable top up linked to the number and scale of elections contested and the related electorate. We consider that this approach still meets the original purpose of the scheme in assisting political parties to fully develop policies for their election manifestos at the range of relevant elections specified in Part II of PPERA.

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To facilitate the proposed 19% reduction in the PDG scheme we recommend the following changes to the two part formula:

1. The figure of £1 million which is distributed equally amongst the eligible parties is reduced by 10% to £900,000, and should continue to be distributed equally to provide a baseline amount of funding.
2. The remaining £1 million, which is used for the variable top up pot linked to the number of elections and proportion of the UK population where each party and its candidates seeks to win votes, is reduced by 28% to £720,000.

This approach will result in an overall reduction of £380,000 as required by the proposed 19% reduction.

It will result in a proportionally greater reduction to the allocations for the larger eligible parties compared with the reduction for smaller parties. Please see annex A which sets out the reduction for each party for the 2016-17 financial year compared to what the parties would have received if the reduction had not been proposed.

Summary of rationale for recommendation

Our recommended approach is consistent with the purpose of the policy development grant scheme. The grant scheme will continue to provide a baseline amount for policy development and a variable top up linked to the number and scale of elections contested and the related electorate. As the baseline amount will be increased in proportion to the top up pot, this will also allow greater flexibility for the scheme to allocate PDG funding to further parties if they meet the threshold of having two MPs that have sworn the appropriate oath or affirmation.

We consulted the political parties currently eligible for the PDG in 2016-17 and received responses from 7 of the 8 parties. We have taken into account feedback received about the potential impact of a reduction and the parties' reliance on grants as a proportion of their resources for policy work. All of the parties based in Scotland, Wales or Northern Ireland said it would be difficult to absorb a 19% reduction with three months' notice and close to the May 2016 elections. Our recommendation takes into account that the PDG is a significant proportion of the total income of smaller parties.

Review of the Policy Development Grants scheme

In view of the Government's intention to deliver this reduction quickly, the lack of any indication to us prior to the Autumn Statement that this was being considered and the brief time available subsequently to consider and consult on its implementation, the Commission will, in due course, likely want to more fully explore the effects of this

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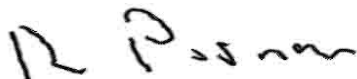
change on the objectives of the PDG scheme. We will also continue to take into account developments in party funding, devolution and changes in the political landscape.

You will recall that I wrote to you in August 2015 to set out the findings of the full review of the PDG scheme that the Commission carried out during spring and summer 2015. That review also included consultation with eligible political parties. The Commission concluded that the scheme still meets its original purpose and recommended some technical improvements to the administration of the scheme. We welcomed your response in October 2015 agreeing with our recommendations, which remain valid irrespective of the now intended reduction in available grant funds. We are continuing to work with your officials on draft legislation to implement them, which we understand will be taken forward in the same statutory instrument which will also implement the reduction.

I am sending a copy of this letter to the eligible political parties, to inform them of the Commission's recommendation.

If there is any aspect of this letter requiring clarification or further information, I would be happy to discuss it with you and your office can contact Lisa Camps at lcamps@electoralcommission.org.uk or on 020 7271 0619 to arrange this.

Yours sincerely



Bob Posner
Electoral Commission Director of Party and Election Finance & Legal Counsel

Annex A Policy Development Grants – provisional – for illustrative purposes only

Illustration of reduction

| | Provisional allocation for 2016-17 based on £2,000,000* | Provisional allocation for 2016-17 based on £1,620,000* | Provisional amount of reduction | Percentage reduction in allocation |
|---|---|---|---------------------------------|------------------------------------|
| Conservative Party | £432,000 | £333,500 | £98,500 | 23% |
| Labour Party | £432,000 | £333,500 | £98,500 | 23% |
| Liberal Democrats | £432,000 | £333,500 | £98,500 | 23% |
| Scottish National Party (SNP) | £168,000 | £143,300 | £24,500 | 15% |
| Plaid Cymru – The Party of Wales | £134,000 | £119,000 | £15,000 | 11% |
| Democratic Unionist Party – D.U.P. | £134,000 | £119,000 | £15,000 | 11% |
| SDLP (Social Democratic & Labour Party) | £134,000 | £119,000 | £15,000 | 11% |
| Ulster Unionist Party | £134,000 | £119,000 | £15,000 | 11% |

* All estimates of grant allocations are rounded to nearest £500 and based on provisional calculations. The calculations will be updated in March 2016 once collated figures reflecting the UK electorate on the latest published registers are available and are therefore subject to increases or decreases.

Although parties may be interested to compare provisional allocations for 2016-17 with the grants allocated for 2015-16, it is important to note that the underlying basis of the allocations has several differences due to changes in party eligibility for the scheme and the change in election results following the 2015 UKPGE.

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