

## Written evidence submitted by Spotlight on Corruption, Transparency International UK

### Background

Spotlight on Corruption is an anti-corruption charity that shines a light on the UK's role in corruption at home and abroad. We want to see a society with strong, transparent and accountable institutions which ensure corruption is not tolerated and democracy flourishes both in the UK and globally. To achieve this we highlight corruption and the harm it causes, and campaign to improve the UK's legal systems and enforcement of the law.

Transparency International (TI) is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, TI has extensive global expertise and understanding of corruption. Transparency International UK (TI-UK) is the UK chapter of TI. We raise awareness about corruption; advocate legal and regulatory reform at local, national, and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK. We are independent, non-political, and base our advocacy on robust research.

### Summary

Our submission focuses on three areas related to the UK's economic security that were each set out in the Integrated Review Refresh 2023 (IRR23):

- I. Economic crime and its threat to the UK's economic security.
- II. Ensuring financial sanctions are an effective economic deterrent.
- III. Defending UK democracy from interference by bad actors.

Tackling economic crime to strengthen economic security (one of three "*priority areas of vulnerability*" facing the UK) formed part of the IRR23,<sup>1</sup> with government committing to end London's role as a "*centre for corrupt elites to launder money*". The IRR23 also announced a new Economic Deterrence Initiative to bolster economic security, which seeks to counter hostile acts including by "*cracking down*" on sanctions evasion.<sup>2</sup>

The third priority area of vulnerability in the IRR23 alongside energy and economic security was the resilience of our democratic institutions, including their resilience to "*corruption and influence*".<sup>3</sup> Given the high risk of bad actors donating to political parties in order to interfere with our democratic processes, and the intersection this has with economic security, we believe this is another key area for the Committee to consider.

### Recommendations:

- I. As set out in the IRR23, economic crime poses a significant threat to the UK's economic security. We therefore recommend the government:

---

<sup>1</sup>[https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435\\_NS\\_IR\\_Refresh\\_2023\\_Supply\\_All\\_Pages\\_Revision\\_7\\_WEB\\_PDF.pdf](https://assets.publishing.service.gov.uk/media/641d72f45155a2000c6ad5d5/11857435_NS_IR_Refresh_2023_Supply_All_Pages_Revision_7_WEB_PDF.pdf), p.46-49

<sup>2</sup> Ibid, p.12

<sup>3</sup> Ibid, p.49.

- A. Tackles economic crime and brings us fully in line with international anti-money laundering (AML) standards by:
    - 1. **Establishing a fully independent Single Professional Services Supervisor** with robust powers and sufficient resources as part of implementing an ambitious new framework for effective AML supervision in time for the next Financial Action Task Force review of the UK.
  - B. Ensures transparency over trusts and companies to help prevent economic crime by:
    - 1. **Delivering greater transparency over trusts** with a UK connection.
    - 2. **Delivering public registers of beneficial ownership** in the British Overseas Territories and Crown Dependencies.
  - C. Enhances enforcement of economic crime by:
    - 1. **Delivering a long-term training, recruitment, and retention strategy for the NCA** and other economic crime enforcement bodies and ensuring parity of pay and conditions between the NCA and the Police.
    - 2. **Making the NCA a fully independent body** rather than a non-ministerial department and bringing it under the Freedom of Information Act so that there is greater public scrutiny of its work.
    - 3. **Increasing the amount of funds that the Home Office may keep from asset recovery receipts** that currently go to the Treasury, and ring-fencing these funds for strategic, long-term investment in the UK's economic crime fighting capabilities.
    - 4. **Commissioning a full review** based on extensive consultation **on a whistleblower compensation scheme** for the UK.
    - 5. **Ensuring that there are ticketed judges in complex economic crime cases**, and that economic crime is a specialist route for judges.
  - D. Ensures strong, accountable leadership in the UK's fight against economic crime by:
    - 1. **Appointing an Economic Crime Commissioner and** establishing a new Cabinet-level post of **Economic Crime Minister**.
- II. Financial sanctions can play an essential role in the UK's economic deterrence. We recommend the government ensures this by:
- 1. **Applying lessons from the Russia sanctions regime** to other geographic and thematic sanctions regimes, including the underutilised Global Anti-Corruption sanctions regime.
  - 2. **Ensuring much more consistent and robust criminal and civil enforcement** of financial sanctions - including of professional enablers who help designated persons evade sanctions - to effectively deter sanctions evasion.

3. **Improving transparency and oversight of sanctions** through quarterly publishing of key data, including a breakdown of assets frozen, details of any enforcement actions taken, and the resources available to the FDCO Sanctions Unit, the Offices for Financial and Trade Sanctions Implementation (OFSI and OTSI).

III. The UK is heading into a general election with seriously weak defences against foreign interference and a high risk of dubious funds entering our politics. We therefore recommend the government:

A. Helps political parties play their part in defending UK democracy from interference by bad actors by:

1. **Ensuring parties implement effective ‘know your donor’ policies.**

B. Tackles loopholes in electoral laws by:

1. **Ensuring company donations can only be made from profits generated in the UK**, and not exceed net profits after tax generated in the UK in the preceding two years<sup>4</sup>, and by making it a criminal offence to give false declarations.
2. **Requiring unincorporated associations to undertake permissibility and due diligence checks on all money they receive** that is intended as a donation, declaring the source of all political gifts above £500, as well as reviewing whether UAs should be prohibited from donating.
3. **Reviewing whether offences under the Political Parties, Elections and Referendums Act 2000 (PPERA) are broad enough and effective in ensuring that malign or foreign actors cannot donate** indirectly, and that donations cannot be given from the proceeds of crime.

C. Addresses weak enforcement of electoral law by:

1. **Ensuring the NCA coordinates the UK’s strategic, national enforcement response to election finance crime** (as recommended by Spotlight)<sup>5</sup>, and is provided with the immediate resources to create a dedicated election finance unit with specialist expertise.
2. **Reintroducing the Electoral Commission’s powers to initiate criminal proceedings**, particularly so it can pick up more minor - but still criminal - cases that may not be a priority for law enforcement.
3. **Increasing the maximum fine that the Commission can impose** for each offence from £20,000 to 4% of a campaign’s total spend or £500,000, whichever is higher, as previously recommended by the Committee on Standards in Public Life (CSPL),<sup>6</sup> adjusting this figure annually in line with inflation.

---

<sup>4</sup> CSPL (July 2021) Regulating Election Finance p. 51

<sup>5</sup><https://www.spotlightcorruption.org/wp-content/uploads/2024/01/Briefing-on-Electoral-Integrity-and-Regulation-v2.pdf>, p. 2

<sup>6</sup> CSPL (July 2021) Regulating Election Finance

- Economic crime and its threat to the UK's economic security
- 1. The Integrated Review refresh (IRR23) stated the government's ambition to stop the "*exploitation*" of the UK's economy by "*domestic and international criminality and corruption*", noting the two Economic Crime Acts that have been passed since March 2022 as well as the publication of the second Economic Crime Plan 2023 – 2026 (ECP2). While we strongly welcome the passing of these two important Acts of Parliament as well as the publication of ECP2, there is still much to do to prevent the abuse of the UK's economy by bad actors.

#### Enhancing AML supervision

2. **Robust AML supervision is essential to help prevent money laundering** linked to a wide range of crimes that threaten the UK's economic security, including corruption, fraud, organised crime and drug trafficking.
3. **The existing system for supervising money laundering is not working.** It has been strongly criticised in the UK's own National Risk Assessment, by the Financial Action Task Force (FATF), the global anti-money laundering watchdog, in its 2018 review, and by the Office for Professional Body AML supervision which oversees the work of professional body AML supervisors.<sup>7</sup>
4. In 2027, the UK will face its next Evaluation by the FATF.<sup>8</sup> This review will be a crucial opportunity to demonstrate the UK's ability to effectively tackle money laundering. A negative review could seriously damage the UK's international reputation for financial integrity and as a place where law-abiding businesses can safely and successfully operate.
5. In June 2023 the Treasury launched a consultation on options for overhauling anti-money laundering and counter-terrorism financing (CTF) supervision.<sup>9</sup> In their responses, civil society organisations and private sector bodies such as the influential Wolfsberg Group have recommended that **government establish a new Single Professional Services Supervisor (SPSS).**<sup>10</sup> **This should be implemented in good time before the next FATF review.**
6. In the second Economic Crime Plan the government committed to consult on amendments to the Money Laundering Regulations by the end of 2023, though this is now expected to begin in early 2024.<sup>11</sup> This is a key opportunity to review whether there are key industries currently unregulated for money laundering that should be

---

<sup>7</sup><https://www.gov.uk/government/publications/national-risk-assessment-of-money-laundering-and-terrorist-financing-2020>, <https://www.fatf-gafi.org/content/dam/fatf-gafi/mer/MER-United-Kingdom-2018.pdf>; <https://www.fca.org.uk/publication/opbas/opbas-report-progress-themes-supervisory-work-2022-23.pdf>

<sup>8</sup><https://www.fatf-gafi.org/en/calendars/assessments.html>

<sup>9</sup><https://www.gov.uk/government/consultations/reforming-anti-money-laundering-and-counter-terrorism-financing-supervision>

<sup>10</sup><https://www.spotlightcorruption.org/wp-content/uploads/2023/11/Website-SpoC-submission-AML-supervisory-reform-30.09.2023.docx>; <https://www.transparency.org.uk/publications/reform-anti-money-laundering-and-counter-terrorism-financing-supervisory-regime>; <https://db.wolfsberg-group.org/assets/bdcc70d8-1c86-445e-ab27-737015a19635/Wolfsberg%20Group%20HMT%20UK%20Supervisory%20Reform%20Consultation%20Response%2029%20September%202023.pdf>

<sup>11</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1147515/6.8300\\_HO\\_Economic\\_Crime\\_Plan\\_2\\_v6\\_Web.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147515/6.8300_HO_Economic_Crime_Plan_2_v6_Web.pdf), p.27

brought into the regulated sector and whether the regulations are working as effectively as possible.

## Preventing economic crime with transparency over trusts and companies

7. Britain and its offshore financial centres, like the British Virgin Islands and Cayman Islands, are hot spots for international money laundering. Two reforms would help change this:
  - 7.1. **Closing the trusts gap.** Transparency International UK (TI UK) has identified more than £6.7 billion worth of UK property bought with suspect funds, with most held via secretive offshore companies. While the law requires the owners of overseas companies that own UK property to be published in a public register held by Companies House, the corrupt and other criminals can withhold their ownership of UK assets from public view in this register by owning overseas companies through opaque trusts. Other information about overseas trusts with a significant UK connection is held by HMRC but exempt from public access requests, despite being critical for those investigating money laundering in civil society and the media.
  - 7.2. **Delivering transparency in Britain's offshore financial centres.** Unlike the UK, most financial centres in Britain's Crown Dependencies and Overseas Territories (CDOTs) don't publish information about who owns and controls companies registered there. This lets criminal networks hide illegal activity, including money laundering, corruption and sanctions evasion, through opaque shell companies. TI UK found corruption and money laundering cases in the Overseas Territories amounting to over £250 billion worth of funds - a sum exceeding the UK's foreign aid budget for the past 20 years - diverted by rigged procurement, bribery, embezzlement and the unlawful acquisition of state assets across 79 different countries.<sup>12</sup>

## Ensuring strong enforcement against economic crime

8. **With prosecutions for money laundering down 56% since 2010 and at their lowest level for at least 13 years in 2022<sup>13</sup>, UK law enforcement is over-stretched and out-gunned when it comes to fighting economic crimes like money laundering.** Although securing more funding in the current economic climate is extremely challenging, there are fiscally responsible and realistic ways to give the NCA and other agencies the resources they need to enhance the detection and prosecution of economic crime.
  - 8.1. **Serious issues with recruitment and retention are preventing the NCA from leading the UK's fight against serious and organised crime effectively.** Around a fifth of roles remain unfilled at any one time, with key areas like forensics rising to a third.<sup>14</sup> Vacancies are filled by contractors who

---

<sup>12</sup> <https://www.transparency.org.uk/publications/cost-of-secrecy>

<sup>13</sup> Criminal justice system statistics quarterly: December 2022 <https://www.gov.uk/government/statistics/criminal-justice-system-statistics-quarterly-december-2020>. Figures are taken from the 'Principal offence proceedings and outcomes by Home Office offence code data tool which shows prosecutions for money laundering fell from 2719 in 2010, to 1209 in 2022 - a 55.5% decrease.

cost £20k per post more than permanent employees.<sup>15</sup> With NCA salaries benchmarked at 90% of police pay, recruits with crucial policing skills are less likely to join.<sup>16</sup> Strong performers with years of experience receive the same pay as trainees, leaving staff demotivated and more likely to leave,<sup>17</sup> and the NCA lacks a robust and credible training path for recruits. As much of crime moves online, consideration needs to be given as to how the NCA upskills its staff to deal with cyber-enabled crime and illicit finance.

- 8.2. **Technological capabilities must be urgently upgraded.** The NCA Director recently called for a “*step change*” in how law enforcement uses technology.<sup>18</sup> Similarly, the previous NCA head called for new investment in key technologies and capabilities like digital forensics, covert surveillance, and financial investigations to match the increasing technological sophistication of serious and organised crime groups operating in the UK.<sup>19</sup>
- 8.3. **Funding for economic crime fighting agencies could be boosted by reinvesting more recovered assets and fines.** Agencies generated over £3.9bn in confiscation and fines between 2016-2021<sup>20</sup>, but kept just 38% of recovered assets in the last 6 years and virtually no fines. The scheme for reinvesting assets (ARIS) can create perverse incentives to focus on low hanging fruit, distorting enforcement outcomes, and must be spent in-year.<sup>21</sup> The NCA lost 45% of its 2022/23 ARIS allocation as a result of ARIS spending rules.<sup>22</sup>
- 8.4. **Making the NCA more independent.** The NCA is often prevented from developing a coherent, impactful long-term strategy. Since it was established, the strategic priorities set by the Home Secretary for the NCA have become more political and detailed, and change on a yearly basis, compared to earlier years when they were more high-level and brief.<sup>23</sup> This creates a real risk that the Home Secretary is able to influence operational decision-making rather

---

<sup>14</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1138236/NCARRB\\_8th\\_Report\\_2022\\_Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1138236/NCARRB_8th_Report_2022_Web_Accessible.pdf)

<sup>15</sup><https://www.ncoa.org.uk/media/1274/ncoa-9th-submission-to-the-ncarrb-200923.pdf>, p.20-21

<sup>16</sup>Extending capability-based pay to all staff in operational roles would cost £14.5m and a further £6.7m to achieve parity with the Police,

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1138236/NCARRB\\_8th\\_Report\\_2022\\_Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1138236/NCARRB_8th_Report_2022_Web_Accessible.pdf), p.16.

<sup>17</sup> <https://www.ncoa.org.uk/media/1274/ncoa-9th-submission-to-the-ncarrb-200923.pdf>, p.4

<sup>18</sup> <https://my.rusi.org/events/rusi-annual-security-lecture-2023-with-graeme-biggar-director-general-nca.html>

<sup>19</sup> <https://www.nationalcrimeagency.gov.uk/who-we-are/publications/297-national-strategic-assessment-director-general-lynn-owens-speech/file>

<sup>20</sup>[https://www.spotlightcorruption.org/wp-content/uploads/2023/06/Spotlight\\_closing\\_the\\_UK\\_economic\\_crime\\_enforcement\\_gap.pdf](https://www.spotlightcorruption.org/wp-content/uploads/2023/06/Spotlight_closing_the_UK_economic_crime_enforcement_gap.pdf)

<sup>21</sup> See for example the Law Commission review on Confiscation, 2023, [https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jxou24uy7q/uploads/2022/11/Confiscation-of-the-proceeds-of-crime-after-conviction-a-final-report\\_web.pdf](https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jxou24uy7q/uploads/2022/11/Confiscation-of-the-proceeds-of-crime-after-conviction-a-final-report_web.pdf), p.517

<sup>22</sup> See NCA annual report 2022/23,

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1176499/National\\_Crime\\_Agency\\_Annual\\_Report\\_2022-23\\_-\\_print\\_ready\\_version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1176499/National_Crime_Agency_Annual_Report_2022-23_-_print_ready_version.pdf), p.17

<sup>23</sup> Compare for example the NCA annual plan 2016/17 (<https://nationalcrimeagency.gov.uk/who-we-are/publications/355-national-crime-agency-annual-plan-2016-17/file>) with the latest 2023/24 annual plan (<https://nationalcrimeagency.gov.uk/who-we-are/publications/670-nca-annual-plan-2023-24/file>).

than setting an overall strategy evolving out of long-term planning based on evidence and risk analysis.

- 8.5. **Introducing a whistleblower compensation scheme would help uncover economic crime.** There is broad consensus that current UK whistleblowing protections are not fit for purpose.<sup>24</sup> The government should commission a full review of the options, based on extensive consultation, for what a UK whistleblower compensation scheme could look like.
- 8.6. **Appointing “ticketed judges”, with enhanced training for particularly complex money laundering and other economic crime cases would ensure more effective judicial management,** saving the taxpayer money from extended and collapsed trials.<sup>25</sup>

Ensuring strong, accountable leadership in the UK’s fight against economic crime

9. The existing landscape of economic crime governance lacks tactical cohesion or strategic accountability. Two changes could help address this:
  - 9.1. **Appointing an Economic Crime Commissioner with statutory powers to provide independent oversight of the economic crime agenda, to ensure greater prioritisation, improved accountability, and a more coherent response.**<sup>26</sup> The Commissioner would work in tandem with the Anti-Corruption Champion, whose remit is broader but would intersect with that of the Commissioner.
  - 9.2. **Establishing the role of Economic Crime Minister.** This would ensure consistent Cabinet level responsibility for driving forward the agenda against fraud, corruption and money laundering.
- Ensuring financial sanctions are an effective economic deterrent
10. The IRR23 announced a new Economic Deterrence Initiative to bolster economic security, including by enhancing sanctions implementation and enforcement.<sup>27</sup> While we note the crucial importance of other sanctions types, and welcome the establishment of the new Office for Trade Sanctions Implementation, our remarks will focus on financial sanctions, their enforcement, and their role in deterring economic crimes - in particular corruption and sanctions evasion.
11. **Lessons about the value of sanctions coordination from Russia sanctions should be carried over to other geographic and thematic sanctions regimes, including the UK’s Global Anti-Corruption sanctions regime which has so far been under-utilised.**<sup>28</sup> It was encouraging to see the UK, US and Canada work in lockstep to

---

<sup>24</sup> <https://www.spotlightcorruption.org/rethink-on-whistleblower-compensation/>; <https://www.rusi.org/explore-our-research/publications/commentary/reframing-uk-debate-financial-crime-whistleblower-rewards>; [https://www.appgwhistleblowing.co.uk/\\_files/ugd/4d9b72\\_ffa164221ae540bfafdeb8206a0274db.pdf](https://www.appgwhistleblowing.co.uk/_files/ugd/4d9b72_ffa164221ae540bfafdeb8206a0274db.pdf)

<sup>25</sup> [https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jsxou24uy7q/uploads/2022/11/Confiscation-of-the-proceeds-of-crime-after-conviction-a-final-report\\_web.pdf](https://s3-eu-west-2.amazonaws.com/lawcom-prod-storage-11jsxou24uy7q/uploads/2022/11/Confiscation-of-the-proceeds-of-crime-after-conviction-a-final-report_web.pdf), p.167

<sup>26</sup> <https://rusi.org/explore-our-research/publications/commentary/without-statutory-oversight-uks-progress-economic-crime-will-fail>

<sup>27</sup> Ibid, p.12

impose anti-corruption sanctions against the former governor of the Lebanese Central Bank, Riad Salameh, and his associates in August 2023.<sup>29</sup> As the first co-ordinated imposition of anti-corruption sanctions, these measures sent a powerful and unified message that the UK and its partners will not tolerate impunity for corruption.<sup>30</sup>

12. Given the EU proposal to establish a new sanctions regime for corruption, **there is potential for closer collaboration between the UK and EU on the use of sanctions to combat corruption.** We also support the recent recommendation by the Foreign Affairs Committee that the government make greater use of the Global Anti-Corruption Sanctions regime to designate “*those whose origins of wealth can be tied to assets they have illegally seized*”.<sup>31</sup>

#### Civil sanctions enforcement

13. Despite commitments in the IRR23 to “*crack down*” on sanctions evasion, **we are concerned that a lack of enforcement of financial sanctions is undermining the effectiveness of the UK’s economic deterrence.** The Office for Financial Sanctions Implementation (OFSI) has issued zero fines for Russia sanctions breaches since the full-invasion in February 2022 despite recording 473 suspected breaches in the 2022-23 financial year.<sup>32</sup> The two fines it did issue in 2022/23 related to breaches of sanctions on Syria and on Russia for its first 2014 invasion of Ukraine.<sup>33</sup>
14. OFSI has issued seven non-public warning letters in the reporting period of its latest annual review, and closed 51 cases with no further action, 44 of them relating to Russia.<sup>34</sup> This is despite OFSI receiving much stronger powers in 2022 to issue fines on the basis of strict liability. Since April 2023 (the end of the period the review covers) OFSI has in addition issued a single public notice about a sanctions breach. OFSI says that as of April 2023 it had 172 cases under live investigation. That suggests that alongside zero penalties for breaches of Russian sanctions, less than half of recorded breaches appear to have resulted in investigations.

#### Criminal sanctions enforcement

15. **While the National Crime Agency (NCA) has reported that its new Combatting Kleptocracy Cell (CKC) has “secured almost 100 disruptions” against “Putin-linked elites and their enablers”, almost nothing is known publicly about the nature of these disruptions or their effectiveness.**<sup>35</sup> The two cases that have come to

---

<sup>28</sup> See further our submission to the Foreign Affairs Committee inquiry on “Responding to illicit and emerging finance” in June 2022: <https://www.spotlightcorruption.org/submission/submission-to-the-foreign-affairs-committee-inquiry-responding-to-illicit-and-emerging-finance-june-2022/>

<sup>29</sup><https://www.gov.uk/government/news/uk-us-and-canada-sanction-lebanons-former-central-bank-governor-riad-salameh-and-close-associates>

<sup>30</sup> <https://www.occrp.org/en/37-ccbblog/ccbblog/17951-new-sanctions-on-lebanons-former-central-bank-governor-likely-bring-frozen-assets-to-at-least-200-million-documents-show>

<sup>31</sup> <https://committees.parliament.uk/publications/41982/documents/208818/default/>, page 55.

<sup>32</sup>[https://assets.publishing.service.gov.uk/media/657acdef095987001295e088/OFSI\\_Annual\\_Review\\_2022\\_to\\_2023\\_Strengthening\\_our\\_Sanctions.pdf](https://assets.publishing.service.gov.uk/media/657acdef095987001295e088/OFSI_Annual_Review_2022_to_2023_Strengthening_our_Sanctions.pdf)

<sup>33</sup> <https://www.gov.uk/government/collections/enforcement-of-financial-sanctions>

<sup>34</sup> Ibid.

<sup>35</sup><https://www.nationalcrimeagency.gov.uk/news/wealthy-russian-businessman-arrested-on-suspicion-of-multiple->



public attention through the courts (against Mikhail Fridman and Petr Aven) have struggled to progress. The US by contrast is far ahead of the UK when it comes to criminal enforcement. As of February 2023 the US has indicted over 30 individuals and two corporate entities accused of sanctions evasion, export control violations, money laundering, and other crimes. The authorities seized, forfeited, or restrained over \$500 million in assets belonging to Russian oligarchs and others.<sup>36</sup>

- Defending UK democracy from interference by bad actors
- 16. The third priority area of vulnerability in the IRR23 alongside energy and economic security was the resilience of our democratic institutions, including their resilience to “*corruption and influence*”.<sup>37</sup> Given the high risk of bad actors donating to political parties in order to interfere with our democratic processes, and the intersection this has with economic security, we believe this is another key area for the Committee to consider.
- 17. Independent bodies and the Security Service (MI5) have warned that **hostile states have sought to influence our democratic processes by donating to political parties**.<sup>38</sup> In addition, **donations that may originate from proceeds of crime or politically exposed persons makes political parties vulnerable to malign influence**, risks fostering dependence on the proceeds of crime and other dubious funds as a source of party finance, **and undermines the integrity of our democracy**. The Electoral Commission has noted that UK elections law “*is silent on whether or not money obtained from crime would make a political contribution unlawful*”.<sup>39</sup>
- 18. **Electoral law only requires parties and MPs to check that a donor is eligible to vote**.<sup>40</sup> **It does not require parties and MPs to take a risk-based approach to donations or to identify the true source of donated funds**, unlike those in the regulated sector. The NCA has said that a donation will be lawful as long as it is from a permissible source and it was the donor’s decision to donate, even where the funds derived from a gift from someone overseas.<sup>41</sup> The Electoral Commission,<sup>42</sup> CSPL<sup>43</sup> and Parliament’s Intelligence and Security Committee<sup>44</sup> have all called for political parties to be required to undertake proper checks on donations.

#### Loopholes in current electoral laws

- 19. **There are currently a series of loopholes that may allow money from hostile, disreputable or criminal sources to enter UK political finance**. Any UK-registered company or limited liability partnership (LLP) may donate provided it “*carries on business in the UK*”<sup>45</sup> and there is no requirement for a donation to derive from profits

---

offences

<sup>36</sup> <https://www.justice.gov/opa/press-release/file/1569781/download>

<sup>37</sup> Ibid, p.49.

<sup>38</sup> Intelligence and Security Committee (21 July 2020) Russia report; Intelligence and Security Committee (13 July 2023) China report; Guardian (13 September 2023) Tory party ‘acted swiftly’ to block would-be MPs after MI5 warnings

<sup>39</sup> openDemocracy (1 April 2019) Why the Electoral Commission didn’t investigate Vote Leave and DUP donation

<sup>40</sup> Section 54 of PPERA

<sup>41</sup> New York Times (October 2022) UK officials won’t investigate political donations flagged for Russian origins

<sup>42</sup> Electoral Commission (2018) Report: Digital campaigning - increasing transparency for voters

<sup>43</sup> CSPL (July 2021) Regulating Election Finance, p.58

<sup>44</sup> Commons debate on National Security Bill (3 May 2023) consideration of Lords Amendments

generated in the UK.<sup>46</sup> The rules in effect allow hostile actors to set up UK-registered shell companies in order to donate. The Electoral Commission said this broad test of ‘carrying on business’ exposes parties to risk, including the risk of accepting the proceeds of crime.<sup>47</sup>

20. **Another potential loophole is donations made through Unincorporated Associations (UAs). Those who give money to UAs are not required to be lawful donors, so UAs can receive and then donate money onwards to political parties from unknown sources.**<sup>48</sup> Where a UA receives political gifts in excess of £7,500, the UA only needs to disclose to the Electoral Commission, “*whatever details the unincorporated association knows of the name and address of the person by whom the gift was made*”.<sup>49</sup> In July 2021 it was reported that the UK’s main parties accepted £12.9 million in donations from UAs in the previous 5 years, none of which can be connected to the original source of funds.<sup>50</sup>

#### The Electoral Finance enforcement gap

21. In addition to these weaknesses in the legal framework, **there are significant failings in the criminal enforcement regime and inadequate sanctioning powers in the civil regime.** In particular, **there is no agency with overall national level responsibility for leading the UK’s strategic, national enforcement response to serious crimes in political finance.** While the Metropolitan Police (MPS) has some expertise in this area, this is only for London, and the MPS has carried out no investigations into key concealment offences under PPERA in the past 13 years.<sup>51</sup> Moreover, the MPS recently highlighted its desire to withdraw from enforcement in this area.<sup>52</sup> In December 2023, Spotlight on Corruption wrote to the NCA to highlight the gap in criminal enforcement of election finance laws.<sup>53</sup>
22. Additionally, **the Electoral Commission’s civil enforcement powers are inadequate.** In particular, the maximum fine that the Commission can impose for a breach of PPERA is £20,000 for each offence. In February 2022, the House of Lords Democracy and Digital Technology Committee recommended that the maximum fine the Electoral Commission can impose should be £500,000 or 4% of a campaign’s total spend, whichever is greater.<sup>54</sup> CSPL has repeated that recommendation - noting that a higher penalty would deter breaches of the rules and incentivise compliance.<sup>55</sup>

5 January 2024

---

<sup>45</sup> Section 54 of PPERA

<sup>46</sup> Electoral Commission guidance on donations and loans

<sup>47</sup> CSPL (July 2021) Regulating Election Finance pg. 50

<sup>48</sup> openDemocracy (5 June 2017) How dark money is drowning British democracy

<sup>49</sup> PPERA, Schedule 19A

<sup>50</sup> OpenDemocracy (July 2021) Tories have accepted £2.6m from ‘shadowy’ donors since Boris Johnson became PM

<sup>51</sup> Failing to provide information to a party (s.54(7)) and facilitating an unlawful donation (s.61(1))

<sup>52</sup> Metropolitan Police Service response to CSPL consultation on the review of the regulation of election finance

<sup>53</sup> Spotlight on Corruption (5 December 2023) letter to the NCA

<sup>54</sup> House of Lords Democracy and Digital Technology Committee (7 February 2022) Democracy and Digital Committee Report: Digital Technology and the Resurrection of Trust

<sup>55</sup> CSPL (July 2021) Regulating Election Finance