
**Allowance Commissioner's Report
on Annual Allowances
for Manitoba's Registered Political Parties**

February 19, 2013

**Dr. Paul G. Thomas
Commissioner**



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The Honourable Daryl Reid
Speaker of the Legislative Assembly
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February 19, 2013

Dear Mr. Speaker:

I have the honor of submitting to you the Report on Allowances for Manitoba's Registered Political Parties. This report is submitted pursuant to subsection 81(4) of *The Election Financing Act*.

The applicable legislation states that the Speaker must table a copy of the allowance commissioner's report on any of the first 15 days on which the Assembly is sitting after the Speaker receives the report.

Pursuant to subsection 81(5) of *The Election Financing Act*, without delay after submitting this report to the Speaker, the allowance commissioner must make regulations to implement his decisions.

Respectfully yours,

A handwritten signature in black ink that reads "Paul G. Thomas". The signature is written in a cursive, flowing style.

Paul G. Thomas, Ph.D., O.M.
Commissioner

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Executive Summary

This report arises out of *The Election Financing Act* (EFA) which was passed by the Manitoba Legislative Assembly in June 2012. The Act eliminated an existing program for the payment of annual allowances to registered political parties. It also provided for the appointment of an independent allowance commissioner to decide, taking into account certain considerations stated in the Act, the design of a new allowance program. The commissioner was to be appointed by the government only after consultation with other registered parties.

On November 15, 2012, Professor Paul Thomas was appointed as commissioner and given a three-month deadline to table his report containing decisions on the components of the new party allowance program.

The first section of this report describes the critical role that political parties play in the Manitoba political system. Once seen as solely private associations, political parties gradually came to be seen also as important public institutions. A brief historical overview shows how this shift in perspective is reflected in the gradual adoption of laws respecting party operations and financing.

Two recent changes to party finance laws provoked controversy. The first was a ban in 2001 on contributions to political parties by organizations such as corporations, trade unions and non-profit associations. The second was the introduction in 2008 of annual per-vote allowances paid to political parties as partial compensation for the revenue lost as result of the ban on organizational donations. The controversy led Manitoba's two largest political parties to decline the allowance payments. Allowance payments were made to the three smaller parties from 2008 to 2011.

Under the EFA, the commissioner was not authorized to resolve the controversy over whether there should be an allowance program. The Act requires that allowances be paid. Nor was the commissioner authorized to make changes to other legislation and regulations that govern the financing of political parties. However, he was given wide latitude to identify considerations relevant to the design of a new allowance program.

A second section describes how the commissioner approached his task. The process involved public consultation through the use of a website, which included an online survey and the use of newspaper notices across the province which asked Manitobans for their opinions.

In addition, a series of confidential meetings were held with representatives of political parties and other individuals with knowledge of the topic. Finally, research was conducted on the arrangements for financing political parties in other jurisdictions, including a comparative analysis of the allowance programs in four other provinces and at the national level in Canada.

The report describes the following principles and criteria which should guide the design of a new allowance program:

- clarity
- targeted
- affordability
- predictability
- fairness
- enforceability
- accountability

Based on these principles/criteria, the report identifies a number of options for determining the total amount of allowance money to be paid to registered parties, as well as several options for its allocation.

Using the latitude that he was granted under the EFA, the commissioner identified both a series of binding decisions which will serve as the basis for the new allowance program and a smaller number of recommendations for the Manitoba Government and the Manitoba Legislative Assembly to consider for the future. The report provides reasons for both the decisions and the recommendations.

The key decisions for the new allowance program were:

- There will be an annual “cap” of \$600,000 placed on the total amount of allowance funds available.
- Allowance spending will not be indexed to inflation, but will be subject to adjustment by the next allowance commissioner appointed after the next provincial election.

- In a condition of severe financial stress, allowance spending can be suspended or reduced by the government through a budgetary bill passed by the Legislature.
- Allowance funds are to be used to defray the administrative, operating and compliance costs of political parties and not for partisan purposes of political advertising and polling.
- The total amount of allowance spending will be divided among the registered political parties based on two calculations: a) a candidate-based payment of \$100 per candidate endorsed by the party in the most recent provincial election; and b) after deducting all-candidate-based payments from the total funds available, dividing the remaining funds among the parties based on the average of the total valid votes each obtained in the two previous general provincial elections.
- For a party competing for the first time in a general election, the vote portion of the allowance will be based on the portion of valid votes obtained in that election.
- The actual allowance payment to each party will be the lesser of the incurred administrative, operating and compliance expenses of the party and the allowance entitlement generated by the two-part formula.
- Elections Manitoba will continue to oversee the operation of the allowance program. Existing rules and guidelines will be used to define core administrative, operating and compliance expenses.
- Allowance payments will be made to registered political parties for a given year following the filing of an Annual Financial Statement with Elections Manitoba. Parties will be required to assert in their Statement that allowance funds have been used only for intended purposes.
- If a party wishes to decline their allowance, it can notify Elections Manitoba in advance or return the payment after it has been issued. Parties cannot subsequently request that such payments be made.

Under the EFA the decisions made in the report are to be reflected in regulations established by the commissioner and the program will be made retroactive to January, 2012.

In the category of recommendations for future consideration the commissioner made the following two points:

- There should be further study of the option of adding engagement of party members and policy development to the allowable categories of spending under the allowance program;
- If the aim of the EFA is to completely eliminate the use of allowance money for campaign types of expenses, consideration should be given to amending the Act to state that allowances will not be used to support “election expenses”, a phrase for which a comprehensive definition exists.

The next step in implementing the decisions in this report is for the commissioner to oversee the promulgation of binding regulations which will be published in the *Manitoba Gazette*. Based on those regulations, Elections Manitoba will make the two-part calculations to determine the payments to which registered parties are entitled under the new rules. Payments will be made retroactive to 2012.

The commissioner hopes that this report will be of educational value in informing Manitobans about an important topic and that his decisions on the design of the new allowance program are sound and fair. Finally, it is hope that the new allowance program will help to sustain and enhance the role of political parties as crucial institutions of democracy in Manitoba.

Political Parties and Democracy

Nearly everyone agrees that a healthy and vibrant democracy cannot operate in territorially large, economically specialized and socially diverse societies without organized, cohesive, responsible and effective political parties that are able to provide linkages and active representation between citizens and governments. Most people also agree that parties need money and other resources in order to perform various important functions within the electoral and the governing processes. The real issues that arise periodically are related to how parties obtain and spend the money they need to be effective.

In most western democracies over the previous century political parties relied exclusively or mainly on private sources of funding. There was only limited state regulation of their activities. Under these arrangements there were real and perceived risks that major financial contributors would gain unfair access to public officials, both elected politicians and appointed public servants, and would thereby achieve disproportionate, undue influence in the electoral and the governing processes. In all western political systems, this concern led gradually to more legislation and related regulations which sought to control the raising and spending of money by political parties, as well as to the introduction of various forms of public funding to support certain of their activities. It also led to the insistence on greater transparency about how parties raised and spent the money they obtained from private and public sources.

In Canada, the reform process, which was intended to ensure integrity in the electoral and governing processes, gained momentum from the mid 1960s onward. The new laws and regulations sought to balance the freedom of individuals and organizations to engage in various forms of political activity with the need to promote fairness in terms of relatively equal access to the electoral and governing processes for different organizations and individuals, as well as honesty and accountability in those processes.

To preserve the principles of political equality presumed by the representation and voting systems, gradually the national government and most provincial governments introduced legal limits on how much money could be donated by organizations and individuals to parties and to candidates. There were also requirements for the disclosure of contributions above a certain amount so that citizens could be aware of which organizations and individuals were seeking to influence the electoral and the governing processes.

Also introduced were tax credits for contributions to parties and candidates as a means to promote citizen involvement, to provide the parties with a broader base of financial support and to reduce their dependence on major contributors like wealthy individuals, corporations and trade unions.

The reforms to the election financing laws, which began in Quebec in the 1960s, were also the result of a growing insistence on more direct citizen involvement in the political process. At the time there was early evidence of declining public trust and confidence in politicians and political institutions like political parties. With some notable exceptions, this downward spiral of trust has continued to the present day. The causes of the public's disillusionment with the political process are too numerous to be analyzed here. However, scandals involving politics and money were one factor that contributed to the rise of a more suspicious, even cynical, climate in which politicians and political parties were seen by many citizens to be self-interested and self-serving in their behaviour.

Rightly or wrongly, Canadians do not hold parties and politicians in as high public esteem as they did in the first half of the 20th century. Somewhat paradoxically, opinion polls indicate that most Canadians still accept that responsible and responsive politicians and political parties are essential to a healthy democracy. They also accept that parties and elected representatives need money and other resources to do their work. However, the questions of how much money parties need, how they obtain it and how they spend it have become contentious topics in Canada and in many other western democracies.

Another trend which provides the wider context for this report involves the state of government finances. Compared to earlier decades there is stronger perception of scarcity in the public sector and there seems to be more resistance to paying higher taxes. As a result, governments everywhere are facing serious financial challenges in terms of balancing their budgets while still trying to accommodate numerous demands on the public purse. In these circumstances, critics have come to question the need for public funding of parties.

There is also the concern that we have entered an era of the permanent election campaign in which the activities and techniques used to win elections are being applied to the processes of governing and of opposition within legislatures. Opinion polls indicate that the public resents seeing their scarce tax dollars spent on such campaign related activities as polling and negative advertising, especially outside of the official campaign period.

In short, public disillusionment with aspects of the political process combined with the need for financial prudence in the public sector have provoked debates in Canada and other countries over the appropriate balance between private and public sources of funding for political parties. The Manitoba political system has not escaped these controversies. In saying this, one must quickly note that the problems and scandals involving money in Manitoba political life have never been as serious as in some other Canadian jurisdictions, in the United Kingdom and especially in the U.S.A.

The next section examines briefly the historical and recent developments in Manitoba which provides the context for the passage by the Manitoba Legislative Assembly of a statute providing for the appointment of an allowance commissioner who is to decide how much public money will be spent on allowances, which activities will be supported by the allowances, how the money will be allocated among the parties and what accountability requirements will be attached to the receipt of such financial support from the public treasury.

The Manitoba Context

Under modern conditions Manitoba's system of cabinet-parliamentary government has become in many respects party government. The system presumes strong and responsible political parties and helps to promote their existence. Parties perform a number of essential functions in the system. In the most general terms, parties help to link society to government, provide alternative ideas for public policy, help to inform and shape public opinion, act to represent different values/interests within the policy process, provide a vehicle for citizens to become involved in the political process, and help to recruit and elect leaders to public offices.

In more concrete terms, parties are central to the performance of the roles of government and opposition. It is the governing party which takes most of the initiative in terms of legislation and spending. Normally governments are not forced to compromise with the opposition parties in order to have their legislation and spending approved by the Legislature. However, with that authority and control comes accountability in the form of political credit or blame for both the actions and inactions of government.

Meanwhile, other political parties perform the crucial role of responsible opposition, challenging the government, both in the legislature and outside, on an ongoing basis. For this purpose there is separate recognition and support in statutes, parliamentary rules and the budgets of the Legislative Assembly for the role of an Official Opposition and often for other opposition parties. In their challenge role, opposition parties help to inform, shape, reflect and mobilize critical opinions and alternative ideas about the substance and the processes of policy formulation. In this way, opposition parties represent an alternative "government in waiting" and thereby allow, after fair and free elections, for the peaceful transition in power among rival political organizations seeking a mandate from the public.

Like other Canadian jurisdictions, Manitoba gradually came to recognize the central importance of political parties to a healthy democracy through the passage of various laws and the provision of different forms of direct and indirect state financial support to parties. This report is concerned principally with the implementation of the concept of annual allowances to eligible registered political parties. It is not necessary, therefore, to present a detailed history of the legal and financial components of Manitoba's system for the regulation of and support for parties, including the legal and administrative provisions governing their financial affairs. However, a brief overview of that system is needed in order to place in an historical context the establishment of the position of allowance commissioner and the issues which he was asked to decide.

From 1870 when the province was created to the present, Manitoba's electoral law reflected the maturing of the province's democracy. Only the highlights of the historical evolution of provincial electoral laws will be presented here in order to demonstrate the point that our understanding of the legal and financial requirements for an open, accessible, fair, honest and healthy democratic process have changed over time.

Originally, under the *Manitoba Election Act*, only males owning property were eligible to vote. In 1888 the property qualification was eliminated and the secret ballot was introduced for the first time. Another milestone was reached in 1916 when Manitoba became the first province to allow women to vote.

Over the years there were changes to the laws establishing the number of seats in the Legislative Assembly and the type of ballots (simple plurality versus proportional representation) used to elect Members of the Legislative Assembly (MLA). In 1957 Manitoba was the first province to establish an independent boundaries commission to review the boundaries of constituencies based on population changes. In 1969 the voting age was lowered to 18 from 21.

A major set of changes to electoral law were made in 1980. An independent office of the Legislative Assembly, the Office of the Chief Electoral Officer, was established to ensure fair and free elections. The *Elections Finances Act* was brought into force. It introduced advertising spending limits for parties and candidates, an income tax credit system for political contributions to registered political parties and a requirement for the disclosure of the names of contributors and the amounts of contributions above a specified amount. In 1985, spending limits expanded to include all expenses, not just advertising and the partial reimbursement of documented expenses of parties and candidates began to take place.

The next major round of election law reform occurred in 1988. In terms of the themes of this report, the important changes to *The Elections Act* were a strengthening of the investigative powers of the Chief Electoral Officer and an increase in the penalties for election offences. With respect to *The Elections Finances Act*, there was a clarification of the definition of election expenses, an elimination of the spending limits on advertising, stronger rules on disclosure for contributions to parties and candidates and greater compliance/enforcement powers for Elections Manitoba.

In 2000, *The Elections Finances Act* was amended to ban political donations from corporations, trade unions, non-profit organizations and individuals normally not resident in the province. That is to say, contributions could only be made by individuals normally resident in the province. The amendments also imposed a ceiling of \$3,000 on donations annually from individuals, placed a limit of \$5,000 on third party advertising during a campaign period (this provision is yet to be proclaimed into law) and put a ceiling of \$50,000 per year on party advertising during non-election years. These provisions were to take effect on January 1, 2001. Donations from organizations like corporations and unions were previously eligible for political contribution tax credits so the ban on such contributions represented a saving to the treasury in terms of the revenue previously deducted from taxes payable by those organizations.

In 2008, a series of amendments to *The Elections Act* and to *The Elections Finances Act* were passed by the Legislature. In summary terms, the amendments introduced the following changes:

- The adoption of fixed date elections;
- A ban on government advertising 90 days before the fixed election date;
- The introduction of annual allowances to political parties based on votes obtained in the previous general election (details below);
- The adoption of annual advertising limits outside of the election period in the year of a fixed date election. Limits were set at \$250,000 for parties and \$6,000 for candidates;
- The existing annual advertising limit for parties of \$50,000 was eliminated.

As part of the legislative debate over the above changes to *The Elections Act* and *The Elections Finances Act*, there was controversy and action on a number of related, non-statutory matters:

- An increase in the existing ceiling on party caucus and individual Member of the Legislature (MLA) advertising in non-election years;
- A requirement that party caucuses file annual reports for the financial allowances they receive for research and other activities; and

- The adoption of guidelines, approved on a consensus basis in the Legislative Assembly Management Committee, respecting a prohibition on the use of caucus and MLA allowances for narrowly partisan communications purposes.

This historical overview of the changes to Manitoba's election laws has necessarily been selective. More detailed information can be found on the website for Elections Manitoba at www.elections.mb.ca. While Elections Manitoba is the source for most of the information presented above, I hasten to add that it is not responsible for the selection of the developments highlighted or for any interpretation of the significance of those developments.

In summary, between 1870 and 2008, Manitoba moved towards recognition of the pivotal role of political parties in the development and consolidation of democracy. There was a clear trend toward recognition that parties were both private, voluntary associations, as well as public institutions that served society. In response to changing concepts of democratic participation and to fears of corruption there was a slow but steady trend towards greater regulation of certain activities of political parties.

Another trend was the provision of various forms of financial and non-financial support to political parties in both their campaign and non-campaign activities, including support for their roles in the legislative process through mechanisms such as a cabinet level salary to the leader of the official opposition, allowances to MLAs to run constituency offices and funds for caucus research bureaus. The result today is that Manitoba, like many western democracies, has a mixed public and private system for operating, regulating, financing and supporting political parties.

Among the declared aims of the reforms adopted over the years were: increased citizen participation, fairness, integrity, transparency and accountability. At times Manitoba led, and on other occasions followed, other Canadian and non-Canadian political systems in adopting reforms intended to strengthen democracy.

By 2008, Manitoba's system for regulating and supporting political parties had all or most of the components found at the national level and in many other provinces. In general terms the main components are:

- Spending limits for parties and candidates, including limits on advertising for parties and candidates;
- Annual contribution limits which place a ceiling on donations to parties, candidates, constituency associations and leadership contestants and allow only individuals resident in the province to contribute;
- Transparency based on public reporting of the names of all contributors over \$250.00, including to leadership contestants, and public reporting on party, candidate, constituency associations and leadership contestant expenses;
- Public funding in the form of a political contribution tax credit (on a sliding scale based on the amount), election expense reimbursements for parties and candidates (based on meeting a low minimum threshold of votes obtained), audit subsidies and annual allowances paid to registered political parties (details to be found below).
- A commissioner of elections exists to investigate offences under *The Elections Act* and *The Elections Finances Act*.
- The registered parties have also agreed to abide by a Shared Code of Ethical Conduct, which was developed on a consensus basis with the assistance of Elections Manitoba and involves self-regulation by each party.

In most instances, the components in this framework of laws, related regulations and administrative policies have been developed and adopted on the basis of all-party consultations and the search for consensus. Some changes have been more controversial than others and governments of different partisan backgrounds have at times found it necessary to act without all-party agreement. This brings us to origins of the current process to design and implement a new allowance program of financial support to Manitoba's registered political parties.

The Appointment and Mandate of the Allowance Commissioner

The current process to establish a new program of party allowances arose out a controversy which took place inside the Manitoba Legislature and within Manitoba society at large over the 2001 ban on donations to political parties and candidates by corporations, trade unions and non-profit organizations and the subsequent introduction in 2008 of annual allowances to be paid to registered parties.

This is not the place to review that controversy in detail. In this instance, there was a principled public policy disagreement between the governing party and official opposition that could not be resolved through legislative debate and inter-party negotiations. The bills creating the ban on organizational contributions to parties and substituting allowances as partial compensation for money lost by the parties as a result of the ban were both introduced by New Democratic Party governments. As the official opposition, the Progressive Conservatives voted against the bills and refused to accept the allowances. After internal debate the New Democratic Party also declined the allowances. The result was that between 2009 and 2011, the only eligible parties to accept the allowances were the Liberal Party of Manitoba, the Green Party of Manitoba and the Communist Party of Canada - Manitoba.

Under the previous program, the amount of the allowance payable to a particular party was based on the number of votes obtained by that party in the most recent general election, up to an annual ceiling of \$250,000.00 or the total annual administrative expenses incurred, whichever was the smaller amount. There was also provision for a minimum payment of \$10,000 when a party elected at least one member to the Legislature. Finally, a party that failed to elect a member, regardless of how few votes it obtained, was entitled to a minimum payment of \$600. Table 1 presents the allowance entitlements under the previous allowance program which were based on the results of the 2007 general election.

Table 1:
Annual Allowance Payments Based on Valid Votes Received in the 2007 General Election

Political Party	Total Valid Votes Cast	Valid Votes Received by Party	Percent of Total Valid Votes	Rate	Amount per Valid Vote	Allowance Amount
NDP	418,390	200,834	48.00%	\$1.25	\$251,042.50	\$250,000.00
PC	418,390	158,511	37.89%	\$1.25	\$198,138.75	\$198,138.75
Liberal	418,390	51,857	12.39%	\$1.25	\$64,821.25	\$64,821.25
Green	418,390	5,586	1.34%	\$1.25	\$6,982.50	\$6,982.50
CPC	418,390	367	0.09%	\$1.25	\$458.75	\$600.00
Total	418,390	417,155			\$521,443.75	\$520,542.50

Because the governing party and official opposition party refused allowances, the cost to the public treasury of the previous program was much less than originally forecast. The cost of that program was determined by a number of factors: the total number of votes that were cast, the documented administrative expenses that were incurred by the parties, the number of parties which elected one or more MLAs and qualified for up to \$10,000, and the number of parties which elected no members but qualified for a minimum allowance of \$600. Further comments on the previous allowance program are presented later in this report.

The experience since 2008 with the previous allowance program led the current Government of Manitoba to include in Bill 33, introduced in the Legislature on May 17, 2012, a section dealing with the appointment of an independent allowance commissioner who is granted the authority to design a new program of party allowances. The Bill received Royal Assent on June 14, 2012.

However, not all sections of the Bill were proclaimed at the time. Part 11, dealing with the appointment and work of the allowance commissioner, came into force on June 14, 2012. Appendix A contains a copy of Part 11 of the new *Election Financing Act*. (Both the former *Elections Finances Act* and Part 11 of *The Election Financing Act* are currently in force and references to the two different pieces of legislation, while confusing, is intentional). According to Section 80(2) of *The Election Financing Act* the government is to appoint an individual to serve as allowance commissioner only after consultation with the leaders of the registered political parties.

On September 14, 2012 the Government of Manitoba announced that it had selected Professor William Neville as the province's first allowance commissioner. Subsequently Professor Neville was forced to withdraw from the role for personal reasons. On November 15, 2012 Professor Paul Thomas was appointed as his replacement.

The Act provides that the commissioner must submit his report to the Speaker of the Legislative Assembly within three months of the date of his appointment, which means that it is due on February 15, 2013. There is provision in the Act that the Speaker may grant an extension if the commissioner requests extra time to complete his work. The Speaker must table the report in the Manitoba Legislative Assembly on any of the first 15 days on which the Assembly is sitting after the Speaker receives the report.

Without delay after submitting his report, the commissioner must make regulations to implement his report. The regulations of the commissioner come into effect retroactively to January 1, 2012.

It is critical to note that the decisions of the allowance commissioner are final. They are not subject to review and modification by the government or the Legislative Assembly.

According to Section 81 of the Act, the commissioner is given authority to decide a number of matters related to the design of a replacement program of party allowances. It is important to note, however, that the Commissioner is not free to settle the policy disagreement between the governing party and the official opposition party over whether or not annual allowances should be paid. The principle that there will be allowances has been established in the Act. This means that the commissioner is restricted only to such issues as the total amount to be paid, what types of party activities will be supported by the allowance program, how the available funds will be divided among the eligible political parties and what accountability requirements will be attached to the receipt of allowances

In more specific terms Section 81(1) states that: “The allowance commissioner must decide” the following:

- the amounts to be paid to registered parties as an allowance, or how those amounts are to be determined,
- when the allowance is to be paid, and whether it is to be paid once each year or in installments,
- whether the allowance is to be adjusted for changes in the cost of living or for any other reason and, if so, when and how,
- any related matter the allowance commissioner considers necessary or desirable.”

The last clause grants the commissioner considerable latitude and discretion in determining a range of potential components of a new allowance program.

Section 81(2) states that: “In deciding the amounts of an allowance, the allowance commissioner may consider any factors the commissioner considers relevant”, including the following:

- the expenses that parties incur for administrative and operating costs (other than for advertising and polling), including the costs of complying with this Act,
- how much public support a registered party has, as determined by the number of votes the party received in the last general election, the number of seats held, the number of candidates endorsed in the last general election, or any other factor or combination of factors the commissioner considers appropriate.

The clause is clearly permissive and grants the commissioner significant flexibility in determining the factors to be considered when designing the allowance program. The clause reads that he may - not shall - consider the two factors mentioned explicitly and may consider any other factor or combination of factors that he deems to be relevant.

Similarly, Section 81(3) of the Act is permissive (rather than prescriptive) in allowing, but not requiring, the Commissioner to consult with interested individuals and groups before making his decision.

The Approach Followed by the Allowance Commissioner

As Manitoba's first allowance commissioner - and the first such position to be created in the country - I was conscious of the need to adopt an approach that was clear, transparent, principled, based on evidence and open to participation by interested individuals and organizations. The fact that the commissioner is granted authority to make actual decisions as opposed to simply presenting recommendations for action reinforces the need for a sound, fair, open and accountable process. The commissioner's decisions will involve the expenditure of public funds and the regulation of the behaviour of political parties, matters which have already proven to be contentious. This is another reason for a careful and balanced approach.

While accepting that there are bound to be criticisms of my final decisions, I have sought to obtain as much relevant information, knowledge and opinion that it was possible to gather over the course of a relatively short three month assignment. The Act provides for the appointment of another commissioner after the next general election (which will take place in October 2015 or April 2016) and that individual will have the opportunity to review both the process and the product of my work.

My first step was to enlist the support of Mr. Lorne Gibson, former Chief Electoral Officer in Alberta and before that Deputy Chief Electoral Officer in Manitoba. Mr. Gibson brings both a strong academic background as well as detailed knowledge of the practicalities of electoral law based upon decades of working in the field. Hiring Mr. Gibson to assist me in terms of logistics and research did not add significantly to the cost of the study because it meant fewer paid hours for the commissioner. More importantly he added depth of knowledge and contacts in the field that proved to be invaluable in helping the commissioner to understand the issues, the potential options available and the challenges of implementing the decisions contained in this report.

The second step was to meet with Fred Bryans, the Executive Director of Administration of the Manitoba Legislative Assembly, and Deborah Campbell, the Director of Finance and Administration of the Manitoba Legislative Assembly, to discuss a work plan and budget for the allowance commissioner, as well as the logistics for creating advertising and a website for the process of consulting Manitobans. The office of the Executive Director had the experience of assisting on several occasions the work of the independent commissioner who set salaries, benefits and retirement benefits for MLAs, so the advice provided was very practical and helpful.

The third step was to conduct an hour-long interview with Mr. Michael D. Werier who had served on two occasions as the commissioner on salaries, allowances and retirement benefits for MLAs, a task somewhat similar to the present assignment. Both Mr. Werier's report (September, 2012) and his advice provided in the interview was thoughtful and very helpful in terms of the logistics of conducting such a study and identifying factors which might be relevant to determining the amounts of public money to be spent on political parties.

The fourth step was to meet with Elections Manitoba in the persons of Shipra Verma, Deputy Chief Electoral Officer and Tracy Nysten, Manager of Elections Finances. These individuals offered professional support for this study based on years of experience administering *The Elections Act* and *The Elections Finances Act*. They provided the commissioner with factual background information on the election law practices within Manitoba and other Canadian jurisdictions. The commissioner also made extensive use of the data on party financing, including data on the previous allowance program, which can be found on Elections Manitoba's website. This data is cited at several points throughout the report. The accuracy and interpretation of the material obtained through Elections Manitoba is, of course, the responsibility of the commissioner.

The fifth step was to design a newspaper advertisement inviting interested individuals and organizations to submit their views on the design of a new party allowance program. Beginning December 8, 2012 advertisements appeared in the following daily and weekly newspapers and publications:

- Winnipeg Free Press
- Brandon Sun
- Winnipeg Sun
- Metro News
- First Perspective Website
- Portage Daily Graphic
- Swan River Star & Times
- La Liberte
- Canstar Weeklies
- Thompson Citizen
- Flin Flon Reminder
- The Pas Opasquia Times
- Steinbach Carillon News
- Thompson Nickel Belt News
- Grassroots News
- Snow Lake Underground Press

The advertisement drew to the attention of readers a website for the allowance commissioner (www.allowancecommissionermb.ca) where the legislation establishing the position and the role of the commissioner were presented.

The website also solicited input from Manitobans. To focus and guide such submissions a series of questions were posed, including an open ended invitation to provide any information and opinions that individuals and organizations deemed relevant to the work of the commissioner. The website offered the opportunity for visitors to complete an online survey. Results of that survey can be found in Appendix B of this report.

As a sixth step, on November 24, 2012, the commissioner wrote to the leaders of all the registered political parties asking if they would like to meet with him to receive an explanation of how he was approaching his mandate and to receive any input they would care to provide.

They were also asked to designate any other party officials that the commissioner should contact to receive additional information and advice. This invitation resulted in face-to-face, confidential meetings with representatives of three political parties - the Green Party, the Liberal Party of Manitoba and the New Democratic Party - all of whom also made written submissions to the commissioner. The Communist Party of Canada – Manitoba also made a written submission.

As a seventh step, the commissioner spoke with four individuals who had specialized knowledge of party financing issues based on past involvement with a party, having made submissions on the topic to other committees or academic study of the issues.

A eighth step was to conduct research on the arrangements for party financing in Canada and in other countries, with a particular focus on the types of allowances or subsidies paid to political parties. Fortunately the commissioner had conducted previous research on the topic so that reduced the amount of work and time involved. At the request of the commissioner, Mr. Lorne Gibson prepared a comparative summary of the main features of the allowance programs at the national level and in the five Canadian provinces where such programs exist. This comparative summary can be found in Appendix C of the report.

As the above description of the work plan makes clear, the commissioner had valuable help in terms of advice and support to complete his report within the three-month deadline he was given.

He wishes to thank sincerely the interested Manitobans who replied to his invitation for input. He wants to thank the representatives of the political parties who agreed to meet with him and to provide candid insights into the operations and financing of their party affairs. The public officials working for Elections Manitoba, the Manitoba Legislative Assembly and in the election agencies in the other jurisdictions approached by the commissioner were most responsive and helpful to our requests for information and support. Mr. Lorne Gibson provided superb research and logistical support, and most importantly provided crucial advice and a critical review of the report as it was being drafted. The accuracy and quality of the report were enhanced by all these forms of assistance. Of course, any errors, omissions or misjudgments are the responsibility of the commissioner.

The Principles and Criteria Underlying Allowances

A number of principles and criteria underlie and have shaped the design of the allowance program. These design principles and criteria are described here and later in this report they are linked to the more concrete, detailed components of the new allowance program. The following principles and criteria should be reflected and reinforced by the new allowance program:

- **Clarity** - The rationale for setting the total cost of the allowance program and the formula for allocating allowances among the registered political parties which qualify for financial support should be as unambiguous and easily understood as possible.
- **Targeted** - Allowances should be targeted to provide public financial support only for designated activities by eligible registered political parties. The focus of public funding should be restricted to activities arising out of statutory obligations imposed on parties and/or to activities which are strictly operational and administrative functions involved with maintaining viable parties during non-election years. Activities directly related to party competition and campaigning should not be supported by the allowances.
- **Affordability** - For a number of reasons allowances should be relatively modest in amount. First, governments have more pressing financial obligations and the public insists on prudence in public spending. Second, modest allowances will reduce the likelihood of dependency on public funding and will preserve a strong incentive for parties to raise most of their revenues from private sources. Third, modest allowances targeted to designated administrative purposes will limit the risk of such funds being used for partisan campaign-type activities, such as polling and advertising, which are specifically prohibited by the Act. Finally, limited public funding will have more acceptance and legitimacy in the eyes of taxpayers and voters.
- **Predictability** - An allowance program, perhaps with a ceiling on annual amounts payable to eligible registered parties, should involve a measure of budgetary predictability and sustainability over the four-year period between fixed date elections. In this way the government will know its financial obligations with some certainty and political parties can count on a certain level of funding to support their core operational and administrative activities.

- Fairness - The allowance program should be fair to all registered political parties that qualify to receive allowances. It should contribute to the capacity of all parties to perform effectively their functions of shaping and representing public opinion, as well as performing their legislative roles of government and opposition. Fairness involves a requirement for clear, objective criteria to determine the total amounts spent under the allowance program and to determine the allocations among the parties. The formula used to make such calculations should be flexible enough to recognize the different histories, organizational structures and financing arrangements for the different parties. For example, the principle of fairness might imply that a minimum or base amount of money should be provided to newer and/or smaller political parties so that the allowance system does not preserve the status quo in terms of party competition in the province.
- Accountability - Political parties should be held strictly accountable for the public money they receive in the form of party allowances. They should commit to being scrupulous and honest in the use of allowances only for the designated eligible purposes. Up to a point, reliance can be placed on the parties to exercise restraint and self-regulation in the expenditure of public money, but in the present political climate of suspicion the public will insist on mechanisms for transparency, public reporting and auditing of spending under the allowance program. Also, in support of accountability there can be an insistence that allowances be paid only for incurred and demonstrated expenses.
- Enforceability - The allowance program should be supported by clear regulations and/or administrative procedures with identified sanctions for breaches of those accountability requirements. The regulations and sanctions should be proportionate to the abuses they are meant to prevent and should not impose an excessive regulatory burden on political parties that would add to their compliance costs.

In most instances these principles and values are complementary and mutually reinforcing, but there is the potential for conflicts and the need for trade-offs between and among them.

For example, in the pursuit of fairness, an allowance program could use an allocation formula based on one factor (for example, votes obtained at the last general election) or a combination of factors (for example, votes obtained, seats obtained, the number of party members, the amount of money raised from private sources etc.). Adding more factors may increase the fairness in terms of providing financial support to new, fledgling parties but a complicated formula could reduce the clarity, understandability and predictability of the allowance program.

In making decisions on the design of the allowance program I have sought to balance all the above considerations, but there is admittedly an element of subjective judgment involved with deciding how the principles/criteria will interact with one another in practice. The fundamental challenge as I see it is how to achieve an appropriate balance between providing essential funding to sustain and enhance the role of political parties in fostering political/ policy debate, including the engagement of their members and citizens in those activities, together with the assurance that public money is used for legitimate purposes in a transparent, accountable manner, while respecting the autonomy of the parties as private, voluntary associations of like-minded people.

Options for Determining the Total Amount of Allowance Spending and Allocating Money Among Registered Political Parties

This section seeks to illustrate the reasoning that lies behind the decisions presented later in this report regarding the total spending and the allocation of funds that would take place under the new allowance program. The list of options was generated from comparative research on the party financing arrangements that exist elsewhere in Canada and in other western democracies, on a review of recent debates over party allowances that have taken place in Manitoba, on the confidential advice provided by representatives of the registered parties in Manitoba and on input from interested organizations and individuals who contacted the commissioner.

Based on the arrangements elsewhere, there is a wide range of potential options for a new allowance program. One can learn from examples elsewhere, but care must be taken not to import features from other political systems that do not fit with the size, economic and financial realities, historical traditions and political culture of the province of Manitoba. The commissioner is granted authority to make final decisions and, in principle, does not have to consider the political acceptability of the new program. That would be a mistake, however. The goal is to design an allowance program that is not only sound in terms of certain principles and criteria, but also enjoys the maximum political acceptance by the public and the political parties. This includes the requirement that any new program be practical in terms of understanding, administration and compliance with the rules and is affordable in financial terms.

The discussion to follow considers a number of optional approaches to program design based on the principles/criteria set forth in the preceding section. The section is intended to allow citizens and political parties to see that the decision-making process was based on the consideration of a range of options, as well as on evidence and careful and balanced analysis of the pros and cons of different options. My hope is that this analysis adds to public understanding, confidence in the process and acceptance of the decisions which the commissioner is required to make.

Option 1

Annual allowances based on votes obtained in the most recent provincial election in combination with a minimum payment to all registered parties and a ceiling on total spending. Annual reports and audited statements would be required.

This option comes closest to the previous allowance program which was eliminated with the passage of the Act under which the current process operates.

In terms of the principle of clarity, this option represents relative continuity with the past program and therefore might imply relative ease of understanding. Party officials have learned to work with the former allowance program so there would be less adjustment for them in complying with a new program along the same lines. In terms of public understanding, most citizens are probably not aware of the technicalities of party financing and their knowledge of the aims and methodology of a new program would probably not be much greater. However, if citizens took the time to consider this option, I believe that most of them would find it relatively straightforward in terms of the principles and practices involved.

In terms of being targeted, the previous program was somewhat vague and open-ended in terms of the aims and the eligibility of different types of activities/spending by the parties. The new Act governing party allowances is more explicit in terms of its aim to support administrative and compliance costs and to prohibit more campaign-type activities such as polling and advertising. A replacement program designed along similar lines to the former program could be more restrictive and focused in regulating the activities to which allowance money could be applied.

In terms of affordability and predictability, the total cost of the program and the budgetary certainty involved with its operation would be affected by several variables: the total votes cast, the ceiling placed on allowances to individual parties or the total pool of money for which parties might compete, the actual expenses incurred by the eligible parties, the minimum payment to smaller, new parties and whether any special payment is allowed for a party which elects a single MLA.

In terms of fairness, the use of an allocation formula based on the votes obtained in the most recent general election is seen by many observers to be the most straightforward and fair way to allocate money among the parties. The fact that this formula is used in four other Canadian provinces which have allowances programs supports this viewpoint. A per vote formula supports the principle of proportionality whereas a per seat formula (based on the simple plurality representation system on which provincial elections are fought) would “over reward” parties that win more seats based on narrow victories rather than a larger share of the popular vote overall.

In voting for a particular party, citizens could be seen to be directing their tax dollars to the party of their choice (although this is probably in the mind of only a small number of voters when they cast their ballots) and the amount of each party's allowance is based on the level of voter support at the time of the last general election. It is true that between fixed-date elections held every four years, popular support for party could drop significantly, but the party would continue to receive allowances based on past levels of support.

Providing public money only for identifiable administrative and statutory compliance costs of political parties might also be fairer to taxpayers because they are not being asked to support with their tax dollars the costs of more strictly partisan activities of political parties which they do not support.

In terms of enforceability and accountability, a new program which was more targeted in its purposes and designated certain activities as ineligible for reimbursement would present fewer problems than the previous program which was general in purpose and minimal in its reporting requirements. The new Act presupposes a distinction between party expenses, which are strictly administrative and statutory in purpose, and those expenses which are clearly political and campaign related in purpose. The prohibition on the use of allowances for polling and advertising suggests that campaign related activities should not be financed with taxpayer dollars. Regulations to implement the Act would have to make these distinctions as clear as possible. There would be a requirement to make publicly available (including Online) an annual report documenting the use of the allowance money, including an audited financial statement in which the auditor confirms that party spending has been in line with the obligations of receiving the money

It should also be noted that the use of a per-vote formula creates an additional incentive for the political parties to connect with more voters and to gain their votes, which might indirectly contribute to higher turnouts in general elections.

Option 2

Allowances might be paid on the basis of the average per-capita vote obtained by each political party over the two previous general elections (rather than just one election) in combination with a ceiling on total payments and a minimum payment to smaller and/or newer parties. The allowances could be targeted to support only documented incurred expenses by parties to support non-campaign activities. Annual reports and audited statements would be required.

In terms of clarity and targeting this option would be close to the first, with the difference that a formula based on an average vote obtained in the previous two general elections would probably be less easily understood by the general public. Restricting use of the allowances to non-campaign periods and to non-campaign activities would help to promote public understanding and acceptance.

In terms of fairness, a per vote allowance based on two elections would represent a better indication of long-term voter support for a party than a single election which might be dominated by a single issue or other circumstances that might produce wide fluctuations in the historical share of the votes captured by different parties. Under the rules for fixed date elections, employing a sliding average of votes obtained over the two most recent general elections would potentially create a concern that a party might fall out of favour with voters, but it would continue to have its allowance payments based in part on votes obtained going as far back as eight years earlier. A minimum allowance for new, smaller parties would allow them to present their views and build their memberships, but the requirement for multi-election success would encourage them to broaden their appeal to more citizens.

In terms of affordability and predictability, the combination of a ceiling with the use of multiple election results would cap spending and smooth out the allowances paid to different parties provided they remained competitive. Since 2008 Manitoba elections have been scheduled on fixed dates - once every four years unless there are exceptional circumstances - which would mean that allowances would normally reflect party fortunes over an eight-year period. A two-election average approach would protect parties from a poor election showing which saw their vote share drop precipitously.

In terms of enforceability and accountability, this program would be targeted like the first option to support only non-campaign activities and the prohibition on the use of such funds for polling and advertising would be enforced. Similar to the first option, Online annual reports, including audited financial statements, on the use of the allowances would be required.

Option 3

An allowance program might be based on the number of votes obtained by a given party in combination with the number of candidates the party elects to the Legislative Assembly in the most recent general election. A minimum allowance to any party electing one MLA and a ceiling on total amount of allowances to be paid could be part of the program. Annual reports and audited statements would be required.

In terms of clarity and targeting, there would be limited differences between this program and the two options described above. Combining votes and seats to set allowance amounts might be somewhat confusing to voters who are used to seeing the roles of government and opposition decided on the basis of seats won rather than share of the popular vote. Of course, the previous allowance program used mainly votes to determine allowances, with a special payment made to a party electing at least one candidate, so that a combined allocation formula would not be unprecedented.

Depending upon the weight assigned to the two components of seats and votes, this option might produce greater uncertainty and more drastic fluctuations in the allowances paid to different parties. Conceivably, this might happen when a single election resulted in a lopsided victory for particular party in terms of candidates elected because the party forming government won all or most of the close three or four-way contests. In this instance, the winning party could thereby obtain a much larger allowance than the party which may have come a close second in the popular vote.

In terms of fairness, this option would combine the simple plurality principle (also known as the first-past-the-post principle) by which votes are transformed into seats in the Legislative Assembly with the proportionality principle (used in electoral systems which are based on some form of proportional representation) which allocates seats on the basis of a party's share of the popular vote. Using the number of candidates elected to determine in part the allowances would recognize that the roles of government and opposition are effectively decided by the number of seats parties obtain in the Legislative Assembly.

However, the simple plurality system often exaggerates the extent of the popular support for the governing party. Therefore it might be fairer to provide that a party's share of the popular vote would also be a factor in allocating allowance money. The relative weight assigned to seats versus votes in the calculation of allowances could be 50/50 or some other combination such as 70% percent for votes and 30% for seats.

Some people would argue that our system allocates authority and control over resources on the basis of election victory and that parties which fail to elect at least four MLAs do not qualify in the Legislative Assembly for recognition under the Standing Orders and for allowances for caucus research funding. They would argue that similarly parties which fail to elect a single candidate should not qualify to receive party allowances.

On the other hand, basing allowances solely on seats in the Legislative Assembly could be seen as unfair because it would reinforce the status quo of the party system by presenting another obstacle for new parties, perhaps offering innovative policy ideas, who are seeking to develop their memberships and to reach voters.

In terms of affordability and enforceability, a combined program could include a cap or ceiling on total expenditures. There might be somewhat more confusing calculations involved with determining the entitlements of the various parties. The designation of eligible activities and the requirement for annual reports and audited financial statements of expenses on eligible activities could be part of the program.

Option 4

Allowances might be paid on the basis of party membership and activities related to servicing members and developing party programs. To qualify for an allowance, a party would be required to have a minimum number of members on a reference date (perhaps January 1 of a given year). Qualifying members would be those individuals who paid a membership fee and who are entitled to vote at party meetings, including leadership contests and policy conventions. Allowances could be used only for designated activities related to statutory obligations imposed on parties and to maintenance of contact with and involvement of members between campaign periods when traditionally such activity tends to decline. Annual reports and audited statements would be required.

In terms of clarity, this option would be more focused in its aims by making membership development and the ongoing involvement of members in party affairs the primary purpose of the allowances. The membership numbers for Manitoba parties have fluctuated over time in response to short term events.

However, at any point in time only a relatively small number of Manitobans (probably less than 5 % of the population) belong to a political party and an even smaller number are actually active in the party on an ongoing basis, especially between elections. Membership fees have traditionally been kept low so as to encourage membership. These facts mean that parties have not been able to finance their activities in non-election years based on membership fees alone.

The allowances would be targeted to such activities as the recruitment of members, maintaining communication with members, providing support to constituency level associations, involving members in party activities such as policy development, providing support to the party president and other party executives and developing the knowledge and skills of members to support their role in the political process.

An allowance program based on membership numbers might encourage parties to experiment more often with new approaches to engaging Manitobans. One possibility might be for the parties to use the Internet to create a registered supporter category of members who for a modest fee (perhaps \$10.00) could subscribe Online to become a supporter of the party. Existing members could also register as online supporters. Money raised in this manner could be matched by allowance money.

The fairness of a membership-based allowance program would depend on an acceptance of the idea that parties are meant to be more than vote gathering, election vehicles, but should also be seen as one way, and perhaps the main way, that citizens can become directly involved in the political process on a continuing basis. This idea is widely accepted in Europe where the Netherlands pays public grants to parties to boost membership involvement and several other countries provide grants to sustain party research institutes and to support policy conventions. In the United Kingdom there is a pool of money administered by an electoral commission and parties can apply for grants to be used for policy development. In Canada, the Royal Commission on Electoral Reform, which reported in 1991, proposed something similar for national politics, but the concept was not adopted by government. A membership-based approach would represent a fairly drastic change for Manitoba.

In terms of enforceability and accountability basing allowance amounts on membership/supporter numbers could create issues of enforcement and compliance. If there is a "rich" formula for matching allowance payments to members and supporters, political parties or individual contestants in leadership campaigns within parties (a period when party membership can double or triple in size rapidly) might be tempted to buy memberships for individuals. It would be fairly easy to identify activities related to the recruitment and engagement of members in non-campaign activities, so this would not pose major problems for enforcement. Annual reports and annual audited financial statements could ensure that the allowance funds were spent to support the aims of the program.

Option 5

An allowance program could be based on a prescribed set of goods, services and activities deemed to be core operational requirements for maintaining parties between elections. The allowances would be seen as a small sustaining grant, not intended to cover anywhere close to the full costs of annual party operations in non-election years. If the purpose of the allowance is to cover costs associated with statutory obligations and other essential operating expenditures, the same amount could be paid to all registered parties to cover documented incurred expenses.

In terms of clarity, this option would target directly and explicitly the administrative and compliance costs that are mentioned in *The Election Financing Act*. There would be limited or no opportunity to divert allowance money to campaign activities.

In terms of affordability and predictability, the amounts of the allowances would be based on a certain percentage of a “basket of goods and services”. The cost of the basket could be indexed to annual changes in the Consumer Price Index or it could be adjusted by the new allowance commissioner appointed following each general election normally held on a four-year cycle.

In terms of fairness, the focus of the allowances on core operational requirements that all parties must meet to be viable and the modest amount of the allowances would mean that no party is put at a competitive disadvantage in terms of this type of public funding. On the other hand, the small size of the allowance would preserve an incentive for parties to raise money from private sources in order to sustain their operations in non-election years.

In terms of enforceability and accountability, the list of eligible items of expenditure would be spelled out in the regulations used to implement the allowance program. There is already a precedent in the practices used by Elections Manitoba to distinguish between election and non-election expenses and, in relation to the latter; the expenditure categories for operating a permanent office. (See a further discussion in the next section of this report.)

In terms of the wider concern to ensure the maximum possible acceptability of the new allowance program, the political parties might regard this option as too intrusive into their internal affairs because it would prescribe in some detail how they organize their internal operations and how they spend their allowance money. A detailed list approach might have the additional drawback that the list of approved expenditure items might have to be updated regularly, especially in terms of the acquisition of new technology to carry out party activities.

A more flexible, less detailed regulatory approach would avoid the need to update regulations frequently to take account of new technologies and practices. It would also recognize the differences among the parties in terms of their size, organizational structures, degree of professionalism and the capacity to comply with regulatory requirements.

A later section of this report endorses a philosophy of “regulatory reasonableness” based on the principle of trust, but verify; in other words avoid being overly prescriptive and detailed and instead place some conditional faith in the commitment of the parties to comply with the law, in part because of the potential for disclosure and sanctions should the rules be broken.

Costs of an Allowance Program to the Public Treasury

A key point in the above discussion of options is the principle that allowances should be modest and affordable. This principle is based on recognition of the current climate of austerity in government and on the desirability of maintaining an incentive for parties to raise funds mainly from individual Manitobans as opposed to becoming dependent on the public treasury as the principal source of their revenues. Simply declaring that allowances should be modest and affordable, however, begs the question of what this means in practical terms. A number of possible answers to that question are discussed in this section.

I begin an answer by observing that the cost of allowances should not be examined in isolation from the other direct and indirect forms of taxpayer financial support provided to Manitoba's political parties.

The other forms include political contribution tax credits (which directly benefit donors in terms of reduced taxes payable and thereby result in a loss of revenue for government), the reimbursement in public funds of 50% of eligible party and candidate expenses (if they reach the threshold of 10% of the vote), the provision of a subsidy for the preparation of audited financial statements and, outside of the election process, the expenditures made by the Legislative Assembly to support parties and individual MLAs in their roles as the governing party, the official opposition and as individual representatives of Manitoba's 57 constituencies.

Recognition of these different forms of financial support raises a series of philosophical and practical questions concerning how much in total taxpayers should be asked to invest in parties with the intention to support and enhance a vibrant and honest democratic process.

How much money do parties need to be effective in performing their campaign and legislative roles? What is the appropriate balance between private and public funding for parties in election and non-election years? What is the potential harm to the democratic process if there is reliance mainly or exclusively on private money? Is there a danger that parties can become so preoccupied with fund raising that other crucial activities, like engaging their members and developing policy ideas, are neglected or receive limited attention? How do we ensure that the prohibitions imposed on the freedom of parties to raise money from organizations and the limits on the right of individuals to contribute to parties/candidates is proportionate to the risks and the harms that might result?

If laws restrict who can contribute to parties and the amounts that can be contributed, is it necessary and appropriate for the public treasury to make up any shortfall in party revenues that might result? For the public money which flows to parties, how do we determine whether taxpayers are receiving “value” for their scarce tax dollars?

These are fundamental, philosophical questions related to the financing of political parties about which there are bound to be disagreements. Also, unfortunately, empirical evidence to inform judgments about these issues is in short supply and is open to varying interpretations.

It is not the mandate of the commissioner to make decisions on the overall system of party financing in Manitoba, including whether or not parties have enough money from all sources to be effective in their roles within the democratic process. While I have the discretion to consider a wide range of factors, my actual decision-making authority is restricted to the issue of party allowances.

The analysis in this section demonstrates the options, evidence and analysis that I have used to make my decisions about how much money in total should be made available to registered political parties through the new allowance program.

Option One - Administrative and Compliance Costs

The most obvious starting point for considering the total amount to be spent on allowances are the aims stated in *The Election Financing Act* which created the position of allowance commissioner. The Act states that the allowances are meant to assist parties in defraying their “administrative and certain operating expenses.” *The Election Financing Act* does not state or imply that allowances should cover all such expenses, if anything the wording indicates that the allowances are meant to provide partial compensation for administrative and operating expenses, including the costs associated with compliance to *The Election Financing Act* and other statutes.

It should also be noted that the aims of the former allowance program were rather general in nature, restricted simply to defraying expenses. There was no reference to the use of allowances for particular purposes such as engaging party members or developing policy ideas.

The wording of the new *Election Financing Act* raises the question of what sorts of expenses qualify as administrative and operating. Under the Act, polling and advertising expenses are explicitly excluded as eligible expenses, presumably on the grounds that such spending usually has an explicitly partisan political purpose. As discussed below, there may be other inherently partisan forms of spending that are not strictly related to the daily, core administrative and operational activities of the parties and therefore should not be eligible under the allowance program.

Excluding such partisan activities still leaves gray areas and room for debate over what constitutes administrative and operating activities which would qualify for allowance money. A pragmatic approach to resolving potential disagreements over the types of spending allowed would be to work from past practices developed through collaboration between the Office of Elections Manitoba and representatives of Manitoba's five registered political parties.

For a number of years there has existed under *The Elections Finances Act* a requirement that the parties submit an annual report to Elections Manitoba. To assist parties in meeting this requirement, Elections Manitoba publishes a "Legislative reference guide for Chief Financial Officers" of the parties.

One purpose of the guide is to distinguish between election and non-election expenses, Section A.6 of that guide states that election expenses do not include "any reasonable expenses incurred in the operation of any permanent office of a registered political party, including any salaries and wages paid to permanent staff members working in the office during the election period." The section goes on to state that reasonable expenses would include such items as office rent, utilities, telephones office equipment, and salaries for employees. "These expenses can be considered the base expenses" incurred in operating a permanent office according to the guide.

For purposes of reporting on annual expenses, Elections Manitoba provides the parties with Form 920 - Annual Financial Statement of a Registered Political Party. It lists the following reporting categories of spending:

- Depreciation
- Furniture and equipment rental
- Honoraria and salaries
- Interest and bank charges
- Legal and audit fees

- Meeting space
- Office occupancy
- Office supplies and postage
- Transportation, accommodation and food
- Telephone and Internet

These reporting categories might provide the starting point for the generation of a list of core, infrastructure expenses for goods and services necessary to support routine administrative and operational activities of the parties. Reasonable expenses for goods, services and salaries could be based on prevailing median market prices. To avoid creating an incentive for the parties to increase their expenses as a way to gain larger allowances, a pre-determined pool of total allowance money to be spent could be established by regulation. The allowance amounts transferred to individual parties would then be made on a proportionate formula based on each party's share of the votes and the actual incurred expenses which they reported.

One further factor would have to be incorporated into such calculations. This involves the requirement in *The Election Financing Act* to include in the calculation of administrative/operating expenses the costs of compliance with the Act and other statutes. The fact that such expenditures are required as a matter of law and public policy, and are not based on voluntary decisions made by particular party, appears to have been the rationale for the direct mention of such costs in *The Election Financing Act*. The phrase compliance costs refer to the expenditures on such items as employees, equipment (telephones, computers, software, etc.) professional services (for example, accounting and legal services) and the collection and management of information.

Identifying which expenditures are directly and exclusively related to compliance with various statutory obligations might appear, at first glance, to be straightforward, but on further investigation the calculations become more complicated. Those complications are discussed in the later section of this report that deals with matters of regulation, compliance, enforcement and accountability.

Table 2 provides an historical comparison of political party expenses reported to Elections Manitoba by each of the political parties for the years from 2003 to 2011. The expenses are reported in two columns. The first column shows all reported expenses, while the second column shows total expenses excluding spending on advertising, polling, publicity, posters and other promotional material, including signs and billboards. Under the new *Election Financing Act*, the expenditures in the second column could not be funded with allowance money. In other words, removal of these items gives us a better sense of the amounts that each of Manitoba's five registered parties have been spending on core administrative activities over the past nine years. For all the parties the spending on administration has fluctuated somewhat but in general it has risen over the years.

Table 2:

Historical Comparison of Political Party Total¹ and Net² Annual Expenses

Year	Political Party									
	PC		NDP		Liberal		Green		CPC	
	Total	Net	Total	Net	Total	Net	Total	Net	Total	Net
2011	2,133,657	1,673,793	1,351,086	1,005,307	182,638	165,103	17,465	8,340	5,358	5,358
2010	1,411,360	1,227,283	1,074,711	817,223	174,522	172,101	9,439	8,252	5,548	5,352
2009	922,267	906,666	1,051,736	1,051,736	150,832	149,458	8,676	7,079	9,980	9,156
2008	858,056	843,446	559,116	552,774	124,741	124,653	9,982	9,265	8,025	8,025
2007	976,992	799,920	875,812	785,316	110,612	110,612	9,316	8,294	9,325	9,291
2006	842,176	812,850	722,784	722,706	109,673	109,613	9,180	8,608	6,125	5,895
2005	547,780	531,730	688,588	688,588	110,291	108,068	10,293	8,816	4,804	3,922
2004	484,732	482,826	616,730	616,730	109,231	109,146	1,320	1,029	7,207	7,207
2003	593,474	457,941	888,354	848,644	125,263	125,263	6,716	6,716	3,318	3,318
Mean	974,499	859,606	869,879	787,669	133,067	130,446	9,154	7,410	6,632	6,392

¹ Total annual expenses reported on Schedule 1 of Form 920 – Annual Financial Statement of a Registered Political Party.

² Annual expenses net of the following expense categories: a) Advertising – Media; b) Posters, pamphlets, promotional; c) Polling; and d) Signs and structural support.

In summary, this first option potentially provides a pragmatic answer to the question of what an allowance program could cost in total based on the use of a series of activities and designated spending categories which are familiar to Elections Manitoba and party officials. There would still be the issue of how much of the administrative/operating/compliance expenses should be covered by allowance payments.

Option Two - Using the Expenditure Base of the Former Program

A second possible option for determining total spending under a new allowance program would be to begin with the cost of the previous program which was approved in 2008. As noted earlier, the total cost of the former program was potentially affected by several factors.

First, the allowance amount was set at \$1.25 per vote received in the previous election. It is unclear from the public record exactly how the allowance amount of \$1.25 per vote was determined back in 2008. It appears to have been based on the desire to place Manitoba in the middle range of the four other provinces that were providing allowances to parties at that time.

Second, the cost of the program would be affected by voter turnout in provincial elections. As is the case in the rest of Canada, voter turnout in Manitoba has generally been in decline since the mid 1970s. In the 2007 election only 420,540 of the 740,991 registered voters cast ballots, for a turnout rate of 56.75%. Based on the actual number of valid votes cast for political parties, the allowance payments had a potential cost of \$521,443.75 (see Table 1 on page 13). However, the former allowance program contained several other provisions which affected the actual cost.

Third, a ceiling of \$250,000 annually was placed on the amount that any party could receive and the actual payment would be based on the lesser of that amount or the actual documented administrative expenses of the party. This ceiling seems to have been based on the fact that, in recent Manitoba history, the two larger parties (the New Democratic Party and the Progressive Conservatives) have typically shared between 80 - 90% of the total vote, with the winning party typically receiving approximately 200,000 votes. It is probably not a coincidence that multiplying the number of votes typically obtained by the winning party times the \$1.25 allowance amount translates approximately into the legislated ceiling of \$250,000 each year for any party. In practice, the full amount has not been paid to either of the two major parties because both parties declined to accept the allowance payments.

Fourth, there was provision for a minimum payment of \$10,000 to any party which elected at least one candidate, but did not obtain sufficient votes on a province-wide basis to qualify for an allowance higher than that amount. At \$1.25 per vote, it would only take 8,001 votes or higher to qualify for an allowance payment of over \$10,000. To date this minimum floor provision has not come into play. The rationale for the minimum allowance to any party which elected only a single MLA is once again unclear from the public record. More discussion of possible reasons for a minimum floor payment to smaller or newer parties is presented in the concluding section of this report.

Fifth, the former program provided for a minimum payment of \$600 to any registered party regardless of how many votes it obtained. The requirements and benefits of registered party status are discussed later in this report. Based on this second provision, the Communist Party of Canada - Manitoba received an allowance amount of \$600 per year beginning in 2008. Whether such a bare minimum payment should be part of a new allowance program is discussed in the concluding section of this report.

Originally, the 2008 Bill which proposed party allowances indexed the per-vote amount to inflation but criticism of this feature led to its removal before the Bill was passed.

In summary, the previous allowance program was a fairly complicated model which seemed to be designed to recognize the different circumstances of Manitoba's five registered political parties. When the government of the day presented the Bill establishing the former allowance program, it forecast (based on the outcome of the 2007 election) total spending of approximately \$520,000.

Using the spending level of the former program could be justified by the fact that a majority of MLAs approved (admittedly in a vote along party lines) potential spending in the \$500,000 to \$600,000 range annually on party allowances and were prepared to answer politically for that decision. The cost of a new program might or might not be adjusted for inflation based on the amount of spending forecast back in 2008.

On first glance, the forecasted allowance spending under the former program might seem like a large sum of money. However, that number must be kept in perspective. Back in 2009 when the previous allowance program commenced, total provincial spending on the core activities of government was \$10.2 billion. For 2012 the total provincial spending was forecast at \$11.7 billion.

Even if the major parties had accepted the public funding to which they were entitled, the cost of the previous allowance program would still have represented a very small percentage of total provincial spending.

There is a second way in which allowance spending needs to be put in perspective and that is to compare it to other forms of public funding provided to parties. Based on *The Elections Finances Act*, after the 2007 general election all parties and candidates combined received \$2.4 million in reimbursements for eligible election expenses.

Also in the election year of 2007, tax credits claimed by individuals based on their political contributions to parties and candidates totaled \$1,551,826.00, which represents revenues that would otherwise be collected as taxes.

It is to be expected that in an election year there will normally be an upswing in contributions to all parties. However, it is interesting to note that in the three non-election years following the 2007 election, tax credits claimed for political contributions to all parties totaled \$969,134 (2008), \$1,072,440 (2009), and \$1,408,023 (2010).

In other words, contribution levels did not fall drastically compared to the previous election period. It appears that all parties have responded to the 2001 ban on organizational contributions. In the case of the two major parties, they have also responded to their refusal to take allowance money beginning in 2009 by increasing their fund raising activities targeted at individuals.

Data reported by Elections Manitoba in Table 3 indicates that there are significant differences among Manitoba's five registered political parties in terms of the percentage of total income that allowances represent for the years 2009 - 2011. The total income amounts and percentages for the New Democratic Party and the Progressive Conservatives presume that they had accepted the allowance.

Table 3
Allowance Amounts as a Percent of Registered Political Party Total Income

Year	Registered Political Party									
	PC		NDP		Liberal		Green		CPC	
	Total Income ³	%	Total Income ⁴	%	Total Income	%	Total Income	%	Total Income	%
2009	\$1,481,119	13	\$1,517,241	16	\$255,908	25	\$14,421	48	\$7,077	8
2010	\$2,285,204	9	\$1,705,707	15	\$243,684	27	\$16,896	41	\$7,102	8
2011	\$3,101,956	6	\$2,512,502	10	\$266,329	24	\$24,000	29	\$5,997	10

These numbers are relevant in terms of the concern that political parties might become so dependent on an allowance program that it might cause them to reduce their efforts at private fund raising. In the case of the two large parties, the allowances (had they been accepted) would have constituted between six and sixteen percent of their income over three years, which suggests there would still have been a strong incentive to raise money privately. In fact, both parties now appear to be in the fund raising business full-time. Of course, had they not increased fund raising activity, the allowance amount would have represented a larger percentage of their income.

In the cases of the Liberal Party and the Green Party, the allowances received were relatively modest, but they represented relatively high percentages of their total income because those two parties also raised relatively small amounts of money from individual contributions.

One might summarize by saying that proving the potential for dependency on allowances from the available data requires certain assumptions to be made about how parties might react to the availability of this form of public funding. More extensive and continuous fund raising activities on a province-wide and on a constituency level have become one of the main ways in which the two larger political parties compete.

³ The total income for the PC Party includes the annual allowance amount of \$198,139 for which they were eligible but did not request.

⁴ The total income for the NDP includes the annual allowance amount of \$250,000 for which they were eligible but did not request.

As indicated above, the impacts of an allowance program on each of Manitoba's five registered political parties differ significantly. Declaring a particular allowance program to be "too generous" in terms of creating perverse incentives for political parties and "unaffordable" in terms of costs to the public treasury is inherently a subjective and, therefore, potentially controversial statement.

Option Three - A Comparative Benchmark

A third approach to determining the total cost of a new allowance program would be to use a comparative benchmark of another province which has party financing arrangements (including provision for the payment of party allowances) similar to Manitoba. Appendix C provides a comparative analysis of the allowance programs that exist in four other provinces - New Brunswick, Nova Scotia, Prince Edward Island and Quebec - and the program which is being gradually phased out at the national level.

Finding the best allowance program to serve as a potential "benchmark" for the design of a new Manitoba allowance program is complicated by a number of factors. First, the four other provinces which operate allowance programs vary in population size, the number of elected representatives in the provincial legislature, the number of political parties and candidates who compete for public office and the total budget of the provincial government. These factors affect both the potential cost of an allowance program and what is deemed affordable by government decision-makers in terms of the cost to the public treasury.

Second, the costs of allowance programs in the other provinces are also affected by such design features as the per vote allocation formula used, whether any ceilings are imposed on the amounts that any party might receive, whether provision is made for minimal allowances to be paid to smaller parties, the number of parties that are eligible for allowances, and the voter turnouts in general elections.

Thirdly, each of the four provinces has somewhat different rules from Manitoba respecting who can contribute to parties and the amounts allowed, as well as the tax credits that can be claimed by contributors.

Fourthly, the provinces differ in terms of reimbursement of candidate and party expenses associated with their campaigns. In summary, comparing the relative "generosity" of the different party allowance programs across the country and their costs to the public treasury is anything but easy.

Comparing the situation of Manitoba to New Brunswick illustrates the importance of the provincial context in determining what is deemed to be a fair, affordable and politically acceptable allowance program.

Both Manitoba and New Brunswick are medium sized, "have less" provinces. In 2011 Manitoba's population was 1.2 million compared to New Brunswick's population of 755,000. Both provinces qualify for the payment of federal equalization transfers intended to allow provincial governments to offer reasonably comparable public services without having to impose disproportionately high taxes. The provincial budget of Manitoba for 2011 provided for expenditures in the range of \$11.8 billion compared to the New Brunswick budget for the same year of \$8.1 billion. There are 57 MLAs in Manitoba compared to 55 MLAs in New Brunswick.

The New Brunswick program of party allowances began in 1990, eighteen years before Manitoba's program commenced. Unlike Manitoba, the introduction of allowances in New Brunswick was not meant as partial compensation to political parties for revenues lost when a ban on corporate, trade union and other organizational forms of giving to parties was introduced. To this day, corporate and trade union donations are still allowed in New Brunswick, although there have been proposals to introduce a ban similar to Manitoba.

There are other ways in which the New Brunswick party financing system differs from Manitoba's system. For example, the limit on how much can be contributed to parties and candidates is \$3,000.00 per calendar year in Manitoba compared to \$6,000.00 per calendar year in New Brunswick. Another important difference between the two provinces is that New Brunswick reimburses election expenses only for candidates, not for both candidates and parties which is the case in Manitoba. These broader features of the two party financing systems have to be kept in mind when comparing the allowance programs of the two provinces.

The allowance program which began in New Brunswick in 1990 paid the eligible parties \$1.00 per vote received in the previous general election and the amount was indexed to inflation, which meant that the amounts increased annually. To qualify for an allowance a party only had to run ten candidates across New Brunswick's 55 constituencies.

Beginning in 1991, in response to an economic recession, the Legislative Assembly of New Brunswick passed annual budgets which reduced and capped payments to political parties, notwithstanding the fact that the original allowance formula was still in effect in "*The Political Process Financing Act*". During the period from 1991 to 2000 the payments to parties were reduced annually so that instead of a forecasted payment over ten years of \$903,000 the actual payment to all parties was \$668,000, a reduction of 26% from the forecasted amount. In response to these budget reductions, the Supervisor of Political Financing revised the allocation formula for payment to each of the eligible parties. The details of the revised formula need not be described here. In the calendar year 2011 - 2012, five political parties qualified for allowances and the payout totaled \$369,462.

Manitoba's allowance program began in 2009, eighteen years after the New Brunswick program was established. The per-vote amount for the new Manitoba program was set at \$1.25. By this point in time the New Brunswick the per vote allowance, after adjustment for inflation officially stood at \$1.76 but, as described in the paragraph above, the actual payments had been reduced since beginning in 1991 by annual budgetary restraint measures. Manitoba's allowance program did not provide for indexation for inflation so that the purchasing power of the allowances would erode, albeit slowly in a period when inflation rates have typically been under 2% annually.

In 2010-2011, allowance payments to the three parties which accepted them totaled \$72,625. If the two larger parties had accepted the allowance payments to which they were entitled, the total cost of the Manitoba allowance program in that year would have been \$520,542.50 compared to total spending of \$369,642 in the same year in New Brunswick. Of course, these comparative numbers do not tell the whole story in terms of party financing.

Several lessons might be drawn from this comparison of the New Brunswick and Manitoba allowance programs. First, the political climate in New Brunswick back in 1990 was more positive in terms of trust in politicians and political parties than was the case in Manitoba in 2000 when corporate and trade union donations were banned and in 2008 when allowance were introduced without an inflation protection feature.

Secondly, comparing the New Brunswick and the Manitoba allowance programs based solely on the legislated per vote amounts does not provide a complete picture of the relative "generosity" of the public financing for parties in the two provinces. A comprehensive comparison requires an examination of other rules on party financing and any budgetary actions that limit actual payments.

Thirdly, the New Brunswick experience suggests that in economic hard times when other parts of government are undergoing cutbacks it is politically impossible, or at least improbable, to allow public funding to be exempt from restraint, regardless of what legislation might be on the books.

While such a comparison is helpful in terms of drawing some possible lessons, there is still potential for debate over whether New Brunswick is the most appropriate reference point for deciding what Manitoba should invest in its political parties.

As indicated earlier, the question of whether the parties collectively and individually had sufficient funds under the previous arrangements to remain viable and effective, especially during non-election periods, does not lend itself to a straightforward answer. Any answer will depend in part on what expectations are attached to parties in terms of maintaining contact with members, engaging members in policy debates, recruiting and training party staff, acquiring and using new technologies and so on. Also, as indicated in the above discussion, deciding what the provincial government can afford and should spend on allowances is a complicated, contentious, value laden issue about which reasonable people may well disagree.

Regulations, Enforcement and Compliance

The process of translating the decisions made in this report into practice is more complicated than might appear at first glance. Implementation of the new allowance program will first require the promulgation of regulations by the Allowance Commissioner, a task to be undertaken with the support of officials in the Legislative Counsel Office of Manitoba Justice. As with other aspects of the design of an allowance program, the crafting of regulations involves a search for balance.

If the legally binding rules respecting eligibility for allowances are too prescriptive and detailed and too strictly enforced, there will be higher costs of compliance and parties will see the rules as too intrusive into their internal operations. On the other hand, if the regulations are vague there will be room for slippage from the aims of the program, enforcement will become more of a challenge and there will be less assurance to the public that the program is working in a legitimate, efficient and effective manner.

In striving for the appropriate balance, I have adopted a philosophy of regulatory reasonableness which puts more emphasis on education and voluntary compliance by responsible authorities within the parties and less emphasis on a detailed regulatory/monitoring approach which seeks to prescribe for every conceivable problem and to impose severe sanctions as a deterrent against abuses. This approach assumes that most people directly involved with a political party, whether they are elected politicians, party executives, paid staff or volunteer supporters, will want to respect the law and the regulatory requirements that support it. It would be naïve to assume, however, that there will never be attempts to bend, if not break the rules, so there must be requirements for public disclosure, monitoring processes and sanctions for non-compliance.

Without such regulatory requirements, a new allowance program will not be seen as effective, credible and legitimate by members of the public. Of course there will always be a segment of the public who reject in principle the concept of party allowances. Without an opinion survey, it is hard to know what percentage of Manitobans oppose allowances, what reasons they would give for their opposition, and what foundation in terms of knowledge of the wider party financing system might support their negative opinions. My mandate is not to convert such opinions. Rather, it is to design an allowance program which is sound in public policy terms, which is feasible in terms of its costs and the practical requirements of the parties, and which is acceptable to as many Manitobans as possible.

The new allowance program should combine educational and motivational incentives with regulatory and enforcement mechanisms. Voluntary compliance is more likely to work when the regulatory requirements are well understood and accepted by the party officials and when there is the organizational capacity within the parties to meet those requirements. Monitoring requirements and sanctions are least likely to be effective in promoting responsible behaviour when they are seen to lack value and practicality in the eyes of the party officials who have to comply with them. Sanctions are penalties for non-compliance. They should be graduated to deal with a range of more or less serious problems involved with applying *The Election Financing Act* and its regulations. I have more to say on these points later in this report.

Once the regulations have been approved by the allowance commissioner and are published in the *Manitoba Gazette*, Elections Manitoba, as the independent agency designated to oversee the implementation and enforcement of the new program, will take over. The role of Elections Manitoba will involve a number of activities: the provision of administrative policy direction, the development and delivery of various educational and training materials and services for politicians, party executives, paid staff and volunteers, the monitoring and enforcement of the regulations and the publication of information about how the program is working to ensure transparency and accountability for the use of public money.

Decisions and Recommendations

Durable readers who have persevered to this point in the report are entitled to a reward in the form of some clear, principled decisions on the design of the new allowance program, as well as hopefully persuasive reasons for those decisions.

I begin the discussion of my decisions by noting that many of the submissions from the public did not support the notion of publicly funded allowances for political parties. Before proceeding, it bears repeating that as allowance commissioner, I am not authorized by *The Election Financing Act* to decide whether or not there will be party allowances. The Act requires that allowances will be paid.

Several submissions made recommendations for changes to other laws and regulations that govern the raising and spending of private and public funds by parties and candidates. Although *The Election Financing Act* grants the allowance commissioner considerable latitude to identify considerations relevant to the design of a new allowance program, making changes to other components of Manitoba's rules for financing parties, such as the reimbursement of election expenses and the political contribution tax credit provisions, are not within the allowance commissioner's mandate. I have taken the position that only the Legislative Assembly can make such changes.

Finally by way of introduction to my decisions, I want to reiterate one last time the point that both fundamental philosophical issues and complicated practical challenges are involved with the design of a new allowance program that balances a number of important values and principles and fits well with the circumstances of the Manitoba political system.

Taking into account the fact that this is the first time that an independent party allowance commissioner has been used in Manitoba, I have decided to include in this final section not only the decisions that I am required to make but also some recommendations for consideration and possible adoption by the government and the legislature.

I have sought to order my decisions and recommendations in a logical sequence starting from the aims of the program, to its components, the costs of the program and finally to the implementation and enforcement requirements.

The Policy Aims of the Allowance Program

As stated in *The Election Financing Act* of 2012 the aim of a new allowance program is to defray the administrative and certain operating expenses, as well the compliance costs of registered parties. This statement of purpose of allowance spending is relatively targeted and narrow. It appears that part of the intention of this wording was to reduce the political controversy by limiting allowance spending to core party operations, especially outside of campaign periods. I have respected this approved purpose of the Act in making my decisions on the various components of the allowance program.

I received several submissions which recommended that payment of party allowances be tied to broader, more democratic purposes than simply defraying the administrative/compliance expenses of parties. In Quebec and New Brunswick the statutes which authorize their allowance programs mention administrative expenses, but also indicate that policy development and the ongoing engagement of party members are important activities of political parties which are meant to be supported by allowance spending. In those provinces, linking allowance spending to these broader, democratic purposes was seen to increase the public acceptability of the allowance program by making it more than simply a means to defray certain overhead costs of party operations. It was also argued that in terms of policy development, political parties had lost ground to specialized interest/advocacy groups and to the permanent public service. Engaging party members in policy discussions would not only enhance the knowledge and political skills of interested citizens, it would also better prepare the party to set policy direction should it gain office.

I am sympathetic to the viewpoint that all parties need to recruit and engage more members, not just as donors, but also as participants in ongoing discussions of past and future policy ideas. Given the current negative public opinion towards parties, adding these additional purposes could prove to be controversial, although this has apparently not happened in Quebec and New Brunswick where the statutes explicitly identify communication with members and policy development as legitimate forms of allowance spending.

It is worth noting that in the United Kingdom, in other European countries and in two Australian states (Queensland and New South Wales) political parties can apply to a commission to obtain a grant from a limited pool of money to defray the costs of policy development activities (research and conferences, for example). There would undoubtedly be issues of interpretation and regulation related to public spending on membership engagement and policy development, but other jurisdictions appear to have coped with such challenges.

Therefore, I recommend further study, perhaps by the next allowance commissioner, of the option of adding membership engagement and policy development as legitimate spending categories within the allowance program.

Defining Administrative and Operating Costs

My decision is that the starting point for the development of regulations and related reporting requirements for this component of the allowance program should be the existing rules and accompanying implementation guidelines developed by Elections Manitoba, which were developed based on consultation with the registered political parties.

The regulations should identify an illustrative list of core administrative/operating activities, but should not seek to prescribe organizational structures and positions that parties must establish. Instead a flexible regulatory approach should be adopted. Such an approach will accommodate the differences among the parties in terms of their histories and traditions, membership numbers, available revenues, and whether they have paid staff or rely on volunteers. A less prescriptive approach will also respect the autonomy of the parties in choosing their own structures of decision-making and modes of operation.

Compliance Costs

A significant component of the administrative and operating expenses of political parties will be related to compliance with the new *Election Financing Act*, *The Elections Act* and *The Income Tax Act*. Such costs are specifically identified in *The Election Financing Act* as falling within the scope of the new allowance program. Isolating compliance costs from more general administrative and operating expenses will be difficult in practice.

Compliance involves spending on the collection, storage, analysis and reporting of information. Most of the information that is required by law (and by the related rules/forms used by Elections Manitoba) involves accounting for the raising and spending of money, but there are also requirements for information on the operation of constituency associations, the names and addresses of party officials, etc.

It follows that spending on such items as office space, supplies, IT equipment, staff salaries, training costs and the hiring of outside professional services could potentially be classified as compliance costs.

As noted earlier, the five registered parties in Manitoba differ greatly in the extent to which they maintain full time paid staff. The smaller parties, with limited memberships, depend entirely or almost entirely on the efforts of part-time volunteers for their ongoing operations. Volunteers, in turn, rely on Elections Manitoba for more assistance in complying with the legal reporting requirements. The compliance costs of such parties will therefore be modest.

In contrast, the three parties which historically have been the main competitors in Manitoba politics all maintain permanent party headquarters with paid staff. The major parties also have more members to service and they raise and spend more money than smaller parties. As a consequence, there is more staff work to be done and more information to be gathered stored and reported. Representatives of two parties indicated in interviews that compliance requirements had increased over the past two decades whereas their staffing levels declined. More extensive efforts at fund raising targeted at individuals to compensate for previous reliance on organizational donations has increased the compliance “burden”, according to party officials.

My decision on the matter of compliance costs is as follows:

It is appropriate that compliance costs imposed on political parties, as a matter of public policy, should qualify for financial support from the public treasury. In fact, one type of compliance cost – audit fees – is already subsidized by Elections Manitoba. Given the difficulty of isolating all of the compliance costs from the ongoing, general administrative and certain operating costs of the parties, there should not be a requirement in the regulations under the allowance section of *The Election Financing Act* for a separate accounting of party expenses related to meeting statutory obligations; such costs should be combined with general administrative expenses.

Prohibited Spending

The Election Financing Act prohibits the use of allowance money for advertising and polling activities conducted by political parties. The prohibition is presumably based on the principle that such activities are not consistent with the primary purpose of the allowance program which is to defray certain administrative, operating and compliance costs of parties. In other words, allowance money should not support partisan, campaign-type activities, of which polling and advertising are leading examples. Many citizens would, in fact, find it objectionable if the parties used allowance money to conduct a permanent election campaign, including the use in non-election years of negative advertising targeted at their political opponents.

The fact that half of the eligible election expenses incurred during the campaign period are already reimbursed by the public treasury to those parties and candidates who obtain ten percent of the vote is presumably another reason why allowance money was restricted for administrative/compliance purposes.

Two regulatory issues arise from the prohibition on advertising and polling. The first is the need to be clear on what activities constitute advertising and polling. The second is whether there are other campaign-type activities that should be disqualified under the allowance program.

In defining advertising for purpose of regulation, we must be careful not to restrict unduly the opportunities to promote political conversations about important public policy issues, the right of political parties to reach voters with their messages, and the ability of parties to communicate with their members and supporters. After all, political parties are meant to represent competing philosophies, values, ideas, interests and directions for the future. An allowance program must avoid constraining unduly spirited conversations and debates on these levels. It must also provide room and opportunities for the voices of new parties, representing new ideologies and new interests, to be heard in the ongoing political conversations.

In determining whether the appropriate balance is achieved, several features of the existing rules on political advertising must be noted briefly.

First, the prohibition on advertising in the allowance section of the new *Election Financing Act* does not prevent parties from using other income to pay for advertising. It also will not affect the free-time political broadcasts which are available to recognized parties.

Secondly, Section 78.2(2) of an earlier version of *The Elections Finances Act* would still seem to apply. It defines advertising as: "advertising in any broadcast, print or electronic medium that promotes or opposes a registered political party or the election of a candidate".

Thirdly, there is a non-proclaimed section of *The Elections Finances Act* dealing with third-party advertising which states that advertising to promote policy ideas and/or the aims of particular group/organization do not fall within the scope of the limits on advertising under the Act.

In summary, it is my interpretation of the new *Election Financing Act* that legislators wanted to avoid the use of allowance money on paid advertising for narrow partisan, electoral purposes, but did not wish to constrain broader forms of political communication.

Accordingly, the law and supporting regulations should not be interpreted to prevent parties from using allowance money, for example, to advertise in the various media the staging of events for party members or open public meetings to discuss province-wide or local policy issues.

Increasingly parties are relying on the Internet and direct-to-voters technology for purposes of political communication, including advertising and polling. *The Election Financing Act* recognizes that the Internet opens up many new channels of political communications, but as the technology continues to evolve new legal and regulatory challenges will emerge. In my opinion, the prohibition in *The Elections Financing Act* on the use of allowance money for advertising and polling should not prevent parties from reaching out to party members and potential supporters online and it should not prevent parties from conducting online surveys, presuming that both of these activities are not conducted for narrow partisan purposes.

If the aim of the new *Election Financing Act* was to eliminate completely the potential use of allowance money on campaign related activities, the Act could be amended to state that allowances cannot be used to support "election expenses". This term is defined in the Act to include money spent or liabilities incurred and the value of donations in kind accepted before, during or after an election period in respect of goods or services used to support or opposed, directly or indirectly, a political party or a candidate in an election.

For greater certainty the Act goes on to present a long list of goods and services which are covered by the definition of election expenses, a list which includes advertising and polling but also many other types of expenditures. For example, as presently written, *The Election Financing Act* would seem to permit the use of allowance money to rent a campaign office or to hire a campaign manager. This is possible because Section 70(3) of the Act does not restrict allowance payments to non-election periods. Rather it provides that in an election period the allowance amounts will be pro-rated based on a formula prescribed in the Act. As written, The Act would seem to allow a party to use allowance spending for partisan, campaign purposes and then receive further reimbursement for half of its election expenses if it obtained at least 10% of the vote in the election that had just occurred. This could be seen as an inappropriate form of double-dipping.

I do not think that it is within my authority to, in effect, amend *The Election Financing Act* to include a more comprehensive list of campaign-type expenditures that should not be supported with allowance money. Therefore I recommend that the government and the Legislature consider adopting the more exhaustive definition of election expenses contained in *The Elections Finances Act* to establish ineligible categories of spending under the allowance provisions of the Act.

There will always be gray areas with respect to the appropriate use of allowance money. To a significant extent self-regulation by the parties can be relied upon to prevent the potential misuse of such funds. The parties have already committed to respect the values and principles of a shared code of ethical conduct. The risk of exposure of the inappropriate use of allowance money would also serve as a deterrent that would encourage the parties to avoid spending on explicitly ineligible or other problematic activities.

Total Cost of the Allowance Program

Four criteria for the design of a new allowance program were that the spending be modest, affordable, predictable and relatively stable. The fact that allowances are meant primarily to support administrative/operating/compliance expenses makes it somewhat easier to calculate the total amount to be spent on allowances, but does not eliminate the potential for controversy.

In my judgment the best way to proceed is to start with a fixed amount or “pool” of allowance spending set by regulation and then to allocate that money among the parties based on the formula described in the next section of this report.

Establishing the total amount of allowance money available was done on the basis of both general and specific considerations.

In general terms, the aim was to achieve balance in terms of the incentives and disincentives created within the five registered political parties by availability and amount of allowance money. If the allowance amount is too large it will reduce the incentive of the parties to raise money from individual donors and fund raising can be a valuable basis for engagement with citizens and the community at large.

On the other hand, an unrealistically low allowance will require political parties to perpetually pursue higher levels of private funding. Continuous, aggressive fund raising can lead party officials to see party members only as donors rather than as active citizens who wish to contribute to the development of party policies. It is also the case that increased fund raising leads to higher compliance costs because each transaction must be recorded and reported to Elections Manitoba.

In terms of more specific considerations, the following factors were part of my decision on the total spending “pool” for the new allowance program:

- The primary purpose of the allowance program is to ensure parties have sufficient funds to maintain a core administrative infrastructure and to meet compliance costs, but there should not be the expectation that allowances will cover all such costs;
- There were widely varying opinions from party officials about how much allowance money was needed to maintain an effective party operation (the estimates ranged from \$60,000 to over \$300,000 annually), which reflected the differences among the parties in terms of their history, size, organizational capacity and relative reliance on permanent staff or volunteers;
- Reports from Elections Manitoba show that since 2001 (when the ban on organizational giving came into effect), the combined, total income of all parties has remained relatively constant, with modest fluctuations from year to year and for individual parties;
- Inflation levels over the past decade have remained relatively low (below 2% annually) which meant that, despite the absence of indexation of the per-vote allowance, there has not been serious erosion of the value of the allowances in terms of the purchase of goods and services;
- Even though the New Democratic Party and the Progressive Conservative party declined allowance payments, their income levels have remained stable which indicates that they picked up the financial slack by more aggressive fundraising;
- Based on the calculations reported earlier in this report (see Table 1 on page 13), even if the two main parties had accepted allowance payments it would be hard to argue that this would have produced a condition of undue dependence on the public treasury leading to significantly reduced fund raising activities;
- The amount spent on allowances must be kept in perspective as a relatively small amount of money in the context of total provincial government spending of \$12 billion in 2012;

- In a period of budgetary stress within government it is hard to make the case that spending on political parties should be immune from restraint; and
- Public disillusionment with politicians and political parties is strong, but most citizens have limited knowledge about the different roles that parties perform in our political system and the legitimate costs that they face. Nevertheless, the public acceptability of party allowance must be a factor in setting limits on total spending.

Giving weight to each of these considerations and combining them to reach a decision is necessarily somewhat subjective and arbitrary.

The previous allowance program did not establish a pre-determined overall “cap” on costs. Instead it controlled costs by setting the allowance amount at \$1.25 vote and by placing a ceiling of \$250,000 on the amount that any party could receive. The costs of the former program were also affected by voter turnout at the most recent provincial election.

My decision is that a “cap” of \$600,000 annually be placed on total spending under the new allowance program. This “pool” of money would be divided among the parties based on the formula described in the next section of this report.

Allowance spending would not be indexed to inflation. Instead allowance amounts would be adjusted following the report from the next allowance commissioner who will be appointed following the next general election that is scheduled under Manitoba’s fixed-date election law to take place either in October 2015 or in April, 2016.

This “cap” on allowance spending would be set by regulation which means that in a condition of severe budgetary strain the government of the day could reduce or suspend payments under the program. It is appropriate that responsible ministers make such decisions and be answerable for them to the Legislative Assembly and to the public.

The Formula for Allocating Allowances to Parties

This is the most crucial and most politically sensitive component of any allowance program. The primary criteria in distributing available allowance money to the five registered political parties should be fairness. This is an elusive notion about which reasonable people can disagree.

One aspect of fairness involves recognition that any formula for the allocation of allowance dollars will potentially affect different parties differently. The challenge is to devise an allocation formula that is based on clear principles and related arguments, and takes into account the relative impacts - positive and negative - on the different parties.

The primary purpose of allowances is to cover certain administrative/operating/compliance costs of parties and fairness requires recognition that these costs are significantly different for the five registered political parties.

A number of formulas were proposed to me in submissions from the political parties and from citizens. To indicate that I seriously considered such proposals, I should offer a brief comment on some options that I did not accept.

One suggestion was to use a matching formula which combined a lower per-vote amount with a supplementary amount based on a percentage of private funds raised by a party. This matching formula would presumably maintain an incentive for the parties to raise money privately. The strength of that incentive would depend, of course, on what percentage of the allowance payment was determined by the fund raising success of the different parties.

I did not accept this proposal for a couple of reasons. First, in a political era which is coming to resemble a permanent election campaign, organized fund raising has become one of the main forms of political competition. More so than in previous decades, the permanent party apparatuses of Manitoba's two main parties appear to be committed nearly full-time to supporting fund raising activities across the province and to meeting the related compliance requirements. Linking allowances to donations would reinforce this trend and potentially contribute to a "crowding out" of other important party activities such as engaging members in party affairs. Second, in terms of fairness, the proposal to match allowance spending to contribution levels would further disadvantage new and smaller parties which lack the organizational capacity to engage in ongoing and sophisticated fund raising efforts.

A second proposed formula would base the allocation of allowance money on the number of candidates endorsed at the most recent provincial election, either alone or in some combination with the number of votes obtained. The argument in support of this proposal is that there is organizational work and associated costs entailed with maintaining 57 constituency associations across the province and there is further work involved with the recruitment, selection, training and support of individuals to carry the party banner in those constituencies.

An allocation formula based on a flat rate payment per candidate would mostly affect the allowance amounts of the smaller parties. A candidate-based formula would clearly benefit the Liberal Party, which in the 2011 election ran 57 candidates, obtained 7.5 % of the popular vote province-wide and elected one MLA. Under a formula which paid a flat-rate amount per candidate, the Liberal Party would have generated the same allowance entitlement as the two largest parties, which together captured nearly 90% of the votes cast. Of course the Liberal Party's actual allowance payment would be the lesser of its entitlement and its documented administrative expenses. The same formula would provide the Liberal Party with a much larger allowance entitlement than the Green Party which ran 32 candidates and obtained 2.5% of the popular vote or just five percent less than the Liberal Party. One can question whether these would have been fair allocations.

Clearly there is democratic value in encouraging parties to run a full slate of candidates because it offers voters a wider range of political choices in all parts of the province. Even if the candidate for a particular party stands little chance of winning in a particular constituency, her or his name on the ballot offers supporters of that party the opportunity to express their political viewpoint through their vote. Presenting candidates in all 57 constituencies potentially increases the allowance payment to a smaller party and a full slate may also qualify the party for a rebate of half of its election expenses if the party obtains 10 percent of the vote province wide. I also agree that maintaining permanent and active constituency associations is important work that brings with it associated costs.

Despite these arguments, I still think that the fairest and most legitimate method for allocating allowance money is demonstrated public support for a party which is most directly and easily measured by the number or proportion of votes obtained in previous elections. In my view, a candidate-based allocation formula would "over-reward" parties simply for nominating a full slate of candidates. In filling out the party slate there would likely be some candidates who did not reside in the constituency and intended to do little or no actual campaigning. The requirement to earn 10% of the vote to receive reimbursement of eligible campaign expenses would reinforce the incentive to run limited, inexpensive campaigns.

Therefore, on balance, I do not favour a candidate-based allocation formula. However, as discussed below, it may be possible to include in the allocation formula other components that would provide modest financial support to newer and/or smaller parties who face obstacles in fielding a full slate of candidates.

In addition to these proposals, I have considered models used in jurisdictions outside of Canada. In some European countries, allowances are paid on the basis of the number of party candidates elected to the legislature. Many of the European countries that use seats as the basis for the allocation of public money to political parties use systems of proportional representation to elect members of their legislatures.

In contrast, Manitoba elects MLAs from the 57 constituencies on a simple plurality or first-past-the-post electoral system. Therefore, in Manitoba using a seat-based formula for the payment of allowances would provide another benefit to the winning party which already tends to gain more seats than it would be entitled to under a proportional representation electoral system. Also, in some European countries, the grants to parties are mainly intended to support the performance of their parliamentary duties. In Manitoba there is already recognition and financial support for the parliamentary work of parties that achieve official status in the Legislative Assembly by electing at least four MLAs.

My conclusion is that the fairest, most straightforward, most easily understood and most politically acceptable basis for allocating allowance money is on the basis of the share of the vote obtained. For voters, this is a familiar and widely accepted basis for recognizing and rewarding success in the political competition among parties. Paying allowances on the basis of the share of the vote obtained by the parties introduces a measure of proportionality into political competition and moderates somewhat the impacts of the first-past-the-post electoral system which tends to "over reward" the winning party.

It is undeniable that a proportion-of-the-vote model somewhat favours the main parties which have the greatest prospect of attracting votes and gaining office. However, success at the ballot box is the best available proxy measure of public support within the community. It could also be argued that as a result of their political success, two larger parties face higher expectations and greater demands on their organizational capacity because they perform in the roles of government and opposition and serve larger party memberships.

Therefore, in my judgment, share of the vote represents the best single measure of popular support for a political party and, as indicated below, I believe that the vote share should be calculated on an average of the votes obtained in the two previous elections rather than just the most recent election. Basing allowance payments on two elections, I believe, provides a better indication of enduring popular support for a party, rather than a single election where the outcome might be greatly affected by short-term events, issues and personalities.

When a party has competed for the first time in the most recent provincial election, its vote share from that election will be used to calculate its allowance entitlement. A new entrant might be a brand new party or a party which was created through the merger of two existing parties.

There is still the issue of fairness to smaller parties, including newer, fledgling parties that are trying to achieve greater visibility and to change the political conversation. Studies from other political systems provide persuasive evidence that the dynamics of party competition over time are affected by many more powerful factors than the provision of administrative allowances. In other words, modest allowance payments do not freeze the status quo by preventing the continuation of smaller parties or the emergence of new parties.

There is even some evidence from other jurisdictions that allowances can be of value to new parties in gaining visibility and voter support within political systems where the larger, established parties have many competitive advantages. In the Manitoba context, the Green Party based their appeal to voters in the 2011 election partly on the claim that a vote for its candidates was no longer wasted because it would help to build the party's financial and organizational future by generating allowance payments.

Forecasting the impacts of any allocation formula necessarily involves some speculation. In Manitoba, an allocation formula based on the average number of votes obtained over the previous two elections could have contradictory impacts on the political success of a new party. On the one hand, it might delay the building process of a new party which saw its vote total rise from one election to the next, but its allowance entitlement did not keep pace because of the rule that votes would be averaged over two elections. On the other hand, an averaging formula could cushion the impact of a drop in the vote obtained by a party. This could be important to budgetary stability for new and smaller parties which face greater risk in terms of failing to obtain 10% of the province-wide vote and thereby not qualifying for reimbursement of half of their eligible election expenses.

Two other components of the new allowance program could help to support diversity in the voices and perspectives which are heard in ongoing political debates in Manitoba. First, under the previous allowance program there was provision for a minimum allowance payment of \$10,000 to any party which elected at least one MLA, but only in a situation where that party did not receive more than 8,000 votes. Any votes above that level would generate a regular allowance payment above \$10,000. Based on my research, I could not identify the reasons for why this minimum payment provision was adopted back in 2008 when the original allowance program was introduced.

It may have been the case that the provision for a minimum payment was designed to deal with the political situation of the Liberal Party of Manitoba. Since the 1960s that party had gradually slipped into third place and was electing only one to three MLAs (which meant that the party lacked official status in the Legislature and related benefits). In effect, the minimum payment of \$10,000 would recognize the long history of the Liberal Party, including forming governments in earlier decades. Also, despite its third place status, the Liberal Party has maintained a party headquarters, prepared policy platforms for each election and fielded a full slate of candidates in most elections.

The minimum floor provision has not been used since it came into effect in 2008 based on the results of the previous 2007 election. It is hard to imagine circumstances where a party could elect a single MLA and not obtain enough votes to generate an allowance payment in excess of \$10,000. In summary, the minimum floor provision seems to have been part of a political bargain among the parties back in 2008, it does not seem to rest on a sound principle, and it is highly unlikely to be used in the future to support a party, either one on a path of decline or one of growth.

I think that the principle of fairness supports a different approach to the concept of a minimum floor payment to smaller parties. I start with the primary aim of the new allowance program which is to help defray the administrative costs of parties, including compliance costs. All parties face the same legal compliance requirements under the law. They differ, of course, in the number of transactions they must process and whether the compliance activities are conducted mainly by paid professionals or unpaid volunteers. Creating and maintaining 57 constituency associations, maintaining membership involvement and engaging in broad based fund raising activities takes time, organizational resources and money.

I accept that parties should be expected to grow and sustain their operations based mainly on popular support for their ideas, their leaders and their local candidates. However, on the principle of providing some limited financial support to promote political diversity, a small allowance payment of \$100 per endorsed candidate made to all parties seems appropriate. Such a payment would defray some of the expenses involved with presenting candidates in elections. It would provide an incentive for smaller parties to develop constituency associations and recruit candidates in all parts of the province. Payment of the candidate-based allowance to all parties would meet the principles of consistency and fairness. A modest amount allowance of \$5,700 for running a full slate of candidates would be far more significant to smaller parties whose incomes are limited compared to the larger parties.

A final component of the previous allocation formula was a bare minimum payment of \$600.00 to any registered party which did not qualify for an allowance above that amount based on its popular vote and did not elect an MLA in order to qualify for the minimum floor payment. Once again, the rationale back in 2008 for creating this bare minimum payment is unclear from the public record. One is left to surmise that it was meant to provide some minimal support to the Communist Party of Canada - Manitoba, which to date has been the only party to receive such a payment. Based on receiving 367 votes across the province in the 2007 election, the Communist Party of Canada - Manitoba generated an allowance entitlement of \$458.75 but, based on the bare minimum rule, an actual payment of \$600 has been made each year going back to 2008.

Decision-makers in government may have thought that failure to provide at least a token payment to very minor parties could prompt a court case under the equal benefit of the law provision in the *Canadian Charter of Rights and Freedoms*. Or, it may have been their thinking that fairness requires some minimal support for parties which promote unfashionable or unpopular ideas and therefore have trouble attracting both votes and donations. A minimum payment of \$600 would at least help such parties to defray some of their compliance expenses.

In European countries which operate allowance programs there is a frequently a threshold requirement that a party must reach in order to be eligible for an allowance - usually it is a low share of the popular vote in the previous election (typically in the 2 percent to 5 percent range) or a minimum number of candidates. Presumably such requirements were meant to avoid the payment of public money to minor parties with very limited appeal and support from voters.

In Manitoba under the previous allowance program, the only requirement for a political party to receive some type of allowance was to be registered with Elections Manitoba. The details on the registration requirements can be found on the website of that office. Those requirements are fairly minimal and not that costly. For example, there are three ways to qualify as a registered party: to hold four or more seats, to endorse five or more candidates during an election or to present a petition for registration signed by 2,500 voters. The benefits of registration are significant: the placement of the party name on the ballot opposite the name of the candidate endorsed by the party; the right to issue tax receipts for contributions to the party and/or the candidate; the audit fee subsidy, and; under the former Act; the right to be rewarded in some fashion under the allowance program.

In the case of a new party, the requirement to collect 2,500 signatures on a petition and to provide Elections Manitoba with the names of several party officials does not constitute much of a demonstration of popular support. The requirement to endorse at least five candidates to maintain registration during an election period also does not seem to be an onerous requirement. For these reasons my decision is to eliminate the minimal, automatic payment of \$600 and instead use the formula of \$100 per endorsed candidate as the mechanism for providing allowance money to minor parties which attract only a small number of votes.

Payment Schedule

The commissioner was asked to decide when the payment of allowance money would take place. The relevant considerations are the need to ensure integrity in the operation of the allowance program with the practical timing requirements of allowing parties to meet their cash flow requirements. In meetings with representatives of the parties, they stressed the predictability of allowance funding was more crucial to them than the precise timing of the payments. Elections Manitoba will have calculated a party's allowance entitlement, however, the actual allowance payment must be based on the lesser of the entitlement amount or the actual incurred administrative expenses which take place throughout the year. Payment of an allowance before knowing the amount of the administrative expenses incurred has the potential to create a situation where there is an over-payment of allowance funds and there is a need for Elections Manitoba to collect the excess allowance paid. Withholding payment until the end of the year when all expenses are reported could create cash flow problems, especially for the smaller parties which have limited revenues from other sources and which would be more reliant on their allowances.

Fortunately this will not be a problem since the decisions of the commissioner regarding the design of a new allowance program will apply retroactively to January 2012. This means that allowances to which parties will be entitled for 2012 can be calculated and made available following the filing of their 2012 annual financial statements.

My decision is that the most prudent arrangement is to provide a party with the allowance to which they are entitled in a given year, following the filing of their Form 920 – Annual Financial Statement of a Registered Political Party which is due within 3 months after the end of the year.

Monitoring, transparency, enforcement and accountability

For the new allowance program to be credible and legitimate in the eyes of the public there must be monitoring, transparency, enforcement and accountability so that there is assurance that the public money involved is being used as intended and with integrity.

It is the responsibility of the commissioner to draft the initial set of regulations which will govern the new allowance program. As indicated earlier, I favour an approach to implementation of the new program based on a philosophy of regulatory reasonableness.

Put simply, regulatory reasonableness involves less emphasis on formal processes of detailed regulation, monitoring and the imposition of sanctions and more emphasis on informal processes of education, advice and guidance. This balance reflects the principle that helping parties and their officials to understand the allowance rules from the outset and supporting them to comply voluntarily is the most effective way to ensure that the application and enforcement of the rules is done in an effective, efficient, proportionate and fair manner.

By proportionate I mean that the regulations and compliance requirements should not be disproportionate to the potential harm that is to be prevented and the likelihood of a political party or its officials violating the letter or the spirit of the law. In short, regulatory reasonableness might be summed up as: "trust but verify."

The responsibility for overseeing the regulation and operation of the allowance program should continue to reside with Elections Manitoba, an independent, non-partisan, professional body that reports to the Manitoba Legislative Assembly and serves the people of Manitoba in ensuring free and fair elections and integrity with respect to party financing matters.

The regulatory philosophy stated above is not that different from how Elections Manitoba currently interacts with the political parties in relation to all parts of *The Elections Finances Act* and *The Elections Act*. The office is expected to ensure the legality, transparency and integrity of party financing. It must eliminate any benefit, including competitive political advantage, which parties or individuals might obtain by failing to comply with the law. When instances of non-compliance arise, the office must bring those failing to meet their regulatory obligations into compliance.

The main mechanism that Elections Manitoba relies upon to discover instances of non-compliance are the various reports that parties are required to submit. In the case of party allowances, the annual financial statements submitted by each political party are the key documents. Annual statements must be audited by a professional accountant. Once they are submitted to Elections Manitoba, they are posted on their website for public viewing and reviewed for compliance. In combination, the reporting, monitoring and publicity requirements provide an incentive for parties and persons to follow the rules and to behave responsibly. In this way, there is an important preventative, deterrent aspect to the role of Elections Manitoba.

Elections Manitoba declares that it predominantly follows an educational approach which reflects an obligation, created by statute, that it provide assistance to political party officials at all levels to help them meet compliance requirements. Some of the ways that assistance is provided include: website information, providing handbooks and brochures, telephone inquiries, information sessions, meeting individually with party officials and using periodic reminders of reporting requirements and deadlines. The office also consults regularly with representatives of the political parties through an advisory committee and recently has committed to undertake after each election a review of how its assistance has been evaluated by the parties.

Ensuring that parties and candidates know the rules, have the organizational capacity to handle them, and are motivated to comply, are all-important conditions to achieving informal, voluntary compliance with the law. Nearly all political party officials, nearly all of the time, will want to conform to the letter and the spirit of the law. Most of the time Elections Manitoba can work informally with the parties to rectify unintentional instances of non-compliance.

However, there must also be consequences in the form of penalties when legislative and regulatory obligations are not met. A graduated approach to enforcement will work best. Such an approach would consist of Elections Manitoba working progressively along a continuum from remedial to more severe sanctions. The continuum would involve such steps as: working with a party to correct deficiencies, delaying the payment of an allowance until a party meets compliance requirements and withholding allowances if a party fails to comply. In the case of party actions that fall in a “gray zone” between the strict letter of the law and its aims, reliance might be placed on publicity and the political process to achieve more responsible behaviour.

Not surprisingly, there can be a difference of opinion between representatives of the political parties and Elections Manitoba over whether the rules and associated red tape are excessive and create an administrative burden in terms of compliance requirements. One party representative indicated that there were 26 reports and forms to be completed in order to comply with the reporting requirements of the two statutes, the related regulations and the administrative procedures followed by Elections Manitoba. The party representative acknowledged that each of the compliance requirements had a legitimate purpose.

However, the cumulative impact was to create a lot of work, involving such activities as gathering information from various party officials and constituency associations, entering data into computerized software systems, maintaining financial records in a prescribed manner, filing regular reports with Elections Manitoba and meeting with representatives of that office to deal with deficiencies in those reports. When the rules and procedures of Elections Manitoba change, there is the need to conduct training sessions for staff and volunteers.

For all parties, but especially for those which rely mainly on volunteers, completing all these activities involved a lot of time and effort. Part of the purpose of the periodic reviews conducted by Elections Manitoba in consultation with the parties should be to ensure that the purpose of the rules and reports are well understood and are seen to be of practical value in terms of administration of the law. The potential for streamlining reporting requirements would normally be part of such a review.

In the interest of not adding to the financial compliance obligations already faced by political parties, there will be no additional forms for parties to account for the use of allowance funds. Parties are already required to file annually with Elections Manitoba an audited financial statement reporting all sources of income and expenses.

In the interests of providing assurance that public allowances being are being used as intended and with integrity, parties will be required to assert within their annual financial statement that allowance funds have been used only for their intended purposes.

Summary of Recommendations

1. I recommend further study of the option of adding membership engagement and policy development as spending categories within the allowance program.
2. If the aim of the new *Election Financing Act* is to completely eliminate the potential use of allowance money on campaign-related activities, the Act could be amended to state that allowances cannot be used to support “election expenses”.

Summary of Decisions

1. Allowance funds are to be used for political party administrative, operating and compliance costs.
2. The existing rules and accompanying implementation guidelines developed by Elections Manitoba will be used to define administrative and operating costs. The regulations will identify an illustrative list of core administrative/operating activities.
3. Allowance funds cannot be used for narrow, partisan advertising and polling but this should not be interpreted to prevent parties from using allowance money for broader forms of political communications, including such things as reaching out to party members and potential supporters online, communicating with or advertising events to party members, advertising open public meetings to discuss province-wide or local policy issues and conducting online surveys.
4. There will be an annual “cap” of \$600,000 placed on total amount of allowance funds available under the new allowance program.
5. Allowance spending will not be indexed to inflation but will be subject to adjustment by the next allowance commissioner and to reduction or suspension by the government in a condition of severe budgetary strain.
6. The total annual amount of allowance funds available will be divided among the registered political parties based on two calculations:
 - a) A candidate-based payment of \$100.00 per candidate endorsed in the most recent general election; and, after deducting all candidate-based payments from the total funds available;

- b) A vote-based payment as determined by an average of the party's proportion of valid votes cast in the two previous general elections.
- 7. In the year of a general election, the vote-based portion of the allowance will be pro-rated on the basis of the number of days up to and including polling day and the number of days after polling day.
- 8. For a party that is competing for the first time in a general election, the vote-based portion of the allowance will be based on the proportion of valid votes they obtained in that election. Also, the vote-based portion of the allowance will be pro-rated for the portion of the year after polling day.
- 9. The actual allowance payment to each party will be the lesser of the documented administrative, operating and compliance expenses of the party and its allowance entitlement.
- 10. Allowance payments will automatically be made to a registered political party for a given year following the filing, and initial review, of Form 920 – Annual Financial Statement of a Registered Political Party which is due within 3 months after the end of the year.
- 11. The responsibility for overseeing the regulation and operation of the allowance program will continue to reside with Elections Manitoba.
- 12. Parties will account for the use of allowance funds within their Annual Financial Statement and will be required to assert that allowance funds have been used only for their intended purposes.
- 13. If a political party wishes to decline an allowance, it can notify Elections Manitoba in advance or return the payment after it has been issued.
- 14. Parties cannot request allowance funds that have been declined or returned beyond the current year.

Table 4: New Allowance Program Calculations

Political Parties	No. of Endorsed Candidates	Candidate-Based Allowance	2007 No. (Prop.) of Valid Votes	2011 No. (Prop.) of Valid Votes	Average No. (Prop.) of Votes	Vote-Based Allowance	Total Party Allowance
NDP	57	\$5,700.00	200,834 (.48)	199,069 (.46)	199,952 (.47)	\$273,111	\$278,811
PC	57	\$5,700.00	158,511 (.38)	188,535 (.44)	173,523 (.41)	\$237,012	\$242,712
Liberal	57	\$5,700.00	51,857 (.12)	32,418 (.07)	42,138 (.10)	\$57,555	\$63,255
Greens	32	\$3,200.00	5,586 (.01)	10,886 (.03)	8,236 (.02)	\$11,249	\$14,449
CPC	4	\$ 400.00	367 (.009)	179 (.004)	273 (.006)	\$373	\$773
Total	207	\$20,700	417,155 (1.00)	433,097 (1.00)	424,122 (1.00)	\$579,300	\$600,000

Total Allowance Funds \$ 600,000

Candidate-Based Allowance - \$ 20,700

Net Allowance Funds to be distributed \$ 579,300

Next Steps

There are a number of additional steps that need to be taken to implement Manitoba's new allowance program.

As required under *The Election Financing Act*, the commissioner will submit his report to the Speaker of the Manitoba Legislative Assembly. The Speaker must table the report in the Legislative Assembly on any of the first 15 days on which the Assembly is sitting after he receives the report. All political parties and members of the Legislature will receive copies at the same time and the report will be posted on the website of the allowance commissioner for public viewing, with a link to the report posted on Elections Manitoba's website.

Without delay after submitting his report, the commissioner must make regulations to implement his report. He will be assisted in this process by legislative drafters from the Legislative Counsel Office of Manitoba Justice. Regulations must be published in the *Manitoba Gazette* before they come into effect.

As stated in *The Election Financing Act*, payments made under the new allowance program will be retroactive back to January, 2012, the point at which the former allowance program ceased to operate.

Based on the decisions made in this report and the regulations intended to implement those decisions, Elections Manitoba calculate the amount of public money each of Manitoba's five registered parties will receive under the new, two-part allowance program.

Elections Manitoba will first calculate an allowance payment for each party based on the flat rate formula of \$100.00 times the number of candidates endorsed by a party in the 2011 provincial election.

The second calculation will determine the amount of the main allowance payment to which each party is entitled based on their respective average share of the valid votes cast for the various parties in the 2007 and 2011 provincial elections. This calculation determines their main allowance entitlement. The actual payment will be the lesser of the total allowance for which a party is entitled and the total administrative/operating/compliance expenses for each party during the calendar year of 2012.

A cheque for the total allowance amount will be sent automatically to each of the parties. If a political party wishes to decline an allowance it can notify Elections Manitoba in advance or return the cheque after it has been issued. Parties will not be permitted to “bank” allowance funds which have previously been declined or returned and claim them in subsequent years. Unspent funds in the accounts of Elections Manitoba are not carried over from year to year, but rather revert to the Consolidated Revenue Fund at the end of each fiscal year.

Conclusion

This report began from the premise that in a large and complicated society like Manitoba a vibrant and honest democratic process depends critically upon organized, competitive, responsible, honest and effective political parties. It was recognized that parties perform a number of crucial functions within the political system that go beyond nominating candidates and seeking to achieve public office. Parties help to shape public opinion and to give expression to the different values, ideologies and interests within society. When one party provides leadership and initiative in government, other parties continuously challenge the governing party to answer for its performance. In this way, political parties contribute to setting directions for society while assuring ultimate democratic accountability to voters.

As Manitoba's political system matured, political parties ceased to be seen solely as private associations and came to be viewed also as important instruments of democracy. This shift in perspective led to the gradual adoption, especially since the 1960s, of election laws which regulate party behaviour in various ways. It also led to the introduction of several direct and indirect forms of governmental financial assistance to political parties to support their crucial roles within the democratic process. The aims of these reforms included citizen engagement, fairness, integrity, transparency and accountability.

In Manitoba and many other political systems, we live in a period of significant public disillusionment with the political process. It is also a time of financial austerity within government. These two conditions have caused a growing number of citizens to question how parties raise and spend the money they need to perform their various roles. Despite these circumstances, most members of the public still believe that parties are essential to our system of representative and responsible, cabinet-parliamentary democracy and they accept that parties need money and other resources to perform effectively.

In this context, the prohibition on organizational donations to political parties which took effect in January 2001 and the introduction in 2008 of party allowances as partial compensation to the parties for the revenues they lost as a result has become a controversial topic in Manitoba political life. Since all parties accept some types of public funding, the recent debate has been really over the appropriate mix of private and public funding and the means by which public money is directed to the parties.

In 2012, Part 11 of the new *Election Financing Act* was passed. This provided for the appointment of an independent allowance commissioner to decide the components of a new allowance program and was meant to provide a sound public policy foundation for a new program. To achieve this aim and to promote public understanding and acceptance of the new program, I did a number of things.

In designing the new program I sought to integrate a series of principles and criteria: clarity, targeted, affordability, predictability, fairness, enforceability and accountability. I then applied these principles/criteria to a number of optional models for a new allowance program and examined the pros and cons of each option.

The same principles/criteria were used to shape the design of the new allowance program, with the additional important consideration that the program be made as clear, understandable and acceptable as possible to citizens and representatives of political parties.

Based on my research and submissions from individuals, organizations and three of Manitoba's five registered political parties, I realized that design of an allowance program cannot be done intelligently without considering other laws, regulations and financing arrangements for parties in Manitoba. However it was not part of my mandate to change other provisions respecting party finances. Using the authority that I was given to take into account any considerations that I deemed relevant, I have presented both binding decisions on the design of the new allowance program together with a limited number of advisory recommendations for consideration by government and the Legislature.

The result of adopting the above approaches has been to produce a somewhat long report. Hopefully the report will be of educational value concerning an important, but specialized topic about which most Manitobans know little.

As the first ever independent allowance commissioner in Manitoba and Canada, my further hope is that the report provides a foundation in terms of both process and substance for future commissioners asked to undertake a similar sensitive, challenging assignment.

Finally, it is my hope that implementation of the new allowance program will help to sustain and enhance the role of political parties as critical institutions of democracy in Manitoba.

Appendices

Appendix A

Part 11: ALLOWANCE FOR REGISTERED PARTIES

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OVERVIEW

Registered parties are entitled to receive an annual allowance. The amount of the allowance is determined by a commissioner.

78 DEFINITIONS

The following definitions apply in this Part.

"allowance" means the allowance referred to in section 79. (« allocation »)

"allowance commissioner" means the person appointed under section 80.
(« commissaire aux allocations »)

79 ANNUAL ALLOWANCE

For 2012 and each year afterwards, registered parties are entitled to receive an annual allowance to assist them in defraying their administrative and certain operating costs, including costs incurred in complying with this Act.

80 APPOINTING AN ALLOWANCE COMMISSIONER

(1) – LG in C to appoint allowance commissioner

Within three months after this section comes into force, and within six months after each general election afterwards, the Lieutenant Governor in Council is to appoint a commissioner to decide on the amount of the allowance.

(2) – Consultation with leaders

An appointment may be made only after consultation with the leaders of the registered parties.

81 DECISION ON ALLOWANCE AND REGULATIONS

(1) – Decisions

The allowance commissioner must decide the following:

- (a) the amounts to be paid to registered parties as an allowance, or how those amounts are to be determined,
- (b) when the allowance is to be paid, and whether it is to be paid once each year or in instalments,
- (c) whether the allowance is to be adjusted for changes in the cost of living or for any other reason and, if so, when and how,
- (d) any related matter the allowance commissioner considers necessary or desirable.

(2) – Factors

In deciding on the amounts of an allowance, the allowance commissioner may consider any factors the commissioner considers relevant, including the following:

- (a) the expenses that parties incur for administration and operating costs (others than for advertising and polling), including the costs of complying with this Act,
- (b) how much public support a registered party has, as determined by the number of votes the party received in the last general election, the number of seats held, the number of candidates endorsed in the last general election, or any other factor or combination of factors the commissioner considers appropriate.

(3) – Consultation

The allowance commissioner may consult with interested individuals and groups before making his or her decisions.

(4) – Report to Assembly

Within three months after being appointed, the allowance commissioner must submit a report to the Speaker setting out his or her decisions under this section. The Speaker may extend that period.

The Speaker must table a copy of the allowance commissioner's report in the Assembly on any of the first 15 days on which the Assembly is sitting after the Speaker receives the report.

(5) – Regulations

Without delay after submitting the report to the Speaker, the allowance commissioner must make regulations to implement his or her decisions. The regulation may provide for any transitional matters the allowance commissioner considers appropriate.

The regulations made by the first allowance commissioner come into force on January 1, 2012. The regulations made by a subsequent commissioner come into force on January 1 following election day for the last general election.

The Regulations Act does not apply to regulations made under this section, but the regulations must be published in Part I of *The Manitoba Gazette* and on the Elections Manitoba website.

Appendix B

Survey Input to Allowance Commissioner (Completion rate: 69.23%)

1. What kinds of political party activities do you think should be eligible for public funding under the allowance system?

The 10 responses to this question can be found in the Appendix to this report.

2. The Act states that the allowances are meant to assist parties in defraying their "administrative and certain operating costs". What kinds of expenses do you think should fall within these categories?

The 10 responses to this question can be found in the Appendix to this report.

3. The Act states that expenses for advertising and polling will not be covered by the allowance system. Should other types of activities or expenses be excluded as well?

Response	Percentage/Chart	Count
No		7
Yes, please specify...		4
Total responses		11

3. The Act states that expenses for advertising and polling will not be covered by the allowance system. Should other types of activities or expenses be excluded as well? (Yes, please specify...)

Number	Response
1.	Allowance system should be outlawed.
2.	No public money should go to any political party.
3.	All administrative and operational costs.
4.	Membership recruitment administrative costs like membership application forms, membership cards, etc.

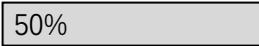
4. The Act also states that the allowances are meant to assist parties with the costs they incur in complying with election financing legislation. Should the allowance system also assist political parties with compliance costs under other legislation, such as *The Election Act*?

Response	Percentage/Chart	Count
Yes		4
No		5
Don't know		1
Total Responses		10

5. The Act authorizes the Commissioner to establish the total amounts to be provided to political parties. In addition to administrative, operating and compliance costs, what other factors should the Commissioner take into account in deciding the amounts that should be provided to political parties?

The 8 response(s) to this question can be found in the Appendix to this report.

6. The Act authorizes the Commissioner to decide how the total spending under the allowance system will be allocated among eligible registered political parties. What factors should determine such allocations?

Response	Percentage/Chart	Count
Number of votes received in the previous general election		1
Number of votes received over several general elections		5
Number of members elected		1
Number of candidates nominated in previous general election		3
Number of members in the party	0	0
Amount of funds raised privately by the party	0	0
Other, please specify		5
Total Responses		10

6. The Act authorizes the Commissioner to decide how the total spending under the allowance system will be allocated among eligible registered political parties. What factors should determine such allocations? (Other, please specify...)

#	Response
1.	Fund raising only, no taxpayer handouts
2.	Again, no money should be provided
3.	No funding permitted
4.	None of the above
5.	Different amounts for rural vs. urban seats since the costs of reaching out to voters can be significant in some of the larger rural seats. If a party holds rural seats they should get extra since they have likely used a great portion of their spending limits reaching voters to provide information to help the electorate make informed choices.

7. Allowances should be paid:

Response	Percentage/Chart	Count
Only for clearly specified activities	9%	1
Only with documented evidence of expenses	45%	5
With a cap or ceiling on the total amount to be paid	18%	2
Without restrictions	0%	0
Other, please specify...	45%	5
Total Responses		11

7. Allowances should be paid: (Other, please specify...)

#	Response
1.	Parties held accountable
2.	Should be provided
3.	No funding permitted
4.	Should NOT be paid
5.	No allowances

8. Should allowances be paid to parties once a year or in installments?

Response	Percentage/Chart	Count
Once a year	10%	1
In installments, 2 times per year	10%	1
In installments, 4 times per year	0%	0
Other, please specify...	80%	8
Total Responses		10

**8. Should allowances be paid to parties once a year or in installments?
(Other, please specify...)**

#	Response
1.	Never
2.	None
3.	Zero funding
4.	Never
5.	Monthly
6.	Monthly
7.	Monthly
8.	No payment

9. Should allowances be adjusted periodically to reflect cost of living increases, i.e. CPI?

Response	Percentage/Chart	Count
Yes, they should be adjusted annually	30%	3
They should only be adjusted every 4 years when the next Commissioner reviews party allowances	20%	2
No, they should not be adjusted	30%	3
Other, please specify...	20%	2
Total Responses		10

9. Should allowances be adjusted periodically to reflect cost of living increases, i.e. CPI? (Other, please specify...)

#	Response
1.	Zero funding
2.	No

10. What public reporting, monitoring and accountability requirements should be established for the allowances to ensure the responsible use of public funds, as well as public understanding and acceptability?

The 9 response(s) to this question can be found in the Appendix to this report.

11. The Act provides the Commissioner with the discretion to identify other considerations that might shape the design of the party allowance system. What other factors do you think the Commissioner should consider?

The five response(s) to this question can be found in the Appendix to this report.

Appendix

1. What kinds of political party activities do you think should be eligible for public funding under the allowance system?

#	Response
1.	None, political parties already waste enough tax dollars.
2.	None
3.	None
4.	Ideally none but at most only election campaigning expenses.
5.	None
6.	Running an election, i.e. travel, accommodation , meals, for the candidate and authorized campaign workers, meeting rooms, campaign headquarters, volunteer training, etc. to administer the party between elections,
7.	Travel, accommodation, meals, meeting rooms for the candidate and authorized workers.
8.	Election campaigns
9.	The costs of running an election campaign up to modest campaign cost spending limits established by for election campaigns.
10.	None

2. The Act states that the allowances are meant to assist parties in defraying their "administrative and certain operating costs". What kinds of expenses do you think should fall within these categories?

#	Response
1.	None, they need to learn to live within their current budgets. Political parties are always looking at getting more dollars from you and I. Maybe they need to learn to use what they got and stop asking for more.
2.	None
3.	None

4. None
5. None
6. Administration offices, staff, office equipment, phone and Internet services, stationery and postage, rental of venues for additional meetings outside main offices within constituency
7. Office equipment, phone, Internet services, stationery, renting meeting rooms
8. Travel, committee rooms, paid election staff, phones, Internet .
9. Staff salaries to run the campaigns as well as the costs of phones, faxes, computers, room rentals, utilities, gasoline for travel, transportation, meals etc. all coming under the spending limits so they are capped.
10. None

5. The Act authorizes the Commissioner to establish the total amounts to be provided to political parties. In addition to administrative, operating and compliance costs, what other factors should the Commissioner take into account in deciding the amounts that should be provided to political parties?

#	Response
1.	Need to be held accountable. If they go over their budgets, they need to be fired.
2.	No amount should be provided
3.	There should be no public funding of political parties
4.	\$0, except possibly for election campaign expenses
5.	None
6.	A series of checks and balances
7.	CPI increases since the last election.
8.	None

10. What public reporting, monitoring and accountability requirements should be established for the allowances to ensure the responsible use of public funds, as well as public understanding and acceptability?

#	Response
1.	This sounds as if this has already being approved. No funds available. Public should vote on this in the next election.
2.	No public money should be provided
3.	Should be no funding
4.	Complete and full disclosure of all financial information, including donor names.
5.	This is an abuse of public funds and should not be allowed to happen.
6.	Annual reporting to legislature and the parties with commissioner and committee oversight, provincial campaign to explain the process and procedure with available annual reports
7.	An annual report should be submitted to the Chief Electoral Officer, the Legislature and the political parties.
8.	Not sure.
9.	The strictest possible

11. The Act provides the Commissioner with the discretion to identify other considerations that might shape the design of the party allowance system. What other factors do you think the Commissioner should consider?

#	Response
1.	The only consideration the commissioner needs is to scrap this party allowance system or the political sense of entitlement.
2.	No public money should be provided
3.	A publicly funded party system is undemocratic as it perpetuates the financial strength of a party in power, which is reinforced if a party wins multiple elections in a row.
4.	It is a bad idea and should be abandoned. Let political parties fundraise for their administrative and operational expenses, no exceptions.

5. Models from other jurisdictions, including internationally, where there is public financing, a basic tenet of democracy. We need a model where access to governing comes to any party regardless of the economic status of its supporters, members or contributors to ensure that we do not build a model where only the rich can afford to get their ideas before the public for consideration.

Appendix C

Comparative Summary of Political Party Annual Allowance Programs in Other Canadian Jurisdictions

In addition to Manitoba, there are publicly funded annual allowance programs for political parties in 5 other Canadian jurisdictions: Canada, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. A summary of each of these allowance programs is presented below followed by a table comparing selected features of these programs with those of Manitoba's former annual allowance program.

Canada

An allowance program for federal political parties was introduced by the Liberal government and came into force on January 1, 2004. To be eligible to receive an allowance, a registered political party had to have received at least 2% of the number of valid votes cast in the most recent general election or at least 5% of the number of valid votes cast in the electoral districts in which the registered party endorsed candidates. A party that is not entitled to an allowance can become eligible by merging with another party that is eligible for an allowance. When the program was first introduced, each registered political party eligible for an allowance received on a quarterly basis \$0.4375 (which is equivalent to \$1.75 on an annual basis) for each valid vote it obtained in the most recent general election. The allowance was indexed for inflation each April 1st, up until April 1, 2012. Effective April 1, 2012 the *Canada Elections Act* was amended to reduce the per vote amount gradually over the years 2012, 2013 and 2014 such that annual allowances at the federal level will be eliminated by the end of the first quarter 2015.

Political parties must file several financial returns and a financial statement before the Chief Electoral Officer can certify compliance with all financial filing obligations and before payment of the allowance can be made by the Receiver General of Canada from the Consolidated Revenue Fund. Failure to meet compliance obligations results in a postponement of the allowance payment until compliance is achieved. The purpose of the allowance payments was to replace foregone contributions due to the introduction of limits on contributions and contributor eligibility. Allowance payments can be made to the registered party or to any provincial division of the party.

Quebec

A public financing program for Quebec's provincial parties was the first introduced in Canada by a Liberal government in 1975. When it was first established, a fixed amount of \$400,000 was set aside for all parties represented in the National Assembly. The amount was divided up proportionately among the represented parties according to the percentage of valid votes each received at the previous election. Two years later, the approach to providing allowances was changed such that all political parties became eligible to share in the allowance fund. The amount of the public fund to be divided on a proportionate basis was initially determined by multiplying \$0.25 per name by the number of names on the list of electors.

The 1977 reforms were introduced at the same time Quebec banned corporate and union donations and restricted individual donations to \$3,000 per year. The increase in public contributions to party financing was intended to compensate parties for the anticipated loss of revenue caused by the restrictions placed on private donations. The per name amount was raised to \$0.50 in 1992 and then, in 2010 when the individual contribution limit was lowered to \$1,000 per year, the amount per name was again raised to \$0.82. This per name amount is adjusted annually according to the Consumer Price Index for the preceding year.

Following Quebec's September 2012 general election, which exposed numerous political finance scandals, the province's *Election Act* was amended once again. Bill 2 introduced in 2012 by Mr. Bernard Drainville, Quebec's Minister for Democratic Institutions and Active Citizenship, proposed several changes to the law - increasing the public financing of political parties, introducing a matching public funds mechanism for private contributions collected, lowering the ceiling on election expenses and reducing the elector contribution limit. The Bill reduces the maximum allowed contribution that an individual can make in a calendar year to each political party, independent Member or an authorized independent candidate from \$1,000 to \$100 and eliminates the tax credit that contributors were eligible to receive.

To compensate parties for this loss in revenue potential, the Bill nearly doubles the amount of the annual allowance that may be paid to authorized parties from \$0.85 to \$1.50 per elector and provides for an additional allowance of \$1.00 per elector when there is a general election. There are also matching funds of \$2.50 for each dollar of private funds collected for the first \$20,000 and \$1.00 of matching funds for the following \$200,000 of donations. The maximum amount that can be granted to a political party through this matching public funds mechanism in a non-election year is \$250,000.

In an election year, an additional \$220,000 in private donations is also matched in the same manner bringing the matching funds to a total of \$500,000. Newly formed political parties that meet certain eligibility criteria are also eligible for matching funds. Finally, the Bill also limits the financial needs of parties and candidates during a general election by placing a new lower ceiling on election expenses (from \$11.5 million to \$8 million) that can be incurred. These changes were seen as a way of reducing the influence of contributors in political life, limiting the influence of money in politics and reinstating public confidence in party financing.

The purpose of the allowance in Quebec is to defray the parties' expenses related to their "current administration, the propagation of their political programs, the coordination of the political activities of their members, and their electoral expenses." The Chief Electoral Officer is responsible for ensuring that allowances are used for the purposes set out in the legislation. Invoices, receipts or other vouchers must be retained by parties for a period of five years and must be available for the Chief Electoral Officer's examination. The allowance amount certified and paid by the Chief Electoral Officer is reimbursed to Elections Quebec by the Minister of Finance. By April of each year, the Chief Electoral Officer must publish in the *Gazette officielle du Québec* a summary statement of the amounts paid to political parties.

New Brunswick

New Brunswick's annual allowance program was the second such program to be introduced in Canada and has been in existence since 1978. To be eligible for funding a registered political party must be represented in the Legislative Assembly and, if not, they must have fielded a least 10 official candidates in the preceding general election. The amount of the annual allowance for each qualifying political party is an amount authorized each year by the Legislature (reduced by the amounts paid to all parties as an audit subsidy – up to \$2,000 per party) times the proportion of valid votes received by the party's candidates at the preceding general election.

The allowance is to be used by political parties to pay the costs of their current administration, to propagate their political programmes and to coordinate the political activities of their members. A financial return must be filed by the party each year with the Supervisor of Political Financing. If a party fails to incur costs for the specified purposes equal to or greater than the amount of the allowance received, they must remit the difference to the Minister of Finance. The allowance is payable in four equal quarterly installments.

If the Supervisor of Political Financing is not satisfied from the financial return that the allowance is being properly applied, authorization for the payment of any subsequent installments may be withheld pending an inquiry into the expenditures of the party. The amounts payable as annual allowance to each of the political parties is published each year in *The Royal Gazette*.

When annual allowances were introduced in New Brunswick, Richard Hatfield, the Progressive Conservative premier at the time, expressed the views that the political process should be partially funded out of the public purse, that the political parties which have a significant amount of public support are in fact public institutions which are absolutely necessary for the proper functioning of our system of parliamentary democracy, and are deserving of public support the same as any other public institution.

The annual allowances paid were originally based on a formula of \$1.00 per vote received in the preceding general election and the amount was indexed to inflation. Payments under this formula were made for 12 years until 1990. Fiscal restraint was applied to these ever-increasing allowance amounts beginning in 1991, capping the total amount of funds available for the program despite the fact that the original funding formula was still in place. Funding for the program was reduced significantly from 1991 to 2000. In this period the allowance amount went from \$903,000 to \$668,000. The Supervisor of Political Financing adopted a revised formula to accommodate the cap that the Legislature had placed on allowances. The formula divided up the total amount of allowance funds available by the proportion of the votes received by the political parties. This "informal" approach was used until 2009 when the Act was amended to specify that allowances would be funded from an amount appropriated by the Legislature. The total allowance amount of \$668,000 (minus \$10,000 for audit fee reimbursements) was still in place for the 2012/13 fiscal year.

Nova Scotia

Nova Scotia's allowance program for its registered political parties was introduced by a Progressive Conservative government in 2007 – a year before Manitoba's annual allowance program. The program is the most straightforward of them all. In Nova Scotia, every registered political party is eligible and paid from the General Revenue Fund \$1.53 for each vote received by its endorsed candidates in the most recent general election. The amount of allowance program funding for all four of Nova Scotia's political parties totaled \$644,164.49 for the 2012/13 fiscal year. Since the allowance program was introduced in 2007 it has paid out \$4,511,908.75.

In 2007, the per vote amount was originally set at \$1.50 per vote but this amount is increased at the beginning of each year by the percentage increase in the Consumer Price Index for the province. Any increase in the amount paid to a party following a general election is effective immediately following the election and prorated for the remainder of the year. Any reduction in the amount to which a party is entitled as a result of a general election is not effective until the beginning of the next fiscal year. There is no stated purpose or use to which the public funds must be put. The amounts provided to political parties in Nova Scotia are paid in two equal installments in April and October.

When the allowance program was first introduced in Nova Scotia it was accompanied by a ban on contributions from individuals and organizations (corporations and unions) in excess of \$5,000. In 2009, Nova Scotia's NDP government banned all union and corporate donations and increased the political tax credits available to individuals for political contributions.

Prince Edward Island

Prince Edward Island's annual allowance program was brought in by a Progressive Conservative government with a change to the *Election Expenses Act* in 1983. The amount of a party's allowance is fairly straightforward. It is determined by multiplying the number of valid votes received by its endorsed candidates at the preceding general election by a sum not exceeding \$2.00. The actual amount was to be determined by the Lieutenant Governor in Council after consultation with the Leader of the Opposition. The amount they settled on was to be adjusted annually by the Consumer Price Index. There is no stated purpose for the funds in legislation.

At the time it was introduced and for about the first 10 years, a registered party was required to hold at least two seats in the Legislative Assembly to be eligible for an annual allowance. However, in 1995 the official opposition party was reduced to only one seat. The applicable legislation was subsequently amended in 1996 and now states that registered parties that hold one or more seats in the Legislative Assembly are eligible for the allowance. Since 1995, without rescinding the applicable legislation, the annual allowance program has been discontinued in Prince Edward Island and no public funds have been paid out since that time.

Summary of selected features of political party allowance programs

Jurisdiction	Date	Funding Formula	Eligibility	CPI Adjustment	Payment Frequency
Canada	2004	<p>April 2012 - \$1.53/vote rec'd in previous general election.</p> <p>April 2013 - \$1.02/vote rec'd in previous general election.</p> <p>April 2014 - \$0.51/vote rec'd in previous general election.</p> <p>In the process of being phased out by the end of 2014</p>	<ul style="list-style-type: none"> - At least 2% of all votes cast or at least 5% of votes cast in EDs contested - Must comply with financial filing obligations - No stated purpose for funds - Must have incurred expense 	Yes – indexed to inflation	Quarterly (Mar/June/Sept/Dec)
Quebec	1975	<p>Jan. 2013 amended to be \$1.50/elector on list X prop. of votes rec'd in previous election.</p> <p>Additional \$1.00/elector on list in election year.</p> <p>Also, matching public funds of \$2.50 for every \$1.00 in private donations for 1st \$20,000 & \$1.00 for following \$200,000 annually (i.e. \$250,000 in matching funds).</p> <p>In an election year, an additional \$220,000 in private donations is matched in the same manner bringing the matching funds to a total of \$500,000</p>	<ul style="list-style-type: none"> - All existing parties are eligible for allowance. - Existing and qualifying new parties (as well as candidates) eligible for matching funds. - To defray expenses related to day-to-day operations, the propagation of a political program, the coordination of the political activities of the members or supporters of a party and election expenses. - They are also used to reimburse the principal of loans. 	Yes – indexed to inflation	Monthly or quarterly

New Brunswick	1978	<p>Until 1990 based on \$1.00/vote.</p> <ul style="list-style-type: none"> - From 1991 to 2009 funding capped and paid out according to prop. vote rec'd. - In 2009 Act amended to reflect funding based on prop. of fixed amount determined by # of votes rec'd in preceding election. 	<ul style="list-style-type: none"> - At least 1 Member elected or at least 10 candidates nominated in preceding election - For current administration, propagation of their political programs and the coordination of the political activities of their members - Must have incurred expense 	<ul style="list-style-type: none"> - Original formula was indexed to inflation. - No indexing applied since 1991 	Quarterly (June/Sept/Dec/Mar)
Nova Scotia	2007	\$1.53/vote rec'd in previous general election	<ul style="list-style-type: none"> - No restrictions on eligibility - No stated purpose for funds 	Yes – by CPI using 2010 as base year	Biannually (April/Oct)
Prince Edward Island	1983	<ul style="list-style-type: none"> - Amt. not exceeding \$2.00/vote rec'd in previous election. - Amt. set by LG in C. - Has not been paid out since 1995. 	<ul style="list-style-type: none"> - At least 1 or more seats. Until 1996, the Act req'd 2 or more seats. - No stated purpose for funds 	Yes – by CPI using 1995 as base year	Once per year
Manitoba	2008	<ul style="list-style-type: none"> - Lessor of \$1.25/vote to max. of \$250,000 or total annual administrative expenses incurred. - Min. of \$600 or \$10,000 with at least 1 Member elected 	<ul style="list-style-type: none"> - All parties eligible for min. of \$600 - Minimum of \$10,000 if at least 1 Member elected - For the party's administration and functions - Must have incurred expense 	No	Once per year

