

THE COMMITTEE ON STANDARDS IN PUBLIC LIFE

**One Queen Anne's Gate
London SW1H 9BT
3 November 2010
Morning Session**

Members Present: Sir Christopher Kelly KCB (Chairman)

Lloyd Clarke QPM
David Prince CBE
Dr Elizabeth Vallance JP
Dr Brian Woods-Scawen DL CBE
Oliver Heald MP
The Lord Alderdice

Witnesses: Jenny Watson, Chair of the Electoral Commission
Lisa Klein, Director of Party and Election Finance,
The Electoral Commission
Sir Simon Jenkins
Dr Stuart Wilks-Heeg, Executive Director,
Democratic Audit

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101 Finsbury Pavement London EC2A 1ER
Tel No: 020 7422 6131 Fax No: 020 7422 6134

Web: www.merrillcorp.com/mls Email: ukclient@merrillcorp.com

1. SIR CHRISTOPHER KELLY KCB (Chairman): Good morning, everyone. Thank you for coming to this public hearing, the first one of this committee's inquiry into party funding. This morning we will begin by questioning Jenny Watson and Lisa Klein from the Electoral Commission, and then later on Simon Jenkins, who probably represents himself, and Stuart Wilks-Heeg from Democratic Audit. I am grateful to all of you for coming. I should say, Lord Neil was also scheduled to be here this morning, but sadly is prevented from doing so by a very recent bereavement. I would like to take this opportunity to express our condolences to him and his family.
2. We had intended to begin with Lord Neil, because he was chairman of this committee 12 years ago when it produced its 5th report, which effectively set the framework for the current party funding regime incorporated into the Parties Elections and Referendums Act. That ushered in many of the features which today we take for granted: transparency; the banning of foreign and anonymous donations; the creation of a regulator in the form of the Electoral Commission; and so on. But times move on, the political parties have adjusted their behaviour, there have been a number of unintended consequences, not least the big donor culture has become more firmly established, and public disillusionment with politicians and their behaviour has grown because of the expenses scandal and suspicions, whether justified or not, about things like loans for peerages and for other reasons.
3. Reform of the system featured in the manifestos of all three political parties, and in the coalition agreement with as yet no consensus on the way forward. So it seems to the committee this is a good time to return to the subject for what will be for us the second time and to take a fresh and independent look at the issues.
4. I should say right at the beginning that I am conscious that there are unlikely to be any quick wins, and unlike MP's expenses, there are unlikely to be any ambiguously right answers. We need to understand and pay due regard to the different parties' different traditions and constitutions, and to take account of a number of wider issues, such as democratic engagement in the political process. If there were straightforward answers, no doubt Hayden Phillips and others would have found them already.
5. It seems likely that any sustainable solutions will need all parties to show a degree of flexibility and accepting changes which may not entirely be to their liking. But what we will emphatically not be doing is simply trying to negotiate a deal behind closed doors. We will be seeking, as a result of this inquiry, to produce a set of recommendations, which is firmly based on principle and on evidence. All the evidence we have received so far is in the process of being posted on our website, including evidence from the Electoral Commission and from Democratic Audit. I would encourage anyone with views on the subject, which they have not yet shared with us, to do so as soon as they can. We have name boards so you can see who the members of the committee are, Brian Woods-Scawen will be joining us shortly. He has been delayed because of a breakdown on the train.

JENNY WATSON AND LISA KLEIN (THE ELECTRAL COMMISSION)

6. That is briefly all I want to say by way of introduction. We start today's hearings with the Electoral Commission represented by Jenny Watson and Lisa Klein. You are both very welcome and thank you for coming and thank you for your written evidence, which, if I may say so, is extremely clear and helpful to the committee.
7. Jenny, you have given us an opening statement, which we will read into record. I hope you do not therefore feel the need to read it out to us, but I will just begin with a general question, which is what is your general perception about party funding and its problems? Are there a set of major issues to do with it, or are we talking about minor changes at the edges to assist something that is basically all right?
8. JENNY WATSON (Chair of the Electoral Commission): I do not feel any need to read an opening statement you will be pleased to hear. Perhaps I can set out for you I guess our broad perspective on that, and to start by saying we very much welcome the review that you are carrying out, obviously the system needs to be kept under regular review, and we are happy to help in any way that we can, and I think we have said in our evidence, which is by the way on our website already if there is anybody here who wants to see that, but there will certainly be more data that we can share with you as we go through this process.
9. For us, a regulator, we do not make moral judgments, I suppose, about the kind of donations that are or are not desirable; we regulate the system that we are given, but nevertheless we do have some things to say about how well it is working and, in order to do that, I think first of all, going back to the purpose of what the proposals set out in predecessor committee's report were intended to do. Transparency was a very important part of that and I would say, in relation to transparency, actually the system is broadly working well, and, given that it is such a short space of time since the legislation was created, I think there is a complete acceptance that transparency is part of our political culture and I could not see a way now that we could move back from that, and actually in such a short space of time that is quite an achievement, and it does not seem to have had the impact I think, which the previous committee thought it might, of limiting the donations and money that comes into politics, so it has not had that consequence.
10. I should say it is not enough on its own, and both members of the public and volunteer treasurers are clear that you need a body to enforce, as well as having that general transparency. In all of that, I will say there are particular concerns and issues in relation to Northern Ireland. We have set out some of those where of course there is no transparency. I know you have a hearing in Northern Ireland separately, but we are happy to discuss that if you want to do so now, and we would want to see a move in Northern Ireland towards the same kind of transparency that we have in Great Britain, although it appears that we may not get there quickly.

11. Turning to one of the other limbs of what we set out in our evidence, the supply side, I would say again that is working broadly well from a regulatory perspective, although you will see that our evidence supports the statement that you made in your opening remarks that individual donors and larger donations have become a significant part of that landscape.
12. There are some particular issues that we would like to draw to your attention, which we think are not working as well as they could be. One of those is the potential impact of the recent Supreme Court judgment on the UK Independence Party forfeiture case, in relation specifically to the rules around forfeiture, which has had an impact on our ability to take money out of the system that should not be there, and we would like to pick that up with you.
13. A second point in relation to the supply side is in relation to the implications of donations made by companies, where I think it is perhaps the case that your predecessor's report set out an expectation about what could perhaps be achieved in terms of money from overseas-registered companies coming into British politics, which has perhaps not been able for us to regulate as a reality. There are good reasons for that, and that relates to the debate that Parliament had when it implemented those recommendations, and again we may want to touch on that.
14. Turning to the demand side, I think there are two areas where we can see real possibility for change. The first is that, when you have a system of general elections relating specifically to Westminster, which are based on an element of surprise, it is inevitable therefore that the regulatory regime is also based on an element of surprise, and that may not be the most straightforward way of running the show, and there are proposals for fixed-term Parliaments, which could have the beneficial side-effect I suppose of making the regulatory regime more straightforward.
15. It is also the case that, when this area was looked at previously, there was not an attempt made to take the local candidates' expenses under the Representation of the People Act, and the parties' national expenses under PERA and bring those together, so I think again you perhaps have an opportunity to streamline the system there; that is something we would want to bring to your attention.
16. I have probably almost gone on for long enough, but I wanted to really just put in a bit of a regulator's plea, if I can. It is very easy, when looking at a system like this, to fight the last war. I would say, if I could implore you to do one thing, it would be to look forward. There is a programme of political and constitutional change that is set out by the coalition government, for example, if we have Police and Crime Commissioners there will presumably need to be spending limits for those kinds of elections. There may be elections to a second chamber; that will have an impact on the spending limits. So, looking forward I think is one plea.
17. My second plea would be that we have over 400 parties registered with us, and there is a tendency, I do not suggest here, but there is a tendency to

see this debate as being very much about one that affects Westminster, and it obviously does. But anything that is proposed, including any possible proposals around public funds, will have to work for all of those parties in some way, and we might want to talk to you a little bit more about that, so the reality of devolution, and there I mean, not only in relation to Scotland, Wales and Northern Ireland, but also potentially parties that may be very small in Westminster terms, but have perhaps a significant impact in local government terms.

18. My final plea, and I say this because it is something that we turn to a lot at the commission, is, if a committee like yours is clear about the outcome it wants to achieve, and the principles and I suppose what progress might look like towards those principles, that is incredibly helpful for us as a regulator. There is no perfect system and redesigning a system involves grappling with very many different moving parts, and something that is very helpful for us is to have clarity about the policy intent. We can give you help with the workability of particular detailed proposals, but clarity about the policy intent is really useful to us.

19. SIR CHRISTOPHER KELLY: Thank you very much. There are some very important points there that we will no doubt come back to in the rest of this session, including what looking forward actually means in circumstances where we already have quite a complex system, as you pointed out. There must be a risk of loading complexity upon complexity in order to cope with developments. The point about being clear about outcomes I also want to come back to. But just another more general question. In your earlier remarks you talked about a number of important things, the Supreme Court judgement, the fact the regime is not quite right for dealing with donations by companies, which you elaborate in your evidence, and so on. Those are important details, but they sound like details in one sense, I mean the implication is the basic structure is all right, we just need to clear up some of these details. Yet we have a situation in which there appears to be, although it needs to be tested again, a widespread expectation that there is something wrong with the system basically because there is a perception that it is possible to buy honours with big donations, and it is not all that long ago that, even though all parties in principle are signed up to high standards, all three major parties were actually doing things, which looked a lot like trying to get around the existing rules by accepting loans rather than donations.

20. So I suppose the question I am asking in a rather long-winded way is, is this just a matter of tidying up the details and making sure we are having something that is fit for the future, or is there something fundamentally wrong with the arrangements that needs attacking?

21. JENNY WATSON: I think that might come to the point that I made earlier on, which is there will be judgments I think that you will have to make as a committee about - I cannot think of a better way to put it really - the kind of what you see as the philosophical and moral position behind the regulatory system that we have. What is clear to us as the regulator regulating what we have now is that one of the key principles on which that was based was

transparency, and I think there you can see actually, in terms of transparency, much of that is working well. The best examples that we can give are those where transparency enables people to pick up some of the issues that you have outlined, and indeed many others, and I am sure that is not comfortable for individuals concerned, but nevertheless the transparency is there.

22. What we are not doing is saying, in our view, all right, there are some types of money that are desirable in politics and there are some types of money that are not; that is a judgment, which I think is for you to make, and we will regulate as Parliament gives to us. So I am not sure that is the answer you want, but, as a regulator, and you know we are a regulator, we do not take those kind of policy positions that would necessarily say, "Let us sit here and the Electoral Commission will redesign the regulatory system". That is not our role.
23. SIR CHRISTOPHER KELLY: I quite understand why you do not want to do that, but nonetheless you are closer to these issues than almost anybody else, so you must have views on the subject.
24. LISA KLEIN (Director of Party and Election Finance, the Electoral Commission): If I might, having experienced party and election finance regimes in other contexts as well, it really depends on what type of system works. There are certain components that are going to come together that you have to address in a party funding regime, one is the issue of disclosure or transparency, one is going to be spending controls, another is going to be donation controls, whether that be from source or in terms of amount, another issue will be public funding, and then there will be the issue of enforcement. I think one of the things that we would say is that it is important that combination is fit for the purpose within a particular cultural and political context, and what we have been able to do is to highlight certain areas, for example, where the transparency seems to have done an awful lot. Is it the most transparent system? No. Is it sufficiently transparent for the UK purpose? A judgment to be had. All these things have to be viewed along a spectrum. But we have expressed the view that, in terms of the sources of donation, there seems to be some issues there to be dealt with, and then beyond that it is really stepping back beyond our role to assess, in terms of the principles that are served, whether there is the level playing field, is that being adequately addressed, is it in terms of making sure that parties have enough funding to fulfil their role within our society, again another question to be asked, and whether they are doing it in a way that can encourage citizen participation, or to have an anti corruption or undue influence. Until you decide and map out those principles, and determine how the various components come together, that is a big task, I do not envy you in that, but what we can do is, under the current system, as it has been set out, identify some of the areas where we have observed difficulties.
25. JENNY WATSON: I am not sure that I would describe the issue of, either forfeiture, which is effectively getting out of the system money that should not be there, I do not think that is a detail. Now that may become more or less important depending on if you were to end up in a place where you

said there will be caps. But you would still want an enforcement body to be able to bring money out of the system that should not be there.

26. The issue of donations from companies, I think actually, again, I do not think that is a detail. There was much debate at the time of the previous committee's report, and at the time it was discussed in Parliament, and indeed Lord Neil was very clear that foreign money had no place in British politics and any company giving should be generating income here sufficient to fund any donation. That set up, I think, an expectation of what might be achieved. But of course when Parliament discussed this it ran up against the reality, which is we are a global trading nation, we have parent companies and subsidiary companies and every day they transfer money to each other; that is a completely normal corporate transaction. Therefore, the test is that it is perfectly legal for a company that is carrying on business in the UK to donate, and whether that money is from a parent company that might be overseas or not, but that is not a detail, it seems to me, that --
27. SIR CHRISTOPHER KELLY: I was not using "detail" in a derogatory sense; what I was trying to get at was whether what we needed to do was to adjust a system, which was fundamentally right, or whether there was a need for some more radical approach.
28. JENNY WATSON: I think that will depend on your view as a committee on what you judge any system of finance for parties is there to do - that is not very grammatical, is it, but you see where I am coming from.
29. SIR CHRISTOPHER KELLY: I understand the point.
30. JENNY WATSON: If you decide that the most important thing is transparency and for people to be able to see and test all kinds of allegations that might be made, then that might take you down one route; if you think the most important thing is to achieve a level playing field or to cease to have I think what you described as "big money in politics", then you might end up in a different route. We do not make those judgments. What we can say to you is, "This is how what we have works".
31. SIR CHRISTOPHER KELLY: Thank you. Elizabeth.
32. DR ELIZABETH VALLANCE JP: I am supposed to be asking you about donations I think, but if I can just pursue what you have been saying. Is the logical outcome of what you are saying that there are some things, which you have to make choices about, and that we cannot pursue two lots of principles, because they may be incompatible, and, if that is what you are saying, are there things from your experience, which are incompatible? In other words, we have to decide whether we are going down - in your words - one route or the other.
33. JENNY WATSON: That is not necessarily it, I think what I am saying is you need to be clear about the principles and then work out whether they conflict, and one of the debates that we have internally, where I think Lisa and

I might have different views, she is delighted by the fact that there is this system of vast complexity where everything feeds into everything else and really enjoys that challenge, and I sometimes think, "My goodness, you know, you start pulling on the jumper here, and something starts unravelling in a completely different place". I think it is just being mindful of the ways that those things would interact, and just to be clear about what the implications of that might mean.

34. DR ELIZABETH VALLANCE: But if I could ask please, are you then saying that it is inevitable that you have this kind of complexity?
35. LISA KLEIN: I think what I would say is it is inevitable that you never have a system that is perfect, but in terms of level of complexity I respectfully disagree that I enjoy the concept of complexity. Complexity, if you look westward, complexity does not necessarily produce a good regulatory regime in my view. Getting back to some of the basic principles, and I am sure academics will have more to say on this than the practitioners, but my perception is that they are not necessarily - in terms of the rationales put forward and the objectives to be served by a party-funding regime - are not mutually exclusive, and in various ways can reinforce one another.
36. They can however come up against other values, such as freedom of association and freedom of speech, if you want to put it into the vernacular of the US. So the system by its nature, because it represents a variety of values and interests, is inherently complex from an academic perspective, but from a practitioner's perspective we would want it to be reduced to its simplicity in terms of how it is administered.
37. DR ELIZABETH VALLANCE: In a way that is what you see us as doing, as teasing out some of these issues and being very clear about the principles on which we think this whole quite complex building should be erected.
38. JENNY WATSON: Absolutely. Having said that, within that, there are certainly things where there is no question that things could be simpler. As I say, if you have a fixed-term Parliament then you know when regulatory regimes will start and finish, there is an obvious step forward that can be taken there. We have already raised that with Parliament in some of our briefings on that legislation, and I am sure that is probably a fairly obvious point that you may want to pick up.
39. OLIVER HEALD MP: Could I just interject, the point really is this: that our next witness is going to be telling us that, while British politicians love finger-pointing at corrupt regimes in Africa and Asia, they are coated with hypocrisy when dealing with party funding. My colleague Andrew Tyrie has said, "Our party finances stink", and Martin Linton, who used to be in the House, said, "How we got into the sleaze pit, how can we get out?" on one occasion. So, you are the regulator, is it like that?

40. JENNY WATSON: If what you are asking is, do I think that British politics is corrupt, which is --
41. OLIVER HEALD: No, party finance, Jenny.
42. JENNY WATSON: I think we have a system of transparency, which enables allegations to be raised and put, and we spend quite a bit of our time, from time to time, looking at those allegations and seeing whether they are founded or not, and then we will make statements about what we found at the time. I would say we have a system that, in terms of transparency, is working broadly well. That is not to say that it could not be simpler, and that is not to say that there are not changes that could be made. But, as the regulator, regulating the system that we are given by Parliament, there is a point that we do not cross about making judgments about the kind of money that comes into politics, and I accept you would like me to do that, and I accept that you will hear from others who are going to do that, but that is not where we are.
43. OLIVER HEALD: It is just that, if you are the regulator, and these eminent people are saying, "The whole thing is a sleaze pit, it stinks, it is like Africa", it would be nice to have your take on it as the person overseeing it.
44. JENNY WATSON: I have tried to indicate to you that, from the perspective of transparency, which is I think where most of the emphasis on this particular regulatory system sat when it was set up, bearing in mind the amount of time that it has been in place, I think it works broadly well.
45. OLIVER HEALD: So they are wrong?
46. JENNY WATSON: No, I am not saying they are wrong; I am saying that there are judgments that others may make about the morals of money in politics that we as the regulator do not make.
47. DR ELIZABETH VALLANCE: Partly then what you are saying is, to get back to what you have already said, transparency is fine, but transparency has to be underpinned by the things you are going to be transparent about, so you have to be quite overt about that.
48. JENNY WATSON: And you have to be clear what it is you think that any party funding system of regime should want to achieve and then your level of transparency and enforcement and controls will follow from that. So, to give you an example, were you - I pick these hypothetical examples out of the air - to go down a system that looked at a donation cap, I can say to you now the kind of transparency we have would not be adequate; we know that already and there are some things that we can tell you about, about what we might need, but that is a specific example.
49. DR ELIZABETH VALLANCE: That is a good one because that was exactly what I was going on to ask you about, which is the caps on donations. You are on record in your 2004 review coming out against caps. Is it for that

reason, because you think it would not work, or why?

50. JENNY WATSON: This takes us back to a point that Mr Heald was making earlier on. All the members of the committee are aware that the commission has been on a journey about its role, and we have discussed this with you many times. We are a regulator; we do not make policy. So, we may have said things in 2004 and you would want to check those against the context now. What we would want to talk to you about I think in relation to --
51. DR ELIZABETH VALLANCE: Sorry, just to interrupt you there, you must have a view about whether this works or not.
52. JENNY WATSON: It is workability, that is what I was just going to say, what we would want to discuss with you in relation to a cap is the workability. So, to give you some examples, at the moment we don't have the level of transparency that would enable us to see if donations from somebody with a similar name are actually from somebody with the same name, so the easiest example, Mr J Smith, how do we know which is Mr John Smith, which is Mr Jason Smith, do we have the right kind of level of information, and can we publish the right kind of information, because at the moment of course there are things that we do not publish that we do know about donors. Can we publish the right kind of information to allow others to see that a donation cap would be workable in practice. There will be other things on workability. Do you want to pick up some of the other issues on workability?
53. LISA KLEIN: In terms of workability --
54. DR ELIZABETH VALLANCE: That gives us an example, I mean I think that is fine, I am sure the chairman wants to move on, I just want to ask you one other thing, which is to pick up again on this companies issue that you mentioned. Once again, you touched in your evidence on the rules on reporting companies, and you have talked about it more this morning. What do you think then that the Electoral Commission can do about the issues that you have raised as being problems here: foreign companies or, companies with foreign subsidiaries, or indeed private companies who are not brought under the regime?
55. JENNY WATSON: What do I think we can do, or what do I think you can do?
56. DR ELIZABETH VALLANCE: I think I am asking what you think you can do; what realistically do you feel the Electoral Commission can do in this context?
57. JENNY WATSON: Given the test that we have, we apply the test and it is a clear test, it enables us to apply a clear test. I think the point I am making is that the test that we have about a company carrying on business in the UK, which is a fine test and we understand what that means, is not the same as the aspiration that was set out and perhaps debated in Parliament about not necessarily having overseas funds in British politics, because it is completely

lawful for a company that is carrying on business in the UK to give money to a party --

58. DR ELIZABETH VALLANCE: You can see no way around that, you can see no way, given from where you sit, how you would be able to regulate this to get to that outcome?
59. JENNY WATSON: Not that specific test, no. If you were to decide that you thought that was still an important point of principle, I think it would require you, or perhaps Parliament, or both probably, to look at that test again.
60. If I can just pick up the point of workability on donation caps, there are some other issues there that you need to think about, the most obvious one is that, if you have a donation cap, it will create a gap in funding for parties, it already exists. You will want to think about that. There may well be also another point, and I am sure that all of you are aware of company law, which gives you a kind of corporate identity, as opposed to your individual identity. Now, if I give money as Jenny Watson; that is one donation, which kicks in for the purposes of the cap. I may well be a company director and I have a corporate identity, and I give money through that company, and in fact it would be possible for me to set up any number of companies and I would have a separate corporate identity in each one, so I think it is working through those concerns, and clearly we will want to engage with you about that, if that is where you go.
61. DR ELIZABETH VALLANCE: Thank you very much.
62. SIR CHRISTOPHER KELLY: Just taking one of Elizabeth's points a bit further, you said that what you are doing is administering the rule you have been given on company funding, but it does not capture the spirit of what this committee originally wanted, which is no foreign money, except in the particular circumstances of Northern Ireland, in British party political funding. What I am unclear about is whether you think there is an alternative rule that Parliament could legislate for, which would achieve that outcome, and which is practical for you to administer.
63. LISA KLEIN: I think there you might want to look to some international examples, perhaps the more draconian would be the French model, which prohibits company and trade union donations, and restricts the permissible source of donations to individuals, so you get away from the non-individual form, if I can put it that way. The US has a similar situation, a bit more ambiguous, but essentially the decision makers within the company have to meet the eligibility requirements, and there may be a question about the funds arising from earnings within the country, which is very difficult to administer because how do you prove it. So there are some alternatives that are out there that we could encourage the committee to consider.
64. SIR CHRISTOPHER KELLY: What is the philosophical basis of those alternatives in those countries? Why should trade union and company

donations be banned there?

65. LISA KLEIN: If I were to cite to Buckley v Valeo, which was the seminal case in 1976 in the US, and it actually goes back even before that, there was a perception that there was undue influence of finances raised in the economic marketplace that were being displaced into the political marketplace, but you would have to bear in mind that the Supreme Court has pretty much reversed that in its decision in Concerned Voters in January of this year. But that was the underpinning, it was the idea of undue influence, not only corruption, but the appearance of corruption, and lightly flavoured with level playing field, although in Buckley the court had disregarded that as a legitimate objective for party funding.
66. SIR CHRISTOPHER KELLY: This is connected with putting a cap, because if there was a cap that was low enough then these things would cease to matter so much.
67. JENNY WATSON: It would have a lot less significance, absolutely.
68. SIR CHRISTOPHER KELLY: John, are you on this point?
69. LORD ALDERDICE: You were talking about transparency and saying that in most parts of the United Kingdom it seems to be working reasonably well within the rules that are provided, and that it was not for you to look at whether particular kinds of donations might be appropriate or not. However, where income from political parties might not come from voluntary donations, they might come from quite clearly illegal sources, in some cases in very substantial amounts. If a party was able to access illegal sources of funding of various kinds, and chose to keep those out of its public books, and was able to provide you with accounts for elections and so on, which all added up perfectly appropriately, what capacity or facility do you have to investigate, to see whether or not the books that you are being provided with actually relate to the practical reality on the ground of numbers of people, supposedly volunteers who are actually being paid, for example, or offices being run in various places, or materials being used, what capacity for investigation do you have to check out whether or not what you are seeing is actually transparent?
70. JENNY WATSON: I will let Lisa answer that. I am assuming that all members of the committee will be aware that the law in Northern Ireland is very different and that money is reported to us and that we are not in a position to be able to challenge that.
71. LISA KLEIN: Let me speak to our investigative powers in a general fashion without addressing the exact scenario that you have described, and our powers as of 1 December will be altered because the new powers of investigation that were provided for in the 2009 Act will come into effect, so it is probably best, so we are in a transitional phase, those new powers will only apply to breaches of the law that arise after 1 December. So I have to look first historically at what our powers have been, and then to look prospectively.

72. As the committee actually recognised in its prior report, our powers of investigation were very limited, to asking for information about the income and finances of political parties, or other registered entities with us. No power to compel people for interview and a very difficult route to be able to get those types of requests for information enforced.
73. Under the new powers, we will have two types of powers, one is our supervisory powers, which may relate in part to this type of situation, where we have the ability for example in policy development grants or statement of accounts to assess what the processes are and to go in, and those apply to regulated organisations like political parties.
74. But in the scenario that you address, what would appear to me to be more relevant are our investigative powers, which are only triggered once we have determined that there is reason to believe that there may have been a breach, so they are neatly captured within that. We will have the power to ask questions, the power to seek documents, and the power to request interviews, not just of the party officials, but of those who have relevant information, so those volunteers that you may suggest and have alluded to could be subject to our asking some questions in terms of their capacity.
75. We also, as part of the 2009 Act, have the ability to seek a court order for enforcement of the disclosure notices for information and documents.
76. LORD ALDERDICE: So, would I be correct in saying that, up until the implementation of that Act, you were largely dependent upon people having one set of honest books, which they produced to you, and if they had another - for the sake of argument - set of books, although it might not be in a set of books at all, you were really not in a position to do much by way of investigation into that?
77. LISA KLEIN: I think that is a bit unfair, in the sense that we have investigated - not the scenario you say of having a second set of books, and not the ones that are public - but we have had, where there has been evidence of alleged breaches and that would definitely be an appropriate conduct for us to seek information from parties in the past, but in the time that I have been with the Commission, that set of allegations has not arisen.
78. JENNY WATSON: I would want to put on record here that anybody who has evidence of such a thing should tell it to us and we will take it up as something that we would look at.
79. SIR CHRISTOPHER KELLY: With the new powers, which, as you say, were recommended by the committee in the previous report, you are fairly confident that provides you with what you need to follow up allegations of that kind?
80. JENNY WATSON: We think so, yes. Again, we have discussed powers of the commission with you on previous occasions, and I think what we will have is a much better suite of powers, and I think we would all

acknowledge that.

81. LORD ALDERDICE: Can I just check in regard to that, there are, for example, in the case of Northern Ireland - and I declare an interest as a member of the independent monitoring commission - six-monthly reports on the connection of political parties with paramilitary organisations, setting out warnings about the connections that there are, and a recent report actually identified this, not in respect of funding, but in respect of a political party. Would you yourselves, as a matter of course, follow up those official publications to see what was being said about specifically political parties and their leadership and their connections with paramilitary organisations, or would you wait until something of that kind was drawn to your attention?
82. LISA KLEIN: We would not necessarily wait until something was drawn to our attention, we are much more proactive than that. We have monitoring mechanisms where we will be assessing information that comes to us through various means, including those type of reports, or through media reports. We have a rigorous assessment process that the information would go through in determining whether it was something where we needed to look further into it.
83. JENNY WATSON: More broadly than that, I should say, obviously, because of the debate about the possibility of changing the lack of transparency in relation to political funding in Northern Ireland, that is the whole debate about the interaction of the current security situation and people's confidence in this arena is something that we have been keeping quite a close eye on.
84. SIR CHRISTOPHER KELLY: I am sure you understand the point, which is building everything on top of transparency is great, but if people lie to you, then the question is, do you have sufficient means at your disposal to get underneath that, and the answer to the question appears to be, "Yes, once the new suite of powers comes in you will".
85. JENNY WATSON: Yes.
86. DAVID PRINCE: Thank you. I would like to move us on now to campaign expenditure and start to perhaps pick up some of the points you said about streamlining and simplification. The question is, are the current rules on campaign expenditure for individuals and parties at national level too complex? Are there perhaps too many rules and not enough principles, building on what you were saying previously, and are you saying that the separate legislation on the process for reporting candidates' spending continues to be appropriate or not?
87. JENNY WATSON: I think what we are saying is there is an opportunity to align the process for local spending, the candidate spending, with the process that is about national spending, and the party spend, and some of that comes back to the question that Dr Vallance and I were just discussing, which is what do you want it to do. Arguably, if one of the things you want any party funding system to do is to engage in more participation at local level, you

might decide that you want to have a lower ceiling on the overall amount that the party can spend on an election, but a slightly greater amount that a candidate can spend, and you could certainly align those different frameworks.

88. I think the other point that we would make is that the long and short, the division of the campaign into a long campaign and a short campaign this time around has created some additional confusion and complexity; there is some evidence of that, there have been more questions asked of our advice team - who of course are the kind of unseen heroes of the whole thing actually, because they stop things going wrong before they might otherwise - have had more queries than they might otherwise do. So yes, I certainly think there is room for simplification. I do not know, Lisa, if you want to talk a bit more about any aspect of that? There will be more data that we can share with you on that as we move on.
89. LISA KLEIN: There is complexity in the sense that, even understanding what the different expenditure limits are, it is not something that one would do, even practising in this area, off the top of their head. But, putting that aside, you do have two regimes, you have the Act that covers the party spend side, and you have the Representation of People Act that covers the candidates' spend, and the regulated period has evolved with different pieces of legislation and currently, for the party spend, before a general election it is 365 days, which is a bit curious given that one does not necessarily know, unless you are in the very end of a Parliamentary cycle, when that type of spend has started. So there is scope there for greater clarity in my view.
90. DAVID PRINCE: I want to move on to that and ask you whether you think the rules are adequate to capture what is actually spent, or whether you have any sense that the parties hide or under-declare campaign expenditure, particularly around staffing for example, and one of you touched on voluntary effort. Really, I want a sense of how well you think they are working within their own terms at the moment, and whether they are actually putting in the public domain what is spent to give the transparency that you are urging.
91. LISA KLEIN: Staffing, which is not seconded staffing, actually is not included in the expenditure, so one would have to look very carefully at what is to be covered, what is the time period for it to be covered, and then go into the actual accuracy. What we can tell you is that - and I think this is set out in our evidence - parties in the general election, a number of the major parties, have come over the 90% part to spend, which may raise some eyebrows as to whether there is creative accounting, but we have not had any evidence to support that at this point.
92. DAVID PRINCE: Do you test it at all?
93. LISA KLEIN: We do not yet have the expenditure campaign returns for the 2010, so we will be looking at it. What we have done is set up a monitoring programme, and this has been mainly at the moment at the local level, because we have been looking at the local candidate expenditure returns. Where, if we can see certain activity ongoing, then we would expect

to see expenditure that would relate to that activity, so we certainly do not have the resources to do that across the board, and it is very much on a risk-based approach to it. So, the candidate expenditure that has been going through, when things have been flagged we have been putting it through our criteria and assessment, which was a way we could look at it further, and we will be examining the campaign expenditure return of the political parties once they are in hand.

94. DAVID PRINCE: So you will be able to give us some further information on what your testing has shown.
95. LISA KLEIN: Unfortunately we operate with a significant lag between the actual electoral event and when we even have the significant over £250,000 expenditure returns in, so we are looking to publish a report on the financial aspects of the 2010 election in February.
96. DAVID PRINCE: Thank you. Just one final question from me, and that is picking up Jenny's point about the options available to us. I think both your predecessors, back in 2004, recommended there should be a significant increase in the limits for candidate spending, which they saw at the time as encouraging more activity at local level. Is this something you would urge on us now?
97. JENNY WATSON: That comes to the role that the commission had then and the role that the commission has now, but if you take as a principle the idea that it is desirable to encourage participation in politics and engagement with parties at a local level, and I think that is a principle that is quite difficult to resist from actually, so you can do with that what you will --
98. DAVID PRINCE: So the answer is yes,
99. JENNY WATSON: There is perhaps a broader point around the expenditure, and I do not know if you had intended to come on to this or not, which is of course the regime, as it exists at the moment, does only regulate campaign expenditure. Now, it would be possible to throw that net significantly more widely, and I guess I would make two points in relation to that: one is that parties will have all kinds of traditions that are very uniquely their own about how they will engage in policy-making with their members, and their own internal democratic processes. There is just a point to make there, we are conscious of it as a regulator that every party has its own different tradition, but you might want to think about how broad you want that transparency to be and is it desirable to impose on all parties a model of transparency that is absolutely the same for all of them.
100. One of the things that we have been working on with parties is something, which we call in our internal jargon, statement of accounts, which is a broader range of transparency around the way in which parties account for different income and expenditure, and that is a process that is ongoing. You may want to make recommendations, which might cut across that, and obviously we will wait and see what you say, but I think there is a question

about, again, what you think that transparency is designed to achieve, and is it to show absolutely every single little bit of a party's internal accounting, or is it to say it is the campaign expenditure that we think is really important, and within that let us have some standard criteria so that we can have a clearer sense of how different parties might assess that and have perhaps a more standardised point of comparison.

101. DAVID PRINCE: Does any of your international work give any pointers as to where we might be looking if we wanted to go down that route?
102. LISA KLEIN: In terms of looking at expenditure limits, do not look to the US because there are none, so that will not be of any help to you at all. My mind has actually gone blank at the moment about a good pointer. Jenny has been talking about it in terms of the transparency of expenditure; I was thinking more in terms of the limits on expenditure. In terms of transparency, the US does require all expenditure over \$200 to be itemised as part of their regular reporting mechanism, so that covers all expenditure, and not the distinction between campaign and non-campaign. Canada also draws the distinction between campaign expenditure and other expenditure.
103. DAVID PRINCE: Yes, you have given us some evidence on that; that is helpful. Thank you.
104. SIR CHRISTOPHER KELLY: We will leave expenditure. I understand your reluctance to be drawn on saying what you think ought to happen, as opposed to what you are doing at the moment, but you have drawn our attention to the fact that there are different pieces of legislation covering candidate expenditure and party expenditure, and you have suggested that there is some simplification that could be had on that, but you have also drawn our attention to the fact that there are all sorts of other things that are going to happen in terms of other forms of elections, depending on the constitutional form, which will require their own sets of rules. I suppose the question is, rather than saying, is there a small piece of simplification that can be done to make sure that candidate spending and party spending is covered more sensibly, do you hanker after a much greater level of simplification that would give you the right sort of outcomes, without requiring what runs the risk of becoming an ever more bureaucratic and difficult to understand system. I mean some of these questions that arise about not knowing when 365 days starts and so on is because, in order to address what seemed at the time to be particular problems, now people have brought in new rules. Is there a case for looking at sweeping away a whole set of rules and designing something much simpler?
105. JENNY WATSON: We actually have a start, although it may be affected by what you say, a process internally, which is looking at the legislation and the way the regulatory system operates, to see how it could be simplified and remove the burden on those we regulate. So there is a piece of work that we are thinking about, and I must say that is largely driven by thinking about how things operate differently for the very many smaller parties

that are registered with us.

106. Simplicity is always good, of course it is always good, but we need to be able to be sure that we have the information that we need in order to do the checks, which give people confidence about the regime in which we operate.

107. SIR CHRISTOPHER KELLY: I understand that, but is that review looking at basically taking the system as it is and saying, "Can we simplify it?" or is it able to look wider and say, "Actually, we could start from a different place and still deliver a good set of outcomes".

108. LISA KLEIN: Our focus has been on the current legislation and the tools that we have to work with, and to recommend, without going back to second-guessing what the purpose should be and the whole fundamental structure, within the framework are there things that we can ease the burden of parties. But in terms of an easy rule in terms of expenditure, I mean I believe it was during the Sir Hayden Phillips review, the consideration that there should be one large encompassing type of expenditure limit, and, without advocating that position or not, one could see where there are mechanisms and means to simplify it so that you do not have, as we have shown in our evidence, a series of overlapping expenditure limitation periods that go on concurrently.

109. JENNY WATSON: If you ask the question a different way, and say, if you were designing the whole thing now, and you had not inherited anything from the 1800s, would you do it differently? Well I think the answer to that is almost inevitably yes, you probably would not have a parallel regime for candidate expenses and party expenditure, there are some things that I think you would look at and say we can take this in the round. If you had fixed-term Parliaments, you would approach the whole idea of regulation from a different perspective, so that is what I mean about the number of moving parts that there are and the fact that no system is perfect, if you think about what the future is going to look like in terms of the number of elections that we could have, the amount of democratic engagement, there has been talk about the right of recall for MPs, what does that mean in terms of funding, is there any funding that will go with that, how will that work, what is the expenditure issue there, you probably would start from a different place. I am simply saying that we have not; what we look at is what we have and how that works.

110. SIR CHRISTOPHER KELLY: Of course, but if that is your view that you would not start from here if you were starting afresh, then why are you not encouraging us to?

111. JENNY WATSON: My assumption is that you are going to look in the round at the whole thing in the light of what the future might look like, in the light of devolution, and in the light of thinking about what you want the system to achieve, and what we are doing is saying to you, what we have now is working reasonably well, given what it was intended to do, and we can tell you quite a lot about what that means in terms of the amount of donations, the amount of money we have taken out of the system, the amount of loans,

where that money comes from, how we monitor it, how we investigate, but actually the purpose of the system and the fundamental principles that underlie it are for you to decide.

112. SIR CHRISTOPHER KELLY: I am still having some difficulty with this, because I would have expected you, as being the people who actually have to make this work from day to day, to actually have some quite strong views about what would make your life easier while still preserving the objectives that we all want to --
113. DR ELIZABETH VALLANCE: Could I just add to that, I mean, is that not what being a regulator is about?
114. JENNY WATSON: I think we have given you some views on where we think things are not working as well as they could do, so for example, in terms of the supply side, we have set out some tests that we think it is quite hard for us to regulate to, there are issues about getting that money out of the system when it should not be there, and on the demand side, yes, clearly the interaction between local candidate expenses and national party expenditure does create some complexity. The issue of the regulatory periods creates some complexity. I do not think there is any doubt about that. But the interesting thing actually is that so far none of us, including us, have mentioned the fact that much of this regulation is tackled by individuals who are treasurers of local parties, who do this free, because they believe in the values and ethos of the party they support. I do not know anybody, I have not yet met anybody in my time at the commission, who actually went into joining a political party to become a registered treasurer. It is the thing that tends to happen to you, actually usually when you are out of the room, if the stories that I hear are anything to go by, and so we are very conscious that we are trying to remove as much of the burden as we can on those individuals. Now that is not to say that there are not parties that are well-equipped and have sophisticated staffing capabilities to meet regulatory requirements, but that is another factor.
115. DR ELIZABETH VALLANCE: But if these are the issues, then again I would come back to what are your recommendations, are you saying that there should be restructuring within the way in which parties actually find their finances?
116. JENNY WATSON: We come back again to the point that, as a regulator, what we can do is give you evidence about how the system is working and we can flag up for you some obvious gaps and some obvious holes, which I think we have done in our evidence. But what we do not do is sit here and say, "Actually, as a regulator, we have a view of what the near-perfect might look like". That is not our role.
117. DR ELIZABETH VALLANCE: But, if you were OfCom, you would say exactly that.

118. JENNY WATSON: But I am not Ofcom.
119. DR ELIZABETH VALLANCE: No, you are not, but --
120. LORD ALDERDICE: Can I ask a question, perhaps taking it from a slightly different perspective. You quite reasonably, and I think in an interesting way, encouraged us to look to the future, imagine that there might be elections to a second chamber, elected police commissioners, and so on, and to keep that in mind. We have had changes. We have elections to the European Parliament and there are funds that come from Europe to political parties here. We have had elections to a number of devolved institutions in Scotland, Wales and Northern Ireland, and in London, the Assembly. What things have you learned; what things have come to your mind, out of observing that experience of changes that have actually taken place to the system, and which affect things like funding and expenditure and all these kinds of things, what things have you learned from that?
121. JENNY WATSON: I think we have set out very clearly in our evidence what we think, what we know about the system, what we think is working all right, and what we think is not working so well, and I am sorry if we have not communicated that to you here today, and I have set out for you what I think the most obvious gaps in the system are.
122. SIR CHRISTOPHER KELLY: No, you have communicated that very well. We are up against a brick wall because we are disappointed that you are not prepared to think more widely than you are quite clearly prepared to do, but you have made clear that you are not prepared to do that.
123. JENNY WATSON: I think, if I may, part of the debate that we have had with the committee over some years is, what is the role of the Electoral Commission? It is not to be a policy-making body, and I think we are all clear about that, and there is much that we can tell you about the way the system operates, but there are some fundamental principles about the purpose of the design of the system, which are not for us to judge, and that is where you cannot escape, in talking about the regulation of the political system, that once you start to think about what does the system need to look like, you come very quickly back to what is it designed to do, and that is not our judgment call.
124. SIR CHRISTOPHER KELLY: No, well that is very well taken, but I suspect we will continue to discuss this throughout the course of this inquiry. What we are looking for it, not for you to make policy, I think what we are looking for is, on the basis of your experience, to help us to do what you say quite rightly we ought to be doing. Oliver.
125. OLIVER HEALD: A useful point you were making about the local treasurers of the Conservative Association, the Labour Party, and Liberals. Of course you were earlier on talking about possibly expanding regulation to cover areas like policy-making and social occasions, and things like that, were you not? Because obviously any political party, it has its campaigning side, but they are also to some extent social organisations and lots of Conservative

associations will produce newsletters for members that are all about the social events, there will be things about policy-making, “What do you think about this and that?” Do you want the treasurer to have to report on that sort of expenditure as well, because would that not be quite burdensome?

126. JENNY WATSON: I think the point I was making was actually the reverse. At the moment that whole sense of engagement with members and parties’ internal democratic processes that get them to the point of electing people and having policy is not regulated. It would be possible to regulate it, but I think it would be sensible to think very carefully about the purpose of that before going ahead.
127. OLIVER HEALD: So you were not advocating it?
128. JENNY WATSON: No, I am saying there is an unintended consequence there that it will be easy to stumble into without necessarily thinking about it.
129. SIR CHRISTOPHER KELLY: John, were there points you wanted to raise?
130. LORD ALDERDICE: No, that is fine.
131. SIR CHRISTOPHER KELLY: Jenny, I am conscious that we might appear to be giving you a hard time, for which I slightly apologise. Are there points that you wanted to make to us that you have not been given an opportunity by our questions to make?
132. JENNY WATSON: No, I think we have set out for you the issues around forfeiture, and the one point that I note that you were considering that has not come up today is the framework around referendums, and obviously that is about to be tested in anger certainly in Wales around the referendum, and potentially for a UK-wide referendum, and I think there were changes that we asked for from government that we now have in relation to those referendums that will come, and it would be useful I think for us to be able to have a continuing conversation about that, if you are minded to play around with that framework, because there will be things that we are experiencing now. We are confident that we can regulate the funding of referendums, and it would be useful I think to be able to test that before a wholly new system is put before us.
133. DR ELIZABETH VALLANCE: But you cannot tell us anything in advance about what you think the elephant traps might be?
134. JENNY WATSON: We have flagged a number of issues that we thought were not addressed in the legislation previously, so for example people acting in concert, there was an ambiguity about the media being regulated, those things have been addressed in the legislation going through, and we can continue to keep you informed about that.

135. LISA KLEIN: I was just going to say that we have worked with the committee's secretariat in terms of providing information and, as you progress with your review, if there is any further work that we can do, or want to try out various hypotheses, please feel free to contact us, we would be very pleased to help.
136. SIR CHRISTOPHER KELLY: Thank you very much, that is extremely helpful. I should say that I very much hope this will not be the last time we will talk to you, there clearly are a whole host of issues we have not had time to get into, and the fact we have not got into the implications of the new judgment or some of the other issues raised, is not because we are not interested, it is actually because we used the time in other ways, but I am sure we will want to discuss them with you.
137. JENNY WATSON: Absolutely, and there will be issues of, as the regulator we have a lot to say about workability, and there will be issues around workability, and I very much hope we can continue this conversation, and do ask if there is anything else that you would like ask us.
138. SIR CHRISTOPHER KELLY: Thank you very much. We are now taking a short break and we are coming back at 11.30am when the witness will be Sir Simon Jenkins.
139. We resume with evidence from Sir Simon Jenkins.

SIR SIMON JENKINS

140. Sir Simon, you are extremely welcome. Thank you for coming. I think I am right in saying that we have not had any written evidence from you but we have circulated among ourselves some views you have expressed on these issues in various articles in the past. The reason we asked you to come and give evidence to us is partly because you have strong views on these issues which are not always the same as everybody else's.
141. I will just begin with a general question. What is wrong with the current system for party planning and what ought we to do there?
142. SIR SIMON JENKINS: I come at this from what I can only describe as a localist standpoint. I just believe that political parties are a crucial part of representative government, for obvious reasons. They are in many ways a balance for the constitution, in other words, the more centralised we become, the more centralised parties become. The final sort of *coup de grâce* on this is going to be when you recommend that they all get measures of state funds.
143. SIR CHRISTOPHER KELLY: If that is what we recommend.
144. SIR SIMON JENKINS: I would be amazed if you do not. I just wanted to register a limited protest against that.

145. It is as if Parliament is dependent not on electors but on the House of Lords Appointments Committee and where the money comes from determines your attitude and mine. Political parties have become more centralised as they have acquired more central funds. They have developed bigger headquarters, they have atrophied the localities, they have lost members and they have lost interest in members. All these things have gone hand in hand with the development of greater centralisation in London.
146. A political party should be peculiarly localist in its nature. They are supposedly membership organisations. I find it phenomenal that parties can say that they are membership organisations but would rather not be supported by their members. They cobble together all kinds of reasons as to why they cannot be, like, "It is too much effort", or, "They do not give us enough money". It is a bit like a theatre saying, "We cannot support ourselves on people going through the door because they have stopped coming". Put on a better play.
147. I think the moment when a democratic organisation loses not just its commitment to but its dependence on its members it begins to atrophy. That is what has happened with political parties.
148. SIR CHRISTOPHER KELLY: One starts with the thought that the answer to any problem is more state funding for political parties or for anybody else. The reason that some people have advocated it in evidence to us is because they cannot see what the alternative is. Your very first sentence was about political parties being a central part of our democratic process operates in this country. If you start with the proposition as you did and if what you say is true - in other words, can you turn the clock back - is there an alternative which at the same time stops the reliance of parties on major donors, does not involve state funding, achieves the greater local participation that I suspect everybody really wants and still leaves you with financially solvent and viable political parties?
149. SIR SIMON JENKINS: Political parties, presumably, have to be solvent in some sense. In other words, they have to cut their cloth to their revenue.
150. Another curiosity of the debate is that somehow there is a fixed sum of money that has to be spent by political parties and the only question is how they get it. There are three sources: the state, big donors and members. It did not occur to them to cut down on their expenditure. The most important distinction I would draw in that list is between big donors and the state. There are dangers, clearly, in both. I would come back to the third, which is members.
151. It was quite interesting the great row that Tony Blair resolved with some panache back in the mid 1990s when he simply said, "I believe that the Labour Party should be a democratic party and should be supported by its members. I am going to go back to Sedgefield and I am going to raise 2,000 members". There was a bit of skulduggery but he did it and he won his case. He won one person one vote that way. It did not last long but, if I may say so, it proved the

point. If you really try, you can do it.

152. Going from the ridiculous to the sublime, I think it is quite interesting to see what has happened in the United States. When a great political party, even the Republican Party, completely centralises itself, it suffers deep party rebellion. There is no state funding for the Tea Party. They fund themselves. They are very well-off, I know. But it is so central to democracy that if these parties lose touch with their members by no longer depending on them for money, they will cease being what I call active political parties. They will become like European parties, which are just adjuncts of the people in government or out of government.

153. SIR CHRISTOPHER KELLY: One can believe that as a hypothesis without still believing that actually there is some viable way of doing it entirely from contributions from members or people who may not sign up as members but are nonetheless prepared to make small contributions. I believe I am right in saying that although there has been much larger membership of the parties, the parties have never been reliant solely on individual membership fees in order to finance themselves. It is possible to exaggerate the sense in there were some golden age in the past.

154. It would be possible to argue the opposite conclusion from Tony Blair's experience. He has actually proved that it can be done but he did not insist that anybody else did it and nobody else followed his example. That might imply that there might be some conclusion to draw from that about the difficulties of doing it.

155. SIR SIMON JENKINS: I watched him do it and I was genuinely impressed. He did it. No one else did it because they had all kinds of money and they had big backers. I think what he did proved my point. The fact that no one else copied it does not disprove my point. The Conservative Party did its best to do the same. They were to a certain extent heavily reliant on big backers and we can discuss what "big" means and what should be the limits.

156. SIR CHRISTOPHER KELLY: I suspect we might later, yes.

157. SIR SIMON JENKINS: That is an important issue. But it is about the nature of influence. Influence does derive from money. The person who gives you money has influence over you. We have seen this with MPs' expenses. As Deep Throat said, "Always follow the money". If the money is going to come from the state, the parties will dance to the state's tune in some sense of that phrase.

158. SIR CHRISTOPHER KELLY: Just to press you a little bit further, your evidence for the belief that it would be possible to get to a situation in which parties were dependent on membership fees is Tony Blair's experience in Sedgfield?

159. SIR SIMON JENKINS: If you are asking me where else it happens, it happens in the United States but it is chaos. It is not a good example of

democracy except that, as they say, it works. If you had a £5,000 cap per donation, parties would simply have to go out and raise money. They do it for local churches, the National Trust, all those bodies, so what is wrong with a political party?

160. The subplot of what I am saying is also a different form of localism, which is the status of local government and the role of parties in local government, which is far more important than this centralist agenda here. You will find in most democratic countries that this topic of conversation is primarily relevant to local government and is not relevant to the centre. Most of those parties get money from the government in the centre because that is the way it has happened. But if we are discussing how you generate the degree of interest, that answers your question. Local government has to be a part of the answer.

161. LLOYD CLARKE: I want to particularly talk about donations am I right in assuming from what you have said and from articles you have written in the past that your end point in any event is greater democratic engagement? Is it reasonable for me to say that? That underpins the questions I want to tease out in respect of donations.

162. SIR SIMON JENKINS: Totally, yes.

163. LLOYD CLARKE: Let us start with the first question. What do you feel has been the impact of large donations, whether they be wealthy donors, companies and even trade unions on our political culture, where we have come from and certainly where we have moved to in the last 20 or 30 years?

164. SIR SIMON JENKINS: I would say it is remarkable how incorrupt government has been, given the nature of the revenue streams into political parties. We have on the whole a culture of openness or if not openness at least the opposite of discretion. Situations like the Formula One case are relatively rare.

165. I am fascinated with why people give money to anything. They give money to a curious mixture of things and it is not just because they want something back from government. They want to get invited to something, they want to be well thought of or they want an honour. It is very curious why money changes hands in Britain, but I am assuming that nothing is ever given for nothing. You would have to go through the list of things that they are giving it for but, broadly speaking, I think that when you give money you do expect something back, however notional. If someone gives £5 to their local Conservative Party, they expect to come to the function.

166. LLOYD CLARKE: That means it all depends where one draws the line as to what is acceptable and what then becomes unacceptable. You could say that to expect an honour may start to become unacceptable but to be a member of a party locally giving £5 just to be invited to a function is all right. Who should decide where that line is going to be drawn?

167. SIR SIMON JENKINS: You. I would assume that is what you are here for. We are drawing up rules. How else do you do it? It would seem to me that honours ought to be sold. If people want them so badly, why do they not just sell them?
168. SIR CHRISTOPHER KELLY: There was a time when they were.
169. LLOYD CLARKE: Give us some guidance, then, if it our responsibility to do that, on the philosophical and moral position that should underpin our recommendations.
170. SIR SIMON JENKINS: I think that is a very good question. If I go back to the principle that no one gives money for nothing, you have to ask what the contract is. The contract is a very difficult one to pin down because we are discussing public life and we are discussing people's disposable income. They are deciding at some stage in their life to shell something out. For what?
171. Since you are discussing giving money to a political party, what does the political party have to give back? In local government - and I have studied this across Europe - what they get back is usually a planning permission. There is something they want back and there is an endless series of conversations and deals cut and so on. That is corrupt, but you could argue that everything is sort of corrupt because there is always favouritism built into every decision. When you get into a different realm, which is access, people think access is power. If you are doing an arms deal with the government, it probably is. On the other hand, if you just rather like being on the delegation to India with another 100 people, it is just fun. If you have money to burn and you get fun, what is the problem?
172. I think you have a difficult problem because you have to try and ask what the limits are here. Again, you see it with MPs' expenses. What are the limits to these sorts of deals and contracts? We pride ourselves on being a relatively incorrupt country. I saw last week that we are not quite as incorrupt as we thought we were but that depends largely on the perception of the rules. It is difficult to answer your question. There are things that you could say are completely impermissible. That is quite easy. But what is permissible is more difficult.
173. LLOYD CLARKE: Your cynicism to me seems to be about a level of acceptability. Let us be cynical about everything to start with but then certain things are acceptable. For planning permission, for example, it would seem to me that you suggested that that is acceptable to a certain level.
174. But is it acceptable to the great British public? What we have really clearly seen over the last ten years is a great transparency in things that have been going on. That transparency seems to have led to greater cynicism, less involvement and less membership of political parties and that has driven us towards larger donors, has it not?

175. SIR SIMON JENKINS: I think it has. I agree with what you just said. One thing I do not think I told you is that I do not think that is what has led to less membership of political parties. I think you need to ask why people join a political party anyway. Why do you join a party? Why do you go out on a cold night and take part in a discussion about governments? Why do you cough up £20 or £30? Often quite strange people can do it.
176. I am puzzled. Take planning permission, which is the big cause of corruption in local government, traditionally. Most people would say it is absolutely inexcusable that anyone should pay for planning permission. Planning ought to be the community making a decision about its development. But we now have things called section 106 agreements, which I think are statutory corruption. A chap simply says, "I tell you what. I will give you half a primary school or I will build a park for the lads on the outskirts of town. Give me permission. Waive the top ratio and waive the zoning. Give me another £2 million on this and I will give you £100,000 on that". That is corruption. It does not go into the pocket of anybody. It goes into the pocket of the community, in a sense, but it is corrupt in that an illegitimate consideration is entering into the planning decision.
177. People who are active in local government in most countries are active. It is not for nothing that a lot of them are estate agents. I am not cynical. I am just realistic. You are looking at a subject which is so permeated with inarticulate motives and so on that it is very difficult to draw up rules. The only rules I think you can draw up are rules about what is impermissible.
178. LLOYD CLARKE: Is that not the difference between drawing up principles and rules? Rules are very detailed. With principles, you can actually fix a moral compass. That is what I am perhaps proposing, if you can do that with some really key principles that should guide our thoughts and recommendations. One of them may be, for example, that whatever your principles are, you should ultimately end up with your own ideas and your own finishing point, but it should lead to greater public involvement.
179. SIR SIMON JENKINS: On the question of giving money to political parties, people should not be able to give £1 million to a political party because they are very unlikely to be doing so without some consideration from the other side. I was impressed by President Obama's donation strategy, which was quite extraordinary. Two thirds of his donations were under \$100. That led to two things. It led to him getting a lot of money but it also led to a tremendous sense that he was responding to an upsurge of opinion within American democracy. I just felt that really worked.
180. LLOYD CLARKE: Does that point led you to say that there should be a cap on donations, whatever that cap should be?
181. SIR SIMON JENKINS: Yes.
182. LLOYD CLARKE: Again, the question is where we fix that cap. If one person who is a supporter or a member of a political party gives £1 million, is

that not an individual liberty that is not ours to take away if that is the donation he or she wants to give? I am being provocative, I realise, in asking the question.

183. SIR SIMON JENKINS: Yes. A few very rich and very prominent people give huge sums of money to political parties. I think it looks bad. It does not reduce the sense of cynicism. Whether or not there was some unmentioned or even mentioned consideration, I just do not know, but it looks plain bad. For a political party to have two thirds of its support coming from two or three people and only one third from its members is barely democratic. It looks like a banana republic.
184. LLOYD CLARKE: That is an individual making a large donation. It could be said that there are large donations, in any event, that come through the Labour Party from trade unions. Is that as unacceptable to you as an individual donation?
185. SIR SIMON JENKINS: No. It is given for a consideration, I assume.
186. LLOYD CLARKE: It is, but there is an argument that individuals are making individual donations and then the trade unions are collecting that together on behalf of the individuals.
187. SIR SIMON JENKINS: That can happen, yes. They can give to the party if they want. It does not have to go through the trade union.
188. SIR CHRISTOPHER KELLY: Our next witness in their evidence to us actually took a completely contrary view, which was that this - not necessarily in all cases - could be presented as being precisely the kind of democratic engagement you are looking for. It is just that it is done through the community of the trade union.
189. SIR SIMON JENKINS: But is that United Biscuits saying that its shareholders are giving to the Conservative Party by the chairman giving a huge amount of money? It is indirect democracy. In the case of political parties, that is supposed to be direct democracy at work. We should not be introducing indirect democracy into their funding in this way.
190. LLOYD CLARKE: I think I am right in saying that trade unions have to ballot their members anyway on that every ten years, so there is democracy built into the system of giving through trade unions.
191. SIR SIMON JENKINS: Yes. I do not think that is how the union leaders or the Labour Party really see it, anymore than you can argue that a dividend receiver can always sell the shares. These are all ways of dodging the issue. The issue is getting more members for your party locally, finding ways of involving them and getting them to feel that they are powerful in some sense in the party and in local government.

192. LLOYD CLARKE: Interestingly, we were responsible in terms of our previous enquiry on the Electoral Commission of taking that responsibility away from the Electoral Commission and saying that that is the responsibility of politicians. Would you agree that it is not our responsibility in terms of political parties engaging with the public? It is not our responsibility to do that, but are you saying that they should seek their funding through that membership and that is the only way?
193. SIR SIMON JENKINS: Yes.
194. LLOYD CLARKE: Do you want to take that further? I am not quite sure now whether anybody else is going to take this further on to expenditure. That is just about the donations we have talked about. In terms of expenditure, should there be a cap on what people or political parties can spend?
195. SIR SIMON JENKINS: The cap is provided by the amount of money they have been given by their members. I have run pressure groups and lobby groups and we raised money and spent money according to what we could raise. There is a big case before the Supreme Court about whether you can limit democracies and the amount they spend. The United States is the case that breaks the camel's back, of course. The sums of money are so stupid. But you would find if you went down my route that they would not have very much money to spend anyway and the need for a cap would probably be minimal. I really have not studied this and I really do not know whether you should put a break on how much they can spend on advertising and so on, but I would have thought not.
196. SIR CHRISTOPHER KELLY: But it depends which way you approach it. If the objective is more local ownership of parties, you would not need to put a cap on expenditure. People would go the other way, which is one of the reasons parties are short of funds. They are all spending money and because one is spending the other feels it has to spend. It does depend, as you say, where you start.
197. Could I follow up on one point you made slightly earlier, I guess partly seriously, which is that you would not mind if honours were sold? I understand why you said that, but would you think there is a difference between buying a knighthood and buying a seat in the House of Lords which gives you legislative power? One could be about vanity and the other could be about gaining power to determine the laws of this country.
198. SIR SIMON JENKINS: There was a suffix to the sentence. I meant sold by the state, not by political parties. You could argue that they should be sold by political parties and then the proceeds distributed equitably somehow but that is unlikely to happen.
199. In drawing the distinction, it should be quite outrageous that you could be able to buy a seat in Parliament and you can at the moment. I give up on corruption. In this country, it must be one of the very few countries in the

world where you can buy a seat in Parliament.

200. DAVID PRINCE: I would like to pick up on what you were saying about cutting down on expenditure. You were saying the parties should cut their coat according to their cloth. We have had evidence that suggests possibly one of the reasons for the threefold increase in the operational spending of parties - not campaign spending - is their vulnerability to the 24-hour media and their need to keep pace with the media revolution. I want to ask you a question that we asked in our questions and issues paper when we started the inquiry. What impact does the media have, if any, on political parties and spending money to get their messages across?
201. SIR SIMON JENKINS: The tendency to blame everything on the press is exasperating. It is not the press's fault. If they want to hire extra press officers, they can. If they do not want to, they do not have to. I do not see the problem.
202. DAVID PRINCE: But you as a journalist would expect immediate or very quick contact with experienced people to get instant responses and instant interviews. The television media would.
203. SIR SIMON JENKINS: Yes, but I am not saying they should go to the Treasury to staff it.
204. DAVID PRINCE: But it must be a fact of life if you are running a political party that you have an inexorable level of overhead around servicing the media. You must have some read across from the organisation you chair where you have a strong media presence and you will have press officers and skilled press functions.
205. SIR SIMON JENKINS: Every one of them is paid for by our members. That is the end of the matter. If they cannot afford a press officer, they cannot afford a press officer. It is not my problem.
206. DAVID PRINCE: Just on your point about recruiting more members, you were saying that is the strong drive that parties should be going through. Do you think there is a case for any encouragement of the recruitment of members through tax relief or some sort of matched funding? Some charitable organisations obviously benefit from that and there is, again, some read across from other organisations where member activity is an important component.
207. SIR SIMON JENKINS: I have to say that in all fairness, yes, a political party is not a charity but is a not-for-profit organisation, I suppose. To that extent, I think it could claim to be treated as any other. You have a problem with a political party being for political purposes which is a problem with the Charity Commission. But I can see the argument for saying that this is a not-for-profit organisation and should not be subject to the same tax regime as a private company. That is the case, is it not? I would grant them that, yes.

208. DAVID PRINCE: Just going back to the media, you talked about the United States experience and so on. From your professional point of view, do you think the opportunities of the new media actually may be a force for driving down the level of spending simply because the transaction costs are cheaper? Can you talk about how you think that might play out over time?
209. SIR SIMON JENKINS: I am not a nerd on this subject but I understand that to be the case. To that extent, it is much easier to get your message across to people nowadays through electronic forms and the political parties do. You do not have to have thousands of people sending out envelopes. Political parties are becoming more sophisticated. That is clearly the case.
210. The question is not simply getting a certain numerical quantity of members. The question is really what they do. How far to you engage them in the work of the party? How far do they feel rewarded by the party? Having studied it in the United States I was very interested that there is always some *quid pro quo* and that is why I think localism is not just an important part of this conversation. It is absolutely central to it. You can reward big donors nationally but you cannot reward small donors nationally. They seek their reward locally. What is extraordinary about American political parties, particularly with this presidential system, is that the mass party only comes into operation every two years for these huge democratic festivals. In between, how do you in some sense make them feel part of the party? You do that through the whole plethora of activities that these parties get up to locally. Basically, that is running the community but the sense of reward that people get from being a member of a political party has almost completely gone in this country, which is unique in modern democracies.
211. DAVID PRINCE: Are you suggesting that there is only so far we can go in terms of reforming party funding without further evolution of local government powers? Do you see the two as inextricably linked issues?
212. SIR SIMON JENKINS: Absolutely.
213. SIR CHRISTOPHER KELLY: Your answer to the question about tax relief was on the basis that they are non-profit-making and they should be treated in the same way as charities. There is another proposition, matched funding, which would still be state funding but it would very much targeted at your objective, which is greater participation in local parties. Does your objection to state funding extend to matched funding if therefore you achieved your objective of more participation?
214. SIR SIMON JENKINS: Yes. Matched funding is like having a tax credit. I do not quite see why they should have it. It is like saying a newspaper is part of the democratic process and every copy of the newspaper should be subsidised by the equivalent of its cover price.
215. SIR CHRISTOPHER KELLY: No, the argument would be that what we really want to achieve is more local participation in local parties and that is important for the reasons you have given. That is the objective we are

pursuing. If the only way of achieving that is by the use of matched funding, that is something we could pursue.

216. SIR SIMON JENKINS: I just do not accept the hypothetical that that is the only way of doing it. I assume there are other ways of doing it.
217. SIR CHRISTOPHER KELLY: The other point is the point about the media. One of the things we learned in the process of what is happening is that often changes you make for good reasons have unintended consequences. One of the consequences of the changes in the rules for transparency and what can happen to company donations and so on has been a bigger allowance on big donors.
218. If we went down your route and said there should be no state funding at all and parties have to rely on their members and cut their coats according to their cloth, one consequence could be less spending by them, to which you would say, "If that is the consequence, that is the consequence". One consequence of that could actually be to give greater influence to the media for communicating political platforms, beliefs and so on. You could be handing more power to the Murdoch press, to Fox News, et cetera.
219. Is it your view that that would be a bad thing or is it your view that it is actually possible to overestimate the impact that particular newspaper groups can have?
220. SIR SIMON JENKINS: I do think the latter. But I feel passionately about maintain plurality of outlets. I hope the way in which you achieve what you have just mentioned is that you make absolutely sure there are lots of newspapers and you do not allow over-concentration of power.
221. BRIAN WOODS-SCAWEN: Could I follow up on some of the implications of the market-based approach we are talking about. If a company does not have enough customers and cannot raise enough money, it limits its operations or it goes bust. The National Trust does not raise enough money and it has to decide what the consequences are and that might mean mothballing properties and people having to spend their leisure time doing something else.
222. If a political party does not have enough resources to develop fully thought through policies and to communicate those policies so that the electorate can make an informed choice, is there a possible consequence that a government, therefore, is simply incompetent because it does not have the tools to make the political, economic and social choices which drive our society and which are massively important for all citizens?
223. SIR SIMON JENKINS: If one accepted those dire hypothetical situations, possibly, but I just do not accept them. The Labour Party went into the 1997 election with more money than ever before and I do not think anyone can name a single policy they brought with them into that election. They spent the money on advertising, very effectively, too. It is difficult to decide by giving

them money that this is going to go into some gloriously deceptive new policy framework. They are a political party, period. They can do what they like with their money, as far as I am concerned, as long as it is their money.

224. You do raise an interesting question which sort of goes back to Sir Christopher Kelly's question. What is a political party? In the old days when all these things were more mysterious, there were all kinds of fringe organisations, pressure groups and funds. If you wanted to start up a Tory ginger group and you went to the party for money, they would say, "We do not have any money and we cannot give any money to you for that. But if you walk down the road and knock on the door three times and ask for Joe, you might get a couple of grand out of him". The fact is that it is quite difficult to lay down the rules we are discussing because there are always baize doors. If a very rich person wants to give a lot of money to the Institute of Social Affairs, you cannot really stop them and they become, as you say, a rather powerful influence within the party as a think-tank. I do not think it is beyond our wits to devise the appropriate Chinese walls. But we are here talking about membership of political parties, not other sorts of interest groups.
225. BRIAN WOODS-SCAWEN: Fundamentally, if a party does not have the resources to develop thought-through policies, that is all right?
226. SIR SIMON JENKINS: In that case, bad luck for the party.
227. BRIAN WOODS-SCAWEN: And the country?
228. SIR SIMON JENKINS: Yes, bad luck for the country. I think the country somehow will survive. It is like all these things. Political parties should be raising money from their members to do it. That is my bottom line.
229. SIR CHRISTOPHER KELLY: You would apply the same logic to small parties, presumably?
230. SIR SIMON JENKINS: Yes.
231. ELIZABETH VALLANCE: How do you think that would go?
232. SIR SIMON JENKINS: Look at the Tea Party.
233. ELIZABETH VALLANCE: You have already answered that one. It is made up of a very rich collection of people.
234. SIR SIMON JENKINS: The party whose members give it the most money per capita is the Socialist Workers' Party. For what they do, they are extremely well funded per capita. Good luck to them. They do not get very far but I am not stopping them.
235. ELIZABETH VALLANCE: Can I just pursue a couple of issues with you? One is to raise the level of debate to a probably ludicrously high level of abstraction, but if one is developing a model of party funding, how far should

one take account of the parties' existing histories and the structures? I am thinking to some extent of the trade unions' relationship with the Labour Party but also of the local structure of the Conservative Party. Should these be seen as almost sacrosanct and we have to work around them or should these be seen as things that might be to do with the past?

236. If you are developing a model, you can either say that we have to go right back to basics and produce something quite abstract or you can say that we have to produce something based on the way the parties currently function and the way they perceive their histories. In that case, therefore, the Labour Party has a special relationship with the unions and the Conservative Party has a particular kind of local structure and that is where we start from. We cannot unravel these things.

237. SIR SIMON JENKINS: I would say you can unravel these things. I am not unduly worried about what used to be the case. We are now looking at a situation in which parties are heavily electronic in their nature. They are able to unleash vast information flows from their headquarters to their members in the country, often without the mediation of local parties. This is what President Obama proved. In this age, their demands on their members are probably going to be very different.

238. That is why I come back to this business of localism in this game. But I just think that the traditional model, which is not that traditional, goes back to the foundation of the Labour Party when it managed to overtake the Liberal Party because it suddenly had access to quite substantial local resources and the Liberal Party did not. Lloyd-George spent all his time trying to raise money for his party by selling honours and it did not get back down to the grassroots. From my reading of that period, I think it was touch and go. There was a chance that the Liberals would take over the organised labour ticket but just did not do so. The Conservatives, as a result, found themselves relying in the nineteenth, as they have ever since, on the so-called peerage and big party donors. The big party donors were set against the big trade unions and that is how it was for three-quarters of a century.

239. ELIZABETH VALLANCE: But you would see that as being largely in the past and therefore, if one is looking for a set of principles in terms of which to develop a structure of party funding, you would not necessarily be writing it on the back of the existing histories and structures.

240. SIR SIMON JENKINS: No.

241. ELIZABETH VALLANCE: Take me back to the issue which has already been put to you of state funding. If some form of state funding did actually show that you could get more individual involvement in politics, would you still be so adamantly against it? We are talking about principles here. Is your principle so strong that state funding is simply a no-go area or is it related to your desire to see more people actively engaged in politics?

242. SIR SIMON JENKINS: I want to see more people actively engaged in politics at all levels.
243. ELIZABETH VALLANCE: The Power Commission suggested, for example, that you would go into the booth and would tick the party you want to support - presumably because of tactical voting - and the state would give a certain amount of money. You would not be for that?
244. SIR SIMON JENKINS: No.
245. ELIZABETH VALLANCE: What about Sir Hayden Phillips' suggestion that somebody giving a certain amount of money would in some sense trigger a certain amount of money from the state?
246. SIR SIMON JENKINS: No.
247. SIR CHRISTOPHER KELLY: Is there anything else you would like to say to us on the subject that we have not already asked you about?
248. SIR SIMON JENKINS: The only thing I would stress is what I said at the beginning, which you have not asked me about, which is what localism in this context really means. Here I can only draw from foreign experience because there is so little experience here but what Margaret Thatcher did to the Conservative Party is, I believe, quite significant.
249. Before the early 1980s, to be a fairly active member of a local political party was actually fairly normal. I could not give a quantity but playing some part in a parish or district council was the sort of thing that reasonably articulate, involved and committed people were doing. It might be just the local parent teacher association. But it was not unusual to be not just a member of the party at election time but a fairly active member of the party between elections. The reason was that you played some part in the running of your community. It was nothing to do with the general election. It was that you could actually decide what should be in the flower vaults, whether the school should be rebuilt, whether you needed a new fire engine and so on, as is the case in the United States.
250. Rate capping and the centralisation of almost all local government powers from 1983 onwards basically told all those people that they were not needed any more and they all went home. I know so many of them myself because I was quite active at the time. People simply said, "If you do not want us to do these things and if you think that the man in Whitehall knows best or that the regional office knows best or for that matter that the local chief executive knows best, you do not need me. I will go and watch television". I think that was the moment when the sort of crisis you are looking at began. It began in the early 1980s.
251. I chaired the Commission on Open Democracy in 1995 and we tried to trace these things back. It was at that point that democracy in Britain diverged from democracy in France, Germany, Spain, Italy, Scandinavia and in the

United States. Not everywhere in those places and not to the same degree but, basically, there was a divergence at that point. The French went in exactly the opposite direction and produced in the re-invigorated commune system a much more fiercely decentralised form of government than we have here.

252. One usually pays a price in corruption - however one defines corruption - when one decentralises in that way. I am not totally convinced that that is not preferable to having the staggeringly expensive and inefficient centralisation we have in this country. There are tradeoffs in democracy. But the political party was traditionally central to that relationship. It was because the relationship between the political party and local democracy was eroded and then finally broken between 1983 and now that you have found the sort of crisis in political participation that you are looking into.

STUART WILKS-HEEG (DEMOCRATIC ORDER)

253. SIR CHRISTOPHER KELLY: Thank you very much. Thank you for coming. Our next witness is Dr Stuart Wilks-Heeg from Democratic Audit. Dr Wilks-Heeg, you are very welcome. Thank you for coming and thank you for your exceptionally clear evidence, if I may say so. You have been kind enough to give us an opening statement. I hope we can read that into the record, as it were.

254. STUART WILKS-HEEG: Yes, by all means.

255. SIR CHRISTOPHER KELLY: Thank you. It was not where I intended to begin, but would you like to just respond to the previous witness's complete rejection of your notion that actually involvement of trade union members through the political levy in political parties is an example of the very thing that he wants to encourage?

256. STUART WILKS-HEEG (Executive Director, Democratic Audit): I would be happy to start there, if that is where you would like me to start. Perhaps I could just preface by saying that there is actually a great deal of what Simon Jenkins said that I agree with, particularly in relation to localism and the need to promote political parties as active membership organisations. I just do not feel that the solution he is offering is at all viable.

257. On the issue of trade unions in particular, I know this is obviously going to be a key issue for this inquiry and it was obviously a key issue during the Phillips inquiry. This is where the principles of funding reform are so important and I assume that we are going to spend some time talking about that.

258. If we look at British political parties, we have never really had a party system based on mass party membership as was the case in some other countries. In particular, the Labour Party quite possibly would not have got off the ground if it had not delivered an alternative model very much based on indirect membership for affiliated organisations, most obviously the trade unions but also of course all the socialist societies and so on. Respecting the

principle that parties can be founded in a different way and can have different structures is an important one. It does not make that entirely sacrosanct. I think that was a question earlier. It does not mean that that has to carry on forever, but that is important to recognise. As I understand it, the Labour Party did not even have individual members until about 1918, so, in that crucial phase that was so important, the party was able to establish itself and develop in that way.

259. Obviously, we do need to look from the point of view of a century later. Is there anything still in this model which is of value? You highlighted it yourself to the previous witness. Rather than seeing this as a problem, we could look at it and ask whether we can use this in a different way to promote forms of engagement with political parties which are not necessarily about direct membership and activism. There are probably a lot of people who would like some sort of association with a political party or political movement but who do not necessarily want to be a member or an activist directly. When we look at what some organisations do, in particular environmental organisations and charities, there are all manner of quite clever affiliation-type arrangements you could get into which could raise money and with which political parties engage people in the political sphere.
260. It is a fairly random example, but the Phone Co-op is a co-operative which offers telephone phone supplies. If you register with them through the Centre for Alternative Technology in Wales, part of the money you pay to the Phone Co-op is donated to the Centre for Alternative Technology. There are many more examples like this. It is very common around environmental organisations and charities, as I said. Many organisations have credit cards, for example. You can get a credit card where part of your spending goes to an affiliated organisation. Political parties already do it. But there are many more examples like this that could be explored.
261. The key point is that we should not completely jettison that idea about party structure, not least because actually to do so at this current moment in time would be devastating for the Labour Party. It has attempted to diversify its funding base away from trade union affiliation fees and it was successful to some extent, but the extent that it can do that it always going to rise and decline. It would not be good for democracy and it would not be good for the party system to have something imposed which could have such a devastating effect on one major party.
262. SIR CHRISTOPHER KELLY: The point you are making is that there are two sides to it being part of the solution and not part of the problem, as it were. One is that you can build on that by analogy and you have given us an analogy. The other is that it is regarded as a problem by some players in the political system. I am not asking what needs to be done to make it acceptable to the Conservative Party because that is a question to ask the Conservative Party, but what needs to be done to the current arrangement so it would fit with your view of the world, i.e. not part of the big donor culture but actually part of encouraging democratic engagement?

263. STUART WILKS-HEEG: There clearly are issues about how transparent the process around affiliation fees paid by members of affiliated unions and social societies is at the moment, whether the people paying them are always aware that they are paying them and whether they are aware that they are able to opt out of that arrangement. We have looked at the data and there clearly are issues about whether the totality of the money collected through affiliation fees into trade union political funds is then paid to the Labour Party. The figures do not seem to match. These things clearly need looking at. There are issues of transparency which are extremely important and which need to be addressed.
264. That said, it would appear from the figures we have seen that about one third of members of affiliated unions do opt out of the political levy. In the case of some unions, mostly the smaller ones, the figure is smaller, maybe 2 to 4 per cent. I do not know what the reasons are. In the biggest unions, up to 40 per cent appear to be opting out. It does seem that there is a fairly high degree of awareness among members of affiliated unions that they can opt out of the levy. I imagine that that could be improved across the board and could be standardised.
265. On the issue of quite what is happening with the totality of the money collected and how much is being passed on to the Labour Party based on the figures, I have no explanation for those discrepancies. Some unions seem to be overpaying and some seem to be underpaying. It could be to do with the quality of the data. I just do not know. But it clearly needs exploring. For me, that is the crucial issue that needs to be addressed.
266. In the longer term, for the Labour Party itself as much as for anybody else, clearly, the party cannot continue to rely on trade union affiliations as its principal source of income. In fact, it does not any more. More money comes from other donations. Labour itself needs to diversify away from that and it has been doing so for some time. Clearly, the membership numbers of those affiliated unions is likely to decline, so over time it is an issue which is going to gradually resolve itself. But these issues of transparency are absolutely crucial.
267. SIR CHRISTOPHER KELLY: Thank you.
268. BRIAN WOODS-SCAWEN: Let me start if I may with painting the picture. You say that there is an urgent need to do something and your solution is to do very little incrementally over a very extended period. That does not sound very urgent as a response.
269. STUART WILKS-HEEG: I can see why you might say that but, to explain, first you need to take a long view. For anybody deeply familiar with this area, we know that there was a period of over 100 years when absolutely nothing happened. Reforms were introduced in the late Victorian period and that was it, essentially, until 2000. We do have to proceed incrementally in view of the long-run nature of these issues.

270. The Political Parties, Elections and Referendums Act 2000 was crucial in terms of bringing about a step change in regulation. There were great hopes for what might happen as a result of that Act. Within five years it was clear that most of those aspirations were not going to be realised.
271. SIR CHRISTOPHER KELLY: Did you say it was clear that most of those aspirations were not going to be realised?
272. STUART WILKS-HEEG: To be fair, the Act did achieve transparency, very importantly, and that has been absolutely crucial. I would agree with many other observers on this. There is a very high degree of compliance with the framework.
273. What the Act has not done, which it was hoped it would do, is to reduce the reliance on big donors. In fact, that has quite clearly become worse. The Act has not improved public confidence. If anything, that is probably as bad as it was, but it is hard to tell from the opinion polls. The Act has not resolved the issue that the parties are almost permanently in financial crisis. Despite the fact that they have all this big money coming in, they always seem to be on the verge of bankruptcy. If they were commercial enterprises, probably all of them would have folded in the last ten years. Not much has really happened in terms of broadening the funding base of political parties and promoting political engagement, so all those concerns are still there and the Act has not addressed those. It was very much hoped that it would.
274. It also has not really reduced the extent to which parties are spending or feel the need to spend. Obviously the election cap has brought down general election expenditure so we are not going to see the election expenses of 1997 ever again, but in 2005 we were back to the level of spending of 1987 or 1992. So the impact of the Act is mixed and there is very clearly a need to revisit it and I think there is a consensus about that.
275. In terms of whether we are just putting things off until way into the future and not doing very much to start with, the crucial thing is this. If you come in with a big bang approach to reform, given our current framework, the consequences of that could be really quite devastating, particularly if we come in with a big bang approach to donation caps. They could either almost work too well and dramatically reduce the capacity of the parties to do anything very much because their incomes are slashed so heavily or they could be entirely ineffectual because of the dangers of evasion and ways of circumnavigating them, so I think they do need to be introduced cautiously for those reasons.
276. But if you introduce donation caps on a cautious basis, I think it has a number of advantages. Firstly, it is easier to secure cross-party consensus for that process. Secondly, it would have to be independent monitoring but the impact of those changes could be monitored as they are introduced, which would give scope to introduce additional reform elements into the mix. It is fairly clear that we will need to factor other elements into that if we have donation caps in particular.

277. The idea here is consistent with the notion of nudge economics, which you might be familiar with. What we really need to do is to try to move party funding onto another pathway. If we did absolutely nothing, if this committee recommended nothing or if its recommendations were ignored and if inter-party talks resulted in no reforms and no legislation, we would still be on a pathway to somewhere whether we like it or not. I do not think any of us want to stay on that pathway, so we need to move to another path. You can try and do that quickly and radically across a range of policy areas but I would suggest that that is incredibly dangerous to do. I suggest we try to move it on to another pathway which we all recognise as where we want to get to. We can best do that in the first instance by trying to nudge it through fairly subtle mechanisms, but we have to programme into that process additional nudges, if you like, and at some point if necessary a shove. If the nudges really are not getting us anywhere, we are going to have to push things harder.

278. BRIAN WOODS-SCAWEN: Some people might say that is a very Sir Humphrey approach to the world: this is all very difficult so let us not do very much because it might be quite complex. You have said the issues are about donors, crisis sustainability and expenditure. If we need to move this on to another plain, 15 years sounds like an extraordinarily long time to try and do something that is right.

279. STUART WILKS-HEEG: In terms of the development of our democracy, I am not sure that 15 years is a terribly long time, to be honest. The points made earlier are absolutely crucial. You cannot just look at party funding in isolation. The way it connects with the broader features of our democracy and the other elements of reform we are going to see over the next five years and beyond is absolutely crucial.

280. BRIAN WOODS-SCAWEN: If the challenge was, whatever the solutions to the issues you have raised, to do it more quickly, what would your response be?

281. STUART WILKS-HEEG: I do not think there is a quick solution which is viable, other than saying, "If we take big money out of politics, it is going to take a mass of money out of the system which the parties clearly need, so we will replace it all with state funding".

282. BRIAN WOODS-SCAWEN: Yes, but the experience in the last couple of years has been that private sector companies in many cases have had to accommodate themselves for a world where their incomes are substantially reduced. Most public sector organisations are now in a situation where nobody is saying, "Public finances are in a bit of difficulty so let us give people 15 years to get used to this". We are in a radical world.

283. STUART WILKS-HEEG: You could say that we are, but the implications of an attempt to find a quick big bang fix to this are so profound and so negatively profound that to do so would be extraordinarily ill-advised. There may be pressure in certain circles for that to happen, but I really think the consequences are so serious that we have to look at this in a longer

timeframe. The approach has to be medium-term and it has to be strategic, not a quick solution.

284. BRIAN WOODS-SCAWEN: You have talked quite a lot about fairness. What does fairness have to do with any of this?

285. STUART WILKS-HEEG: It has everything to do with it. In a representative democracy, the evidence is massive, we know. If there is one thing that can lead to unfair electoral outcomes it is money. Money can have an extremely profound effect on the results of elections and how well parties do, so we need to find a system which is fair to the different political parties, weighing up of course that they have different levels of popular support and so on. We need to find policy responses to the problem we have which do not clearly advantage one party over another. It is absolutely crucial that the reforms are not seen to be partisan. If they were, the scenario we could get into very easily would be one where it becomes a political football and where one side seeks to reform in their favour in one parliament and the opposition manages to get back in next time and reforms back the other way. That is just not a model which has any kind of viability in terms of providing a sustainable solution and one which takes us to the place where I think we all want to be.

286. BRIAN WOODS-SCAWEN: To the contrary, you might argue that that used to be the way politics was done. Steel was nationalised and denationalised half-a-dozen times after the war as different parties came to power. But many of the fundamental political, social and economic reforms in the last 20 years have very quickly become part of the cross-party consensus and successive governments have not tried to unpick them. There has been equalities debate, the role of trade unions in industry and a whole series of these things which you might have thought would be political footballs but simply are not because a public consensus has built around a policy agenda and it cannot be unpicked. Why could the same not happen here?

287. STUART WILKS-HEEG: That is what I would like to see happen, clearly, but I do not think it will happen if a solution is proposed which is transparently unfair. But it is not just about the three main parties or even the two biggest parties. It is also crucial - this was something that the Philips review pointed to - that we think about fairness in relation to the smaller parties. The barriers to entry in terms of our party system are just phenomenal.

288. BRIAN WOODS-SCAWEN: So what? Major parties are coalitions of ideas. If small groups of people want to promote alternative ideas, life is full of barriers. Why do you have to make it easy for them?

289. STUART WILKS-HEEG: You do not have to make it easier but it should be broadly fair. It should be a level playing field.

290. One of the crucial things is the way the current system interacts with the electoral system. If we look at where the donations go, they clearly go to the two parties which people think are mostly likely to form governments or be

the senior coalition partners in government. If we look at state funding, particularly Short Money and to a certain extent Cranborne Money, it is so much structured around representation in the Commons in a non-proportional electoral system that clearly the funding is going to the two largest parties in view of their representation in parliament rather than in view of their electoral support. That is a serious issue. It means that the party system cannot adjust as effectively to the fact that people are supporting smaller parties, even with a non-proportional electoral system. Again, that is an obvious barrier to entry for smaller parties which needs looking at.

291. BRIAN WOODS-SCAWEN: If there were more fairness and equality of opportunity, as you call it, where does that take us if it means that a number of extremist parties start to get much more political traction, including possibly with state support?

292. STUART WILKS-HEEG: It might depend on what you define as an extremist party. This is always the perspective that is raised in any debate about state funding or proportional representation. It is not a view everybody shares but in my view, personally, if that is what the system ends up producing because that is what people vote for, the political system needs to respond to that. We should not just brush it under the carpet and wish it were not true that people wanted to vote for the British National Party or whoever. That may emerge.

293. Certainly what would happen would be that parties like the Green Party and obviously the nationalist parties, Plaid Cymru, SNP, et cetera, would find that their respective resource bases were bolstered and they would be in a stronger position to compete with the big parties. That is the crucial thing for me. I do not deny that there is a possibility of extremist parties gaining from it, but that is for others to respond to.

294. BRIAN WOODS-SCAWEN: If extremist parties gained from what you are suggested, is that going to build public confidence in politics?

295. STUART WILKS-HEEG: That would not, no. I make no bones about this. Democratic Audit and also myself personally have stressed continually the reality of support for the British National Party and the issues that that raises. If that was to become more transparent and if it was clearer to all those involved in our democracy and our political affairs that that needed to be addressed head-on and if the parties responded to that, that process would help to increase confidence in politics. Brushing it under the carpet certainly would not help.

296. BRIAN WOODS-SCAWEN: Let me move on to public engagement. You touched on this earlier in the introductory conversation with the Chairman. How would state support encourage local participation?

297. STUART WILKS-HEEG: There is a variety of ways it could be done. This has been discussed already, but you could match donations collected by local parties with state funding, small donations, not huge donations. You

could also have a commitment that any such funding would be channelled directly into local parties for particular purposes. That is one option that has been recommended previously by a whole host of people including what is now Unlock Democracy.

298. If you are going to have a system of state funding being allocated in terms of the number of votes a particular party gains, some people think you could do that for general elections and have an amount per vote. But there would be a strong argument for having a focus on local and devolved elections and having a supplementary amount per vote or even just having state funding at local and devolved level and not for general elections at all. There is a variety of ways it can be done, quite clearly.

299. BRIAN WOODS-SCAWEN: Arguably, one of the biggest obstacles to localism is political parties. They have taken more control over candidate selection. They have taken more control over promotion, marketing and communications. Is it the case that political parties do not want localism?

300. STUART WILKS-HEEG: No, I do not think it is. You would probably have to ask them.

301. BRIAN WOODS-SCAWEN: But is there evidence? The notion that a local party selects its own candidate seems to be a very twentieth century idea. The best candidates are selected by national systems, through A lists and by parachuting in party apparatchiks to local parties.

302. STUART WILKS-HEEG: We have seen that in many cases, yes. What is absolutely clear is that political parties have become more centralised. There are a number of reasons why that has happened.

303. It is also very clear for the political parties nationally that what happens in some localities matters much more to them than what happens in other localities. Certainly if you look at a general election, the difference in terms of what is spent by candidates locally is absolutely enormous. In a three-way marginal seat, say Falmouth, the electors there might have eight times as much spent on them by the local candidates compared to electors in somewhere like Barnsley, which is a safe Labour seat. It is very clear if you go into areas where there is very little electorate competition that the political parties are in some cases dead or virtually extinct. This process has been allowed to go on and there is a clear underlying reason for it. There is a need to redirect resources to localities and to local parties to try and rebuild the system from the grassroots.

304. BRIAN WOODS-SCAWEN: My question is whether there is a barrier to that, which is political parties that do not want localism.

305. STUART WILKS-HEEG: The political parties would say that they are just responding rationally in terms of the structures they face. They pump money into parties in marginals and if they give all their support to candidates in marginals they will say there is nothing else that they can realistically do.

306. DR BRIAN WOODS-SCAWEN: But that argument would not lead axiomatically to central control over candidate selection.
307. DR STUART WILKS-HEEG: That is a different issue. In those cases I think what we have is clearly a desire by the parties, as a result of quite legitimate pressure, to do something about the fact that they tend to have very few female candidates, they do not have enough candidates from ethnic minority backgrounds and so on. They have tried to look to local political parties to select people to improve those issues of representativeness. Local parties often have failed to do that, so they have started to impose. I think that is the dynamic that we have very often seen.
308. Again I think there are other ways. Under a different electoral system, for example, those issues of representativeness would be a lot easier to address. I have some sympathy with why central parties have started to try to get tougher on local parties but it is deeply concerning, because if local parties do not have control over selecting a candidate then it is hard to see what they are for in many ways.
309. DR BRIAN WOODS-SCAWEN: Can I ask you about public confidence. You have talked quite a lot about public confidence. Is public confidence something that can be a policy aim or is it a consequence of getting things right?
310. DR STUART WILKS-HEEG: I think it is clearly something that reform should aim to bring about. It is one of the key tests. If there is a role to perform and you have not improved public confidence you are probably doing something wrong.
311. DR BRIAN WOODS-SCAWEN: But is it a consequence or is it something that you can directly influence?
312. DR STUART WILKS-HEEG: Whether you can influence it directly, probably not. I would argue there are certain things which you can do which would be likely to improve public confidence and there are certain things which you can clearly do which would be likely to make the problem far worse. I have to say if you look at the data comparatively the UK is somewhere near the bottom of the league table of advanced democracies in public confidence in political parties and so on but it is not absolutely atrocious. There is not a funding regime anywhere in the world that is going to give you the answer, "If we do this like they do in wherever, this will give us the maximum amount of public confidence." It will not. The best you get is in the Scandinavian countries but I do not think that is to do with their funding regulations, as basically they do not have any. It is to do with the particular nature of Scandinavian society and levels of trust and so on. So yes, it is difficult. You cannot influence it directly but you would clearly want it to be an outcome and you would clearly want to base your reform proposals, I think, on the principle that you are trying to achieve.

313. DR BRIAN WOODS-SCAWEN: So your advice would be to focus on getting things right with the presumption that if you get things right public confidence will follow, rather than target any reforms on what we think will directly impact on confidence?
314. SIR CHRISTOPHER KELLY: That is not what you said.
315. DR STUART WILKS-HEEG: No, it is not. Improving public confidence or restoring public confidence, assuming we did once have it, is one of the key five principles that I have advocated. It needs to be seen in that mix of five things which are key principles. I do not think you can wave a wand and say, "This is the thing which is going to improve public confidence" but obviously we need to look at all the reform options in light of their scope and their potential to do so.
316. SIR CHRISTOPHER KELLY: Can I just generalise that question, though? Your five principles which are in the paper, not in the evidence itself, are very interesting. There are both active and passive versions of it. It is not quite precise, because you have a discussion about restoring public confidence and if you decided that the most important thing in the world was to restore public confidence you might do things which were specifically directed for that, rather than just trying to get it right. You might say that the thing that is really damaging public confidence is the perception that if you donate a large amount of money you can buy a seat in the House of Lords and whether that perception is justified or not therefore what you have got to do is either cap donations or do something else.
317. The same with the others. Your third principle is promoting public engagement in politics. Well, that could be, "Would it not be nice if what we do had the effect of promoting engagement in politics?" or you could say it should be a driving principle of what you do, that you take steps to promote public engagement in politics. Therefore despite what Simon Jenkins was saying about state funding being the root of all evil actually if you came to the conclusion that match funding would have the effect of promoting public engagement then that is what you should do irrespective of other consideration.
318. Or again establishing fairness you could say that what you want to do is to make sure that you have a set of arrangements that do not discriminate between the different parties, which would be one way of looking at it, or you could say, and you came close to saying that in some of your earlier remarks, that actually what we have is an unequal playing field and it is quite difficult for new parties to get a footing because of the First Past the Post system and lots of other reasons. Therefore if what you really want to do is to promote what you said in your principles, promoting equality of opportunity within the party system, you could say what you really want to do is promote equality of opportunity for people wanting to generate a political platform. If that was the objective then you would design a set of arrangements for party funding which made it easier for a new political party to do what the main parties have done. That is a very longwinded question but the root of it is do you intend these

principles as being really active things which should drive, and if so where do they take you which is different from some of the other things you have been talking about?

319. DR STUART WILKS-HEEG: Okay. First of all before I answer that question absolutely directly, these are not just principles that I have invented and it is quite remarkable when you look at previous attempts to map out reform for party funding that other people have quite rightly sought to identify principles and the consistency with which these principles are advocated. Which is why really it was quite straightforward to present them in this way.
320. Secondly, clearly there will be to some degree trade-offs between these five and that needs to be recognised. That is just part of the process of trying to apply the principles.
321. Thirdly, and I think this comes on directly to what you are asking me, I would see these principles as in a sense trying to do two things. One is they provide you with a set of criteria against which you can assess different reform proposals, so a donations cap, what would that do in terms of fairness, what would that do in terms of sustainability of the system and so on. You can go through all the different reform proposals.
322. SIR CHRISTOPHER KELLY: That is what I mean by a passive element.
323. DR STUART WILKS-HEEG: Exactly. I think this is what you mean by an active element. You would also want, I think, to use those principles as a kind of compass, and I think someone used the phrase earlier, moral compass, and it is not necessarily a moral compass. But if we are talking about trying to move party funding onto another pathway over a fairly long period of time you might say, 10 to 15 years, we will want to check along the way that we are still on the right path and we are still going in the direction that we want to be going in. I think those principles give you in a sense the kind of monitoring criteria that you might use to check that you are still going in the right direction or whether you need to do anything else to make sure you get back on the path you intended to be. So I think that is probably the sense in which you are saying they would be active.
324. SIR CHRISTOPHER KELLY: I think I was saying a bit more than that. As you said there are trade-offs, but some of them might lead you in different directions than others, so how do you do those? How do you make those trade-offs?
325. DR STUART WILKS-HEEG: There clearly are going to be trade-offs which is why I think, as we try to do in the report, we try to identify a reform package which is going to provide the best fit against these five principles as a whole. I do not see there being a particular hierarchy to these principles for example. I am not saying one of these is more important than any other. So this is about identifying a package which works against that set of principles which I would hope, and I cannot second guess, what a political party is going

to make of this or what the nature of inter-party talks are going to be like. But I would hope that proceeding in this way would offer the best basis for forming the kind of consensus that I think is so crucial to making this viable and sustainable over the medium term.

326. DR ELIZABETH VALLANCE JP: Just to pursue the principles which you have here, they seem to me not all to be principles, if you like, and I think that is at the back of some of the questions that people have asked you. How far are some of them outcomes rather than principles? For example, restoring public confidence, is that just an outcome rather than a principle itself that one needs to go by?

327. As far as establishing fairness is concerned, we have already raised this with you but just how far is fairness relevant here in a direct way? Either it is a platonic idea, you just must have fairness in the system which I would say, "Well, why? This is not really what we are trying to achieve". You looked at that very largely when Brian Woods-Scawen asked you about it in terms of money, in terms of finances and therefore you ought to have a kind of level playing field and so on, but is there evidence in your view that having the same amount of money means that you will have an equivalent kind of outcome? In other words putting more money in does not necessarily as far as I can see from the evidence mean that you will have more success as a political party.

328. DR STUART WILKS-HEEG: Correct. I think there are several questions there.

329. DR ELIZABETH VALLANCE: Well, there are and I am sorry but it is starting from your principles.

330. DR STUART WILKS-HEEG: Sure. If we start with the principles, the way that the principles are phrased it is put across as these are the things which the reform of party funding should seek to achieve. That is the basis on which I have suggested them as principles.

331. DR ELIZABETH VALLANCE: I understand that, but what I was getting at was that there are very different levels of abstraction, there are very different categories, some are indeed principles as one would understand them in, "We must go for this, this is the bedrock system", some of them are as I say outcomes.

332. DR STUART WILKS-HEEG: You could say that but in a sense I think that is useful, because that means, as I suggested, that you can seek to measure and monitor the extent to which reform proposals you put in place are achieving the things which you said you wanted to achieve. So if some of these principles double as measureable outcomes then I think that is quite a valuable thing.

333. We could argue about whether you should really muddy the waters and whether a principle is not entirely conceptually distinct from an outcome and

so on.

334. DR ELIZABETH VALLANCE: I think it is quite important in the terms in which you put it, whether they are outcomes or whether they are principles.

335. DR STUART WILKS-HEEG: But if we agree that there are certain things which reform of party funding should achieve, whether we describe those as principles or whatever the word is that we use, if we can agree that reforms will need to try to achieve a certain set of things and that we should have things where there can be agreement about what we should be aiming to achieve and that we have got some means of measuring whether we are achieving those, then I think that is a valuable and useful point at which to start. We could go on quibbling and arguing quite rightly about whether these are really principles and perhaps principles is the wrong word. But that is the sense in which I offer them.

336. DR ELIZABETH VALLANCE: Okay, and as far as the fairness issues, you still stand by that as a principle?

337. DR STUART WILKS-HEEG: I do, and I have to say I would be quite astonished if we suddenly felt that fairness was not something that mattered. I mean the Phillips Review which is really so recent was very, very clear about trying to establish a settlement which was fair and sustainable. Fairness was built right through that process and tends to be referred to in every attempt to bring about reform of party funding.

338. As an element of moral philosophy there is always going to be disagreement about what fairness means and so on, but I do not think there is any getting away from the fact that it does matter.

339. You raise the issue of whether money really makes a difference or not. This is extremely murky waters. We know for example that there is no clear evidence that parties spending a great deal more in a general election results in them winning the election or even a great enhancement of electoral performance. However the evidence of parties spending a lot more at a local level over a sustained period of time, that improves their performance in key marginals, that evidence is pretty strong. So there are different elements of this, but clearly if a party is extremely impoverished and does not even have enough money to stand candidates across all constituencies and to run even skeleton campaigns for them then clearly they are going to be disadvantaged and they are not going to do as well as other parties. That is obvious. So money does matter.

340. OLIVER HEALD MP: One of the reasons that parties are able to raise money is because they have popular support. Now if you have a small party which does not have popular support and is impoverished are you really saying that in the interests of fairness we should fund it through the taxpayer?

341. DR STUART WILKS-HEEG: No, I am not. If a party is small and unpopular --
342. OLIVER HEALD: And impoverished as a result.
343. DR STUART WILKS-HEEG: Yes, then I can see no reason why you would want to support it financially. What I would see over the medium term is that we would want to consider mechanisms whereby if a party is gaining in electoral support, perhaps above a certain threshold, that you might want to reward it for the fact that it has reached that point. But we should not be giving money to parties which have no evidence of electoral support, no membership base. That would be absurd, quite clearly.
344. The issue though, I think, is the structural bias in the current arrangements. I do not think you can clearly show that the two main parties have the most money because they are the most popular in a broad sense. Clearly they get the most votes, clearly they get the most seats in the Commons, but over a period of several decades support for other parties has grown dramatically, really dramatically. That is not translated into Parliamentary representation and it is not translated into the resources which those other parties have access to, because state funding as it is currently configured does not do it and the big donor culture does not do it either.
345. Quite frankly, if you are a big donor why would you start giving money to some party which is winning the odd seat here or there but is not likely to go much further at this stage? So I think there are structural inequalities built in which really are an issue.
346. DAVID PRINCE CBE: Just a follow-up question on the principles. Whether you see this as an exclusive list or a minimum list. I suppose I am looking at principles having heard all the evidence this morning and I think you have been with us this morning. We have heard things about openness, transparency, heard about politics being fundamental to democracy. We have heard about different histories and structures of political parties, the whole issue of accountability in accordance with the principles of public life and so on. Do you think there is scope for augmenting these or have they been carefully put together as an integrated whole?
347. DR STUART WILKS-HEEG: I think there would be. I think that any list of principles, any list of anything, once you start to get beyond five or six you start to get something that is quite unmanageable. So you could seek to augment them.
348. I mean if you look at what we have done there we have tried to a certain extent to already combine certain principles which have been advocated elsewhere to make it a manageable list of five. Yes, you could go further but you would not want it to be completely unwieldy. I mean I think those five I would defend as being fairly comprehensive, but I would recognise that there would be others who would want to assert different principles who might want to say that others are more important, there is a hierarchy. That is

a discussion which needs to be had and I would not want to say my principles are right and everyone else's are wrong. Clearly not.

349. So yes, I think that process would need to happen. I think for me the important thing is that I am confident that those principles we have put across there are very consistent with the principles which have been put across in previous exercises like this.

350. DAVID PRINCE: Thank you, and just one if I may, a follow-up from your answers to Brian Woods-Scawen. One of the things you talked about in your 15-year action plan was an overhaul of the existing funding arrangements for state support. Is there any reason why that cannot be done quicker than is suggested in your report, that particular one, because a reallocation of that or a different use of that could give some immediate flexibility in the system. Yet you seem to be advocating it over a medium term rather than short term.

351. DR STUART WILKS-HEEG: If this Committee could do a quick efficient and effective review of those arrangements and come to clear recommendations by next spring on those I think that would be an incredibly useful exercise and if state support could be restructured more or less immediately after that, that would be extremely valuable. I do think it is quite a challenging exercise and I think you would have your work cut out to do it, but I would urge you to do so if you think it is at all possible.

352. I do describe in the written evidence current state support as a kind of patchwork quilt of direct grants and indirect subsidies. I think in particular the indirect subsidies, a lot of them really now look archaic and I am really not sure they are at all fit for purpose. Quite whether these could be redirected in some way, it is a difficult discussion because they are notional subsidies in many ways, but I do think there is a lot of scope there and it must be looked at in the round and a case for restructuring I think is a very strong one. So if it can be done sooner then I would welcome that.

353. DR BRIAN WOODS-SCAWEN: Recognising the time, can I just ask one final question. You have suggested that we need to find a consensual solution. The reason we are here is because there is not a consensus, or nobody has been able to find one, including Hayden Phillips. Is that the right approach or should we just do what we think is right consistent with your principles and encourage people to align behind a clearly demonstrated right way forward?

354. DR STUART WILKS-HEEG: If what you are saying there is that you should try to build consensus, if there was not one already, then yes I would very strongly support that proposal. I am not sure that consensus is impossible or always has been impossible. If we go back to the 2000 reforms there was clearly a context in which consensus was possible at that time. Also my reading of the Hayden Phillips Inquiry is that it came very close indeed to reaching a settlement and I think we need to remind ourselves of that, that it is not a completely hopeless situation and we are not as far off as we think we might be. So I would not give up on the potential for finding a

consensual solution just yet.

355. SIR CHRISTOPHER KELLY: You can be sure we sure we have not.
356. Circumstances change and the ability to find consensus is also likely to change. One of the difficulties we are finding with consensus at the moment is the possibility, as you suggested, that a greater degree of state funding might be a part of the long-term solution, albeit with some restructuring of the way that it is given. There are others who say the same to us.
357. I am in no doubt that if that was where we ended up that would be an extremely unpopular recommendation and one that all the main parties would have great difficulty in accepting. If you were in our position and that was the conclusion you wanted to come to, how would you set about building a consensus that despite the obvious difficulties at the present time in suggesting more state funding nevertheless is the right solution?
358. DR STUART WILKS-HEEG: Well, I think there are at least two things here. One is that I would agree with the conclusion that was reached by Hayden Phillips and has been made by many others that it really is not at all obvious where the money is going to come from. If you are going to try and take big money out of politics, I have not had a chance to do this, and I want to emphasise this now, it is in the written evidence and it is also in my opening statement and it is consistent with the Electoral Commission's own analysis, over half of the donation income over ten years, something like £130 million, comes from 60 donors. I mean that really is remarkable. Quite apart from anything else that suggests to me that there is a serious concern about sustainability, because if just a few of those donors change their mind and stop donating the implications are really profound.
359. So if we try and take big money out of politics and if the parties do need as much money as they say they do, and I think their case is fairly compelling, then where is the money going to come from? Simon Jenkins' solution that we can have mass membership parties is just not viable. I mean there is no means of doing so. Even if we went back to the point where we were in the 1950s at that point the political parties were not paid for by their members, they were still paid for by donations then, a slightly different type of donation. International experience as well shows us that really ultimately you end up at this point where state funding is the only way.
360. Now I appreciate it is a hard sell, but what we do have, second point, is these existing forms of state funding which probably are not really doing the things we would like them to be. They are outdated, they are there for a particular purpose, they could be there for a different purpose. So I think the case for restructuring that is a strong one and I think that, in the short to medium term with a carefully staggered donation cap coming in, could work.
361. Over the period beyond that, once we get into the second half of our 15-year framework, then I think it is almost certain that you would need to augment state funding in some way. It could be by that point in time that

various mechanisms have been put in place such as tax relief and so on, a reduced expenditure cap, which may have led to a situation where additional state funding does not look like it is required, the parties have adjusted and so on. So it is basically leaving the door open to add in the forms of state funding at a future date. It is not dodging the issue, it is saying we are going to do everything we can to avoid these big injections of state funding which I think overall would make the public sell somewhat easier. I do appreciate the problem but I cannot see over the medium term any obvious alternative.

362. SIR CHRISTOPHER KELLY: Thank you very much. Is there anything we have not given you the opportunity to say that you would like to say to us?

363. DR STUART WILKS-HEEG: No, I think I have covered everything.

364. SIR CHRISTOPHER KELLY: This has been extremely interesting and helpful for us. You have said a number of things which I would quite like to pursue at a later date. I hope we will be able to continue to talk to you about some of the things you have said.

365. DR STUART WILKS-HEEG: I would be delighted to, at any point. Absolutely.

366. SIR CHRISTOPHER KELLY: Thank you very much.

367. DR STUART WILKS-HEEG: Thank you.