

THE COMMITTEE ON STANDARDS IN PUBLIC LIFE

**Radisson Blu Edinburgh
80 High Street, The Royal Mile
Edinburgh**

1 December 2010

**Review of Party Funding
Morning/Afternoon Session**

Members Present: Sir Christopher Kelly (Chairman)

Lloyd Clarke QPM
Dame Denise Platt DBE
David Prince CBE
Rt Hon Margaret Beckett MP

Witnesses: Magnus Linklater
Dr Navraj Singh Ghaleigh, Edinburgh Law School
David McLetchie MSP, Scottish Conservatives
Mark McInnes, Scottish Conservatives
Peter Murrell, Scottish National Party
Martin Hayman, Scottish Liberal Democrats.
Colin Smyth, Scottish Labour Party.

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MAGNUS LINKLATER

1. SIR CHRISTOPHER KELLY (Chairman): Mr Linklater, thank you very much indeed for coming on this miserable day. We thought you were an appropriate person to start our session in Edinburgh not least because you performed this function last time the Committee focussed on this subject. On the whole, we do not encourage long opening statements, but is there anything you want to say?
2. MAGNUS LINKLATER: No. I hope you were not expecting a long written report from me because I have not done one and I hope my evidence will be reasonably helpful. This is not my specialist area of expertise, so I think I perhaps raise some broad principles but please, ask me any questions you like.
3. SIR CHRISTOPHER KELLY: Thank you very much. Could I start by asking the obvious question which is, is there a problem in Scotland with party funding? Is there a problem generally and is there a specific Scottish problem?
4. MAGNUS LINKLATER: I suppose the problem might revolve around the area of transparency which I am sure is a more general problem as well in that if you look at the different parties and where they get their funding from, there is a massive grey area although there is a distinction between the Unionist Parties and the Scottish National Party. We seem to know rather more about the SNP sources of funds than we do about the other parties. That may be because their donors are high profile; they are announced quite openly and make no bones about it and it is almost part of the political process that we hear about the donations the SNP receive. The other distinction, of course, is between the Holyrood elections and the UK elections because there is a great difference in the way that funding is deployed for those.
5. I might just run through the things that I am aware of and if you want to ask me, I will try and answer them. The SNP has to raise all its funds in Scotland and it is very successful. In the 2007 election, it was by far the most successful party fund raising largely because it had two or three major private donors from the business world; Brian Souter from the Stagecoach Company, Tom Farmer, Sean Connery and I think there was one single donation, I cannot remember from which of those, of £1 million. All these donations are given fair prominence and whether they are officially declared by the SNP or the SNP gives out these figures on request, I am not entirely certain. I think they probably announce them because they are quite proud of them.
6. They are also a party that is very successful at raising funds from its membership. It has a very active committee and membership. I am talking about the Holyrood elections, not general elections. As far as I am aware, the SNP really does not do much fundraising for general elections. It obviously stands and presumably draws on party funds but it does not give those nearly such a high profile as the Holyrood elections. In a way, I know more about the SNP and its funding, certainly for Holyrood elections, than I do about the other

parties and that is part of the problem; what I mean by the transparency because when you come to the Unionist parties, Labour is entirely dependent on funding from the UK party. We know no more about their funding in Scotland than we do about the funding of the Labour Party more generally. It is funds from the unions and other sources, about which you know probably a great deal more than I do, but my point really is that as far as Scotland is concerned, we do not hear about any specifically Scottish funds and the proportion that Scotland receives from the National fund.

7. SIR CHRISTOPHER KELLY: I understand the point you are making. Why do you think it is important?
8. MAGNUS LINKLATER: I think it is clearly important. I do not think the whole issue of funding --
9. SIR CHRISTOPHER KELLY: No; I think transparency is important. I just want to make sure, to be clear about why it matters that you do not know how much money spent in Scotland comes from outside Scotland..
10. MAGNUS LINKLATER: Why it matters is because I think we need to know what each party is spending on elections in Scotland. If we simply hear that Labour is getting a proportion of UK funds but that proportion is not specified, then I think there is a lack of transparency, a lack of the Scottish element. I think each party should surely be clearly showing what funds are being deployed in Scotland as opposed to the present situation. We hear about Labour's general election funding for the whole of the UK of which Scotland gets a proportion presumably dependent on which target seats are important. I think there should be a distinction in terms of Scottish funding.
11. SIR CHRISTOPHER KELLY: Just to be clear, this is a point about the way in which the Electoral Commission publishes information, not about the media reporting of the information that is available.
12. MAGNUS LINKLATER: Yes, I think that is right. I may be doing the Electoral Commission a disservice. Perhaps those figures are published somewhere. I am simply not aware of them, so maybe that is my ignorance.
13. SIR CHRISTOPHER KELLY: Thank you. A couple of follow-up questions. You have spoken about specific Scottish problems, Scottish issues. What is your view about the general issue? That most people seem to perceive there to be a big donor culture. Do you think that is a problem in the UK as a whole, and, if so, do you think it is a problem of substance or do you think it is one of perception?
14. MAGNUS LINKLATER: Yes, of course it is a problem because perception is all in these matters. If there is a suspicion on the part of the public that people are giving private donations in return for some sort of unspecified favours, then obviously that is a problem.

15. SIR CHRISTOPHER KELLY: The donations are never private. It is a question of whether there is a pay back.
16. MAGNUS LINKLATER: That is my point. We have been through a period which has given rise to a lot of suspicion in the public mind that this is not as straightforward a process as it should be; that there may be people giving donations in return for unspecified and sometimes very specified favours. Yes, there is a general problem. In my view, there is not a specific Scottish problem separate from that except the ones that I have talked about. The Tory Party, the Conservatives; it is the same situation in the sense that it is UK funding and the Conservatives get a proportion of UK funding, and I am not aware of how that proportion works, except that one donor, Lord Laidlaw, was a very generous funder specifically for the Tory Party in Scotland, so we knew about that but he is no longer a donor. I do not know if he is a UK donor; anyway no longer supports the Conservative Party in Scotland which is perhaps not entirely surprising. With his disappearing from the scene, I am not really aware of how the Conservative Party in Scotland is funded. Their membership is declining and I think they must be very hard pressed to find funding from their membership and with Lord Laidlaw off the scene, I am not quite sure how they are going to find the money.
17. SIR CHRISTOPHER KELLY: Can I press you a bit about the general problem? The reason I asked the question in the way I did was because evidence that there is a problem of substance, evidence that large donations do actually buy you position or influence is quite hard to come by and it might be it is because evidence is hard to come by, it might be because there is not a problem of substance and it is all perception. The reason I asked whether that matters is actually going back to what you told the Committee 12 years ago when, among other things, you said the fewer rules, the better. If you are not careful, if we are not careful, we might find ourselves in the position where we make recommendations about all sorts of new rules and all sorts of things which are unpopular like additional public funding for political parties simply to deal with the problem of perception whereas a better answer might be to attempt to deal with the problem of perception as a problem of perception.
18. MAGNUS LINKLATER: I am not quite sure what you are now asking me.
19. SIR CHRISTOPHER KELLY: I am asking whether, thinking about what the consequences of saying, "Of course there is a problem about which something must be done", whether you are still feeling that ...
20. MAGNUS LINKLATER: I cannot exactly remember what I said 12 years ago. I am sure it made a great deal of sense at the time, but I think what has happened subsequently is there has just been a sea change in attitudes to public life obviously influenced by the whole MPs' expenses thing. Also, my wife is a life peer in the House of Lords and I know she and others were quite shocked by the way in which people who are substantial donors to political parties almost seemed to get a peerage. Almost the perception is that you can buy your peerage and if you look at some of the individual cases that

come up, they reinforce that perception that there is a way in which you could buy your way into the House of Lords. I think that does no service to public life. I think it does no service to the House of Lords. If it has a rationale, it is a rationale of a relatively independent revising body and I think that profile has been damaged by some of the revelations we have learned about over the last few years. That is really what I mean by a perception and that is what seems to me to be part of the problem if one is looking at the way in which parties are funded. I suppose that is really my point.

21. SIR CHRISTOPHER KELLY: Can I ask you a completely different point? When you were talking about the SNP, you mentioned their active membership. What is the secret of that? Is the answer obvious or is there something about the way the SNP approaches its membership where there are lessons for the other parties who have fluctuating membership and certainly lower levels of membership?
22. MAGNUS LINKLATER: I think the SNP drew on a sort of passion for the cause which perhaps the other parties were not able to. That may be declining because we have had an SNP in government in Scotland and perhaps that kind of initial passion for the cause is slightly frayed at the edges because being in government has exposed them to all the normal problems that comes from being in government. The SNP has not delivered on its promises in the way that perhaps was expected of it. Maybe that commitment by its loyal membership has diminished over the last year or so. Historically, it has been able to rally a membership; a really committed and enthusiastic membership in a way that the other parties have not because it had its single goal of independence which was a great cause which its members believed in passionately and were willing to donate funds and join up and rally to the cause and all that kind of thing. I think there is still a strong element of that.
23. SIR CHRISTOPHER KELLY: Thank you. Twelve years ago, when you gave evidence, devolution was still relatively new. Twelve years later, do you think that the arrangements that exist at present for the framework for party funding sufficiently take account of devolution?
24. MAGNUS LINKLATER: Probably not entirely, partly because I think that with devolution, things develop, parties develop, and the parliamentary process develops. As we have seen yesterday, a completely new bill has been presented to parliament which gives, for the first time, the Scottish Parliament the right to borrow substantial funds, the right to raise 30 per cent of its taxation in Scotland, to raise taxes and to spend taxes. By 2015, if that bill then becomes law, the whole way in which government is measured, changes. I think it is the biggest transfer of financial powers. Yesterday, the Secretary of State said it was the biggest transfer of financial powers within the UK since the union. Whether that is an exaggeration, I do not know, but it is certainly the case that it is a major step to give Parliament the taxation powers on that level and is a significant shift of power. With that shift, I would argue that you do need to reassess the whole way in which parties are funded because they just have a new set of responsibilities. It is almost sort of grownup politics arriving in Scotland.

25. I do not want to denigrate devolution; I am a great passionate supporter of devolution. I think it has done a great deal for public life in Scotland, not least because it has made Scottish politicians responsible to a parliament in Scotland rather than blame being assigned to Westminster and some distant parliament. With the right ability to raise and spend their own taxes, I think that is a sea change in public life and with every sea change, almost every institution has to undergo a reassessment and I would suggest, although I have not, I must admit, given it a huge amount of thought, but I would suggest that the business of party funding probably is in need of a reassessment.
26. SIR CHRISTOPHER KELLY: Would I be right in thinking, therefore, that you make that as a general point rather than because you have a list of things that need to be changed?
27. MAGNUS LINKLATER: Yes.
28. SIR CHRISTOPHER KELLY: Thank you.
29. DAME DENISE PLATT DBE: I want to come on to the principles that should underpin policies on party funding and the principle which is at the heart of the current funding system is one which you have mentioned which is transparency. Is transparency effective as a principle in Scotland? From what you have said, you have doubts about it because it is only effective in relation to some parts of the system and not others. Is it still an important and effective principle to pursue?
30. MAGNUS LINKLATER: Yes. I think if Scotland has one advantage in terms of this kind of thing, it is that it is a small country. It has very intensively scrutinised the parliament, some would say, and particularly MSPs would say, over scrutinised the press call in proportion to the number of members and their Committees is probably far greater than it is at Westminster, so there is a great deal of scrutiny. I think it is quite hard for parties to get away with things and some would argue that there is too much nitpicking in terms of expenses in particular. We had our mini-expenses row which sort of led to the resignation of a First Minister and the leader of the Conservative Party on matters which are so sort of minor compared to some of the things we have heard about south of the border that you might say, "Well, this is actually unfair". So, with that level of scrutiny, I think probably it is harder for parties to escape but, nevertheless, it remains the case that when it comes to where they are getting their funds from, I think that transparency is important and yes, I think it is probably quite effective in Scotland.
31. DAME DENISE PLATT: Yes. Did the media blow issues out of proportion?
32. MAGNUS LINKLATER: It is quite difficult to ask me that because I am in the business, but I think there were examples particularly at the beginning of the parliament. It has settled down now but there was a ludicrous period when every single misdemeanour was pounced on as evidence that this little

democracy was sort of failing and I think it did a grave disservice to the whole process. I think the Press were quite irresponsible. It is a digression but at the beginning, the London papers suddenly took a huge interest and also brought to it a rather condescending sort of attitude. "This little jumped up parliament, let us really sort of scrutinise it; let us expose its frailties and its failings." In those first few years, there were certain newspapers that simply went all out to denigrate it. I think that is in the past now and I think we are more better balanced in terms of the coverage but it remains the case that it is a parliament that exists under a microscope to possibly a greater extent even than Westminster.

33. DAME DENISE PLATT: Yes; because of local Scottish papers and national papers. So transparency is an important key principle, fundamental at the heart of, but there can be downsides and consequences to that. Are there other principles that you might identify which should underpin looking at party finance?
34. MAGNUS LINKLATER: I suppose an equitable system. I know it is impossible to achieve unless you have government funding. It is perhaps unfair that a party like the Liberal Democrats, let us say, in a general election, struggles because the party is dependent on the London party and the London party has different sets of priorities, so the Scottish party maybe struggles. You would hear more about that from the parties themselves.
35. Again, as a principle, it seems to me that political parties ought to be able to fight general elections on a reasonably level playing field and they do not, but oddly, the party I think that is going to face a real problem is the Conservative Party because it really has its back to the wall. In particular again, and this is a digression too, but we carried a poll, The Times carried a poll earlier this week which showed that because of the Coalition, because of the Liberal Democrat Conservative Coalition in London, the Liberal Democrats in Scotland, at the moment, have been absolutely taken to the cleaners. In Scotland, the perception that you have been in coalition with the hated Tories, is an absolute death to the luckless Liberal Democrats and I think in this coming Holyrood election next year, they will be struggling. How they will be financed, I have no idea of where the funding comes from and whether they will get support from the party in London to the extent they need, I do not know, but it is a very interesting question and one we probably will not know until nearer the time.
36. DAME DENISE PLATT: So your principle of level playing field is not just a level playing field across the UK, it is a level playing field in the different jurisdictions of the UK.
37. MAGNUS LINKLATER: Yes; in the different jurisdictions, exactly.
38. DAME DENISE PLATT: We hear in England and Westminster politics about the big donor culture and the reliance on parties. You have mentioned a particular party. Is the big donor culture a fact of life up here?

39. MAGNUS LINKLATER: To a much lesser extent. The number of wealthy donors in Scotland is far more limited and I have mentioned a few of them who are SNP backers. I have mentioned one Tory backer. I am not aware of a single wealthy donor for the Labour Party in Scotland. I think they rely much more on Trade Union funds. It is not part of my point to attack wealthy donors. So long as we know about them, I think that is absolutely fine. It is just bad luck that Labour does not have any in Scotland.
40. DAME DENISE PLATT: You have mentioned the link between the Trade Unions and the Labour Party. Do you feel there is a need to reform that link?
41. MAGNUS LINKLATER: Again, I think my point would be as long as we are aware of it and we know and it is in the open. The Trade Unions have been traditional supporters for the Labour Party for as long as one can remember. It is a fact of political life. So long as we know about them, we can look and reach our own judgements about whether they are influencing the Labour Party too heavily. It is a big issue now with the new leadership of the Labour Party. People will be looking very hard at Ed Miliband and his new policies for the party. They will be looking at it in the context of Union funding for the party. We know about it. It is part of the reality of how parties are funded. I am not one of those who sort of thinks it is undermining the political process. As I say, so long as one knows about it, it is a fact of life.
42. DAME DENISE PLATT: The argument is run that where you do have big donors their donations are a very big percentage of the money which a political party receives, those large donations buy influence on party policy. You mentioned buying honours and the suggestion around that that we should pursue caps on donations. First of all, what do you think about the argument around influence and secondly, what do you think about caps?
43. MAGNUS LINKLATER: It was interesting, was it not, at the last election with all the money that was ploughed into the Tory constituencies, it was marginal. At the time, that was perceived as being unfair and giving the party an unfair advantage because funding was being ploughed into specific constituencies, winnable constituencies to tilt the balance and that was quite a new phenomenon with large amounts of money given to individual constituencies. The outcome actually was rather disappointing; it was not money particularly well spent, was it? If you look at the result, I have not looked in as much detail as I am sure some have at precisely what the impact of that extra funding was and I am sure if you number crunch, you could see, yes, it had a proportional affect but, overall, the particular donor professed himself to be extremely disappointed at the outcome. I do not think that is a defence of it. I think that was an issue and presumably is one of the things that you are looking at.
44. DAME DENISE PLATT: If donations were capped, what do you think the impact would be on the Scottish parties?

45. MAGNUS LINKLATER: This may be irresponsible; I do not think that is a major factor in Scotland. I am not aware that individual funding for political parties has skewed election results. I may be naïve about that, but the SNP, when it fought in 2007, it did well. Yes, it poured people on to the streets and they are a very good campaigning party and they really know how to fight elections, but they then lost subsequent by-elections. I think their success was more to do with successful organisation and knowing how to fight a sophisticated campaign and because of funding per se. You can argue that they knew how to target their funds and they did it very well, but they won that election because Labour did very, very badly. Politically, they made the better case. I honestly do not think it was because they were more successful fundraisers because funding skewed the election up. I have not done work on that, so I may be wrong about that. Are you talking to John Curtis?
46. SIR CHRISTOPHER KELLY: Not in this session, no.
47. MAGNUS LINKLATER: John, I am sure, has done work on that. I would be willing to bet he would say much the same as me about that.
48. DAME DENISE PLATT: So they were better persuaders.
49. MAGNUS LINKLATER: Yes; politics is politics. A party wins an election because the other side has not done well enough and it presents a better plan. On this occasion, that was why they did not win last time and why probably they will not win next time.
50. DAME DENISE PLATT: Thank you.
51. RT HON MARGARET BECKETT: One of the things that has come up in a number of the evidence sessions we have had is not just, as we have talked so far, the emphasis being on the sources of funding but on the use of it. In particular, the issue has been raised of some form of capping on expenditure. Do you have a general reaction to that?
52. MAGNUS LINKLATER: As I have said, I think there may well be an argument for capping but I do not think it is a particular problem in Scotland. If anything, the problem is really that parties struggle to raise funds particularly for the Holyrood elections because the parties in London who hold the purse strings perhaps do not perceive the Holyrood elections as being as important as general elections and they may be rather stingier in terms of funding those. I do not really think, and again, I may be naïve in this, that capping as far as -- you could turn that argument around I suppose and say given that there is a funding problem, a party should not have an advantage by being able to spend proportionately more. Whether you do that by constituency or in general, I am not quite sure, but I do not see it as a huge issue.
53. MARGARET BECKETT: When gave evidence to the Committee previously it was at the outset of seeing elections in the Holyrood Parliament and on that system. You had some concerns then about spending in terms of

regional lists and spending in individual constituencies. Has that concern ebbed away?

54. MAGNUS LINKLATER: If you get down to the distinction between regional and first past the post, I think that probably has to be the responsibility of the parties just to decide. For instance, the Liberal Democrats or the Tories, and I say more specifically the Tories, who I think won one or two first past the post members in the Scottish Parliament. The rest were all regional lists. Inevitably, they will be devoting their funds to getting more people on the regional list, whereas the SNP and Labour will be focusing much more on their winnable seats, first past the post. I am not sure it is sensible to draw up specific rules as to what you should be capped on the regional list as opposed to first past the post. I would have thought the parties themselves should be able to make their own decision on that. Does that completely contradict what I said before?
55. MARGARET BECKETT: No, I do not think so. You were worried about whether it would make a difference, whether it would skew results and I think what you are saying is that if it does, then you think that is just one of those things. It is just a matter of where it is best for a party to target that.
56. MAGNUS LINKLATER: I think experience has shown that there are some parties like the Conservatives and Liberal Democrats and the Greens who will never really, or not in the foreseeable future, be fighting first past the post but will depend tremendously on how well they do in the regional list. It would be unfair, in a way, to be too prescriptive about how funding was divided by each party between the two things because they will presumably need to make their own decisions and they should be allowed to do that. I think that is my feeling.
57. LLOYD CLARKE QPM: A couple of questions if I may, particularly around state funding because that is also one of the changes that has happened over the 12 years. It is interesting that you say transparency is the key principle. I wanted to start with whether you thought there was a sufficient transparency about the levels of state funding that the parties now received in Scotland.
58. MAGNUS LINKLATER: Yes, I think there is an issue there. Again, it may be ignorance on my part but I do not think we know. Perhaps if that is all published, and it may be that is a sort of false problem, but I do not think the general public is probably sufficiently aware of that. There is one other issue on transparency which you may think is important or not and it is to do with membership because knowing how many members a party has is quite important. Labour publishes figures for its membership which I think deserves a little more scrutiny. They include social club members who probably join social clubs for social reasons but who then find they are actually included on membership lists whereas they might not actually be fully aware they are signing up as party members when they join social clubs. That may or may not be important but if we are talking about transparency, I think that is one of the issues.

59. LLOYD CLARKE: That specifically does not impact on the funding of the political parties because that is about enabling the parties to perform their parliamentary duties and that is very clearly, to me anyway, linked to the number of SNPs there are sitting in parliament at the time. So that is where the linkage is and are you saying that is maybe not transparent enough or it is maybe there but not in the public domain?
60. MAGNUS LINKLATER: I think the number of members is important. It may be an indication of how well or how badly a party is doing but they are all subscribing, are they not, to the financing of parties, therefore, presumably one needs to know that kind of thing. You may regard this thing that I have raised as a fairly marginal issue but if you think that transparency means being straightforward and honest about your membership as well as everything else ...
61. LLOYD CLARKE: One of the arguments that is being put to us is that if you actually create a cap in respect of donations, then inevitably, that will lead to a requirement for more state funding. I wondered if you shared that view or not and what is likely to be the public view on more state funding for political parties at this particular time?
62. MAGNUS LINKLATER: I think it is becoming more and more on to the agenda, is it not? It is relevant in terms of fairness. If there are parties that are struggling because of caps and because of other issues, then maybe the state funding becomes increasingly important. I have no great problem.
63. LLOYD CLARKE: Is it more desirable, do you think, to help make it more transparent?
64. MAGNUS LINKLATER: I am not a great enthusiast of state funding, I must admit. I feel that, just as an ordinary taxpayer, not as a journalist but as an ordinary taxpayer, a political part of the business of a political party is to persuade enough people that it is worth supporting and persuade them that they should part with their money to help them in their efforts. If they are failing to do that, then maybe they are failing electorally as well, so I am not a great enthusiast for state funding but there is another argument, is there not? There is a counterargument that says the voter ought to have an equal choice between different parties and those parties should have the ability to offer a choice. If they cannot do that because they simply cannot get candidates into the field or cannot get properly funded candidates, then perhaps that is unfair. I think it is an ongoing debate. I just do not happen to be a great enthusiast myself for the idea of state funding. I think it is quite an alien sort of thing to the British system.
65. LLOYD CLARKE: I know we are running out of time. Let me pass you over to David.
66. DAVID PRINCE CBE: Just one question from me about the regulatory regime. How effective do you think the Electoral Commission has been in

regulating political finance in Scotland? Has it has been sufficiently proactive? Has it overburdened the regulated community? What are your views generally?

67. MAGNUS LINKLATER: I think the Electoral Commission could be a far more vigorous body. We have quite good relations with the Electoral Commission and we can get answers to questions, but I sometimes feel they are not nearly as forceful and clear about coming forward and making it clear where they stand on regulatory issues or general issues. I think that as a body, they are quite anonymous. As I say, we deal with them and have quite good relations with them but in terms of public perception, I think if you went out into the street and said, "What do you think of the work of the Electoral Commission?" you would get some pretty blank stares. I am not saying they should be constantly in a high profile, but I think when there are important issues, we need to know where they stand and where the lines are drawn.
68. DAVID PRINCE: Can you give us any examples where you think they could have been more vigorous or could have been more forceful in the future?
69. MAGNUS LINKLATER: I think probably when it comes to some of the issues we have been talking about in terms of what the rules and regulations are governing particularly constituency funding. I think maybe before an election, it would be important to know from the Electoral Commission where they stand, what the rules are and make some observations and if they think those rules are being bent. I am trying to think. There was a particular issue where I thought they were being pretty feeble but I need to consult my political editor. If you like, I will come back and tell you about them or I will write to you and tell you, but I know there was a particular issue where we were both a bit critical, so I will raise that if you like, as further evidence; a supplementary.
70. SIR CHRISTOPHER KELLY: Thank you very much. It would be helpful if you could do that. Is there anything else we have not given you the opportunity to speak about?
71. MAGNUS LINKLATER: No; I think you have stretched the limits of my knowledge.
72. SIR CHRISTOPHER KELLY: We are very grateful to you for coming. Thank you very much indeed.

DR NAVRAJ SINGH GHALEIGH (EDINBURGH LAW SCHOOL)

73. I apologise for keeping you waiting Dr Ghaleigh. You have been kind enough to give us an opening statement which we will read into the record. Is there anything in that you particularly wanted to bring out or do you think it will come out in questions as we proceed?
74. DR NAVRAJ SINGH GHALEIGH: Why do we not take questions and see.

75. SIR CHRISTOPHER KELLY: Thank you very much. You heard the previous evidence. If I can begin with a general question before we come on to Scotland in particular, is it your view that there is a problem with large donors of sufficient seriousness to warrant taking some of the steps to deal with it that a number of people have been suggesting?
76. DR GHALEIGH: Would that be on UK basis or on a Scotland basis?
77. SIR CHRISTOPHER KELLY: On a UK basis.
78. DR GHALEIGH: I think there are categories of large donors. I would not categorise large donors by the sum they give but rather the nature of the body that is doing the giving. I think there is a categorical difference between a plc which gives £1 million, although I do not think any plc ever has done since the power has been in force, and an individual that gives a similar sum or a private company that gives a similar sum or a Trade Union that gives a similar sum. Those are all very different large donors and the legitimacy of that donation varies across each of those donors. So a plc or a Trade Union which is giving money, which is giving a large sum, is essentially aggregating a very large number of essentially small donations from its membership in the case of a Trade Union or from an affiliated Trade Union, or its shareholders in the case of a plc. With a private company, of course, that is not the case. With private companies, or with private individuals, it is essentially somebody who has one vote is giving a very large sum of money. That raises an issue of legitimacy for me. I have skimmed through some of your previous hearings and I think the issue of political equality was raised in one of your Westminster sessions. I think if that is your yardstick, then the principle of political equality is compromised by some of those donations and not by others. The fact of the quantum of the donation is not the decisive or the troubling feature for me. It is a little bit more complicated than that.
79. SIR CHRISTOPHER KELLY: Thank you. In your opening statement, you make the point about the data not being sufficiently transparent and, in particular, refer to inter-party transfers which the previous witness also mentioned. Is this a technical issue which can be dealt with relatively easily or is this a more fundamental problem?
80. DR GHALEIGH: It is certainly a technical issue. How easily it is dealt with, I am not sure. There is not just a single problem. I think I raised this in paragraph 3 of my statement. Some of the problems could be solved relatively easily and I give the example of that at footnote 5 that if there is different sort of data formatting by the Electoral Commission but, of course, that really only applies to people like me, sort of nerdy people who have the time and opportunity to download large data bases and play with them.
81. SIR CHRISTOPHER KELLY: But you are an important part of the translation of this data so that other people then have access in a way that is intelligible.

82. DR GHALEIGH: That might be so, but there is also the Electoral Commission's website; the Register of Donations, for example, which actually is a very useful tool for the general public. If that was able to distinguish between parties' incomes on a regional or sub-national basis, that would be very helpful as well and that would not be solved by my footnote 5. The question of interparty transfers is altogether more complicated. Any regulator would have to think very carefully about how (a) if they wanted to do it, and I think they should but (b) exactly how you would do it; what counts as an interparty transfer. All political parties have different internal structures, quite rightly. It would be difficult to draw up a regulatory regime for transfers of funds within a party that is able to accommodate the rather centralised structure of the Conservative Party, the highly federated structure of the Liberal Democrats, the Labour Party which is a hugely complicated or complex organism; capturing all of that is not straightforward.
83. SIR CHRISTOPHER KELLY: Could you just explain a bit more as to why having that information is important?
84. DR GHALEIGH: I think this comes back to one of the animating principles of the Neill Committee all those years ago. The necessity for transparency in party finance is not about catching people or parties out. It is really about engendering confidence in the broader process as confidence which was lost, regained and is a bit precarious right now again. When you ask the question, "what is that state of party finances in Scotland", it is a perfectly reasonable question. It is somewhat unsatisfactory that I am unable to answer that and I think nobody is able to answer that because the data simply is not available.
85. SIR CHRISTOPHER KELLY: So to be specific, you think it is important that people should be able to know how much of the money spent by political parties in Scotland is raised in Scotland. Is that the essence of that?
86. DR GHALEIGH: Where does the money come from that parties who aspire to wield public office receive; where that money comes from and it does not matter if it all comes from London, so long as the electorate is able to make a judgement on that fact. At present, it is not.
87. SIR CHRISTOPHER KELLY: Thank you.
88. DAME DENISE PLATT: I want to come back to the transparency issue in terms of the principles that should underpin policies around party finances. Transparency is the fundamental principle that is equated to it. Is it effective in Scotland? You have made some comments on that, but in general terms, is the system transparent? Do people know it exists?
89. DR GHALEIGH: I think, as the Chair said, it is not so much the general public is aware of the system but because of the system, the media, academics, political actors themselves, are able to draw down on the data and make it a matter of public saliency. In that sense, the broader party finance system, the UK level party finance system actually works quite well at that

level. The black hole that exists for Scottish parties, with the previous speaker, I would draw the distinction between the UK or essentially GB parties and the Scottish National Party. Because the Scottish National Party only raises its income from this jurisdiction and Short Money policy development grants, we know where all the money comes from; it is relatively straightforward. For all the other parties, we just do not know. That is not a criticism of the parties as such and it is perhaps not even a criticism of PPERA; the new regime came in more or less at the same time as devolution did and that sort of cross-thinking is not easily achieved. It is the matter of greater transparency on this very particular issue of devolved political parties and where the range of their funding comes from. This is not something that has been dealt with by Westminster. Of course, it is only something that Westminster can deal with. This is a reserved matter and either as a constitutional matter or as a particularly Scottish or Welsh matter, it has not arisen to date.

90. DAME DENISE PLATT: What other principles do you think we should take into account? None at all?
91. DR GHALEIGH: No. There is a myriad wish list of fine intentions that one could add to this list; political equality, fairness, broader equality, integrity. You have a list of seven, none of which anybody could ever disagree with. I am not sure we need a parade of principles. I am not sure it gets us very far.
92. DAME DENISE PLATT: It is the practicalities.
93. DR GHALEIGH: It is the implementation of principles.
94. DAME DENISE PLATT: In your evidence, you refer turnout, party membership, voter identification and other indicators of individual democratic engagement all in decline. One might expect, on that basis, affiliation type mechanisms to be emulated rather than threatened with extinction. Does that mean that your view of the current link of Trade Union, affiliated fees and their funding of the Labour Party is a relationship that does not need to be reformed but that others in fact should pursue?
95. DR GHALEIGH: I would not infer that from what I said but let me go back to the first part of it. Turnout is collapsing in all elections, in effect, in all advanced democracies and it has done since the 1950s really; 80 per cent used to be a reasonable turnout, now we are happy with 55 per cent. Party membership is in freefall; we know all of this and this has important impacts on voter volatility; basic issues about getting bodies on the streets, parties struggle; we all know this. Other than the ballot box, I do not think there is a mechanism of mass political engagement in the United Kingdom other than the affiliation mechanism which exists in the Trade Union movement. How that is to be reformed, I am not sure, but it would strike me as perverse to start with that one relationship which actually is a transmission belt for popular opinion and activism and mobilisation through to the political process. To start with that would be curious.

96. DAME DENISE PLATT: The issue is one for the party, not for national policy.
97. DR GHALEIGH: The issue is one for the Trade Union movement in negotiation with those who it seeks to affiliate with.
98. DAME DENISE PLATT: Thank you.
99. MARGARET BECKETT: One of things that we have talked about through these various hearings, as well as where funding comes from, is how it is used. In part because of some concerns at times where money comes from, the question has been raised as to whether there is a driver coming from the amount that people can spend and whether, therefore, there should also be some kind of a cap on expenditure. What is your view on that?
100. DR GHALEIGH: We have caps on expenditure.
101. MARGARET BECKETT: But a greater cap.
102. DR GHALEIGH: A lower cap you mean.
103. MARGARET BECKETT: Lower and perhaps with greater reach.
104. DR GHALEIGH: Whether on the national expenditure limit or the constituency expenditure limit, I am speaking of Westminster principally at this point, the parties have difficulty getting to the limit. The 2009 Act changed the method of accounting for constituency spending. We do not yet, or at least I do not know, I think the report is being published on Thursday from the Electoral Commission, know about the expenditure reports from the general election just past. We do not know how close the political parties got to that. I am not quite sure what the question is. Is it that there is a concern that the desire for ever-increasing expenditure is driving the process?
105. MARGARET BECKETT: That is the general kind of background then, but you are quite right in saying that since the parties do not spend up to the limits that exist now, there is a question as to whether that is a worry. A more specific issue is should there be limits outside the short or the long campaign?
106. DR GHALEIGH: I think you would have a considerable practical problem about counting money that is spent outside of the official election period. The PPERA reduced the limit to the election period I believe. That has been reversed somewhat or there has been some retrenchment on that in the 2009 Act. I would really wonder if we want to start unpicking the new arrangement on the basis of a single general election for which at the moment we have no data.
107. MARGARET BECKETT: It was clear from the previous evidence that there are people who have concerns about that balance of expenditure, a mixture of the source and where it is spent really. If the source is not in this context Scottish, then should it be spent in Scotland? Again, this balance of

Westminster funding, do you have a concern about that?

108. DR GHALEIGH: I do not really have a major concern about that so long as there is transparency on that. If you were to look at my table 1, for example, you see that the Scottish Conservatives, as far as I am able to tell, have raised a tiny amount of money in quarters 1 through 3 in 2010, £80,000. I have not put this into the evidence but myself and my assistant did a calculation and on past expenditure, we think that the Scottish Conservatives probably spent about £1.5 million in Scotland. Similarly for Labour; they raised £300,000 and they probably spent about £1.8 million and for the Liberal Democrats, it would be about £391,000. So there is a significant gap that obviously is not there for the SNP.

109. However, if there was transparency on this, the SNP should have every opportunity to say these London parties are only supported from people down south. "This is where their real interests lie and we are the party of Scotland". This, for me, should be an issue of transparency on the sort that parties can make political capital out of if they wish to. Quite how you would balance, especially in a Westminster election, I think would be impossible and if the central party wishes to fund a Herefordshire campaign; I do not see why it should not be allowed to support an Argyllshire one. For Holyrood, that might be slightly different but for me, it is a matter of the clarity of the sources ex ante and not ex post. There is no point having clarity after the election has been run.

110. LLOYD CLARKE: Could I stick with the transparency issue. Does that carry through into the funding for Scottish parties by State funding? I do not know if you heard our previous witness say that he did not feel as though it was transparent. Is that your view?

111. DR GHALEIGH: Public funding to political parties is perfectly transparent. There is no issue. It is in the register of donations. There is no issue about it.

112. LLOYD CLARKE: Yes. So you do not see an issue with transparency at all in respect of State funding?

113. DR GHALEIGH: Not at a transparency issue. We know how much the parties get from Westminster through short money or a policy development grant. We know how much they get from Holyrood through the cognate mechanism. There is no issue about acquiring that data. Now maybe that data could be slightly easier to acquire but frankly anybody who is going to the Electoral Commission website is of special interest and will be able to acquire that data.

114. LLOYD CLARKE: Okay, that is helpful that when we are talking about transparency, we are not relating to State financing.

115. DR GHALEIGH: No.

116. LLOYD CLARKE: In a more subjective question then, can State funding be justified for political parties and, of course, very specifically for Scotland, it is to enable them to perform the parliamentary duties.
117. DR GHALEIGH: I think it is not only justified, it is absolutely necessary. I think the current form we have of State funding in the United Kingdom is very, very strong and it works very well. It has been built up organically. It ranges from short money and policy development grants to free use of schools for public meetings during elections. The broadcasting arrangements are essentially a form of State funding and all of those combine to make sure that parties are able to perform to a minimum level with the support of the State but in no sense can rely on it in the way that it occurs in many Continental jurisdictions. Political parties then become essentially an adjunct of the State which is an extremely unattractive proposition.
118. Through trial and error and historical experience, I think we have stumbled across a system which works rather well. At the margins, there may be difficulties and one of those margins I think is that in the Holyrood Parliament, there is no policy development grant money, which is an oddity to me. It is not something that arose in the Macintosh Review on Holyrood affairs of a couple of years ago but given the utility of policy development grant money to parties in Westminster, it strikes me as sub-optimal that it is not present in Holyrood. But the broader system, I think, works well. It does not work well to those parties which lack representation because most of it comes from a function of electoral success and certainly under the first past the post system, that is difficult for smaller parties. In Holyrood, we have had greater success in that respect, successfully getting minor parties into Parliament but they were almost entirely wiped out in 2007, but previously, they were present.
119. LLOYD CLARKE: That was going to be the second question. You have almost answered it because that was about fairness. Is there a fairness issue in terms of the allocation of public funding?
120. DR GHALEIGH: I think you would have to look at each element of public funding individually and so short money strikes me as a fairly uncontroversial process, both here and down south. I have said what I have said about policy development grants. The access to services in election periods strikes me as absolutely essential and a very cost effective way I should say of supporting political parties in the process. I think our broadcasting regime is extremely strong although I have my reservations about the Supreme Court's decision on third party political advertising but that is not for you, I suppose. I think by and large, we have a fair system. More support for minor parties I think is something that the United Kingdom is going to have to address if we do move towards a system of voting which is not first past the post because inevitably it raises a different set of problems.
121. LLOYD CLARKE: Okay. Final question from me is in respect of third parties. Broad question. Do you have any concern about third party activities? One of the suggestions, of course, is if you put a cap on donations, is there likely to be a greater diversion of monies from individual parties into

third party activity?

122. DR GHALEIGH: By third parties, just to make sure we are on the same page here, you do not mean parties like we used to talk about the Liberal Democrats as the third parties?

123. LLOYD CLARKE: No, no, no.

124. DR GHALEIGH: You mean non-political parties?

125. LLOYD CLARKE: Yes, non-political parties,.

126. DR GHALEIGH: Yes, we have a system of politics in the United Kingdom which is very strongly party focused, always has been. I think that has great merits in that it channels political debates in a way that is accountable, coherent, operates on a fairly rational and functional basis. If one wants to look at the polar opposite of that, of course, if one looks at the United States where political parties fade away in between elections, then third parties come to the fore and are extremely powerful and this, of course, is one of the risks that one runs of donation caps and that donation caps, especially if they are say £50,000 or so, where does this money go? It will be channelled through third parties. The Trade Union movement raises about £20 million a year in political funds. If it cannot give it through the current arrangements to the Labour Party - it is under a legal obligation to its members to use those monies only in a particular way - it will use those to support say particular candidates or below the disclosure thresholds or particular issues which leads to a fragmentation of the process which I think is really rather undesirable and it will be matched by counterparties on all sides. So that is an exercise in futurology.

127. Where we have seen significant third party activity in the United Kingdom is in the context of referendums and if we are to see further referendums on electoral reform, on Scottish independence or some form of independence, then I think we can expect to see third parties who choose not to fall within the yes or the no campaign coming to the fore again.

128. LLOYD CLARKE: Okay, thank you very much.

129. SIR CHRISTOPHER KELLY: I want to come in one moment to the current regulatory framework but can I just ask you a follow-up question from what you were saying previously to Lloyd. You were suggesting, I think, if I heard you correctly, that State funding was enabling the parties to perform to a minimum level. Can you give us a sense of what you meant by a minimum level? How would you judge it; whose criteria?

130. DR GHALEIGH: What State funding does is it raises all boats. It allows the smaller parties or the parties that are less able to draw on large funds either from individuals or corporations or trade unions, to engage in a minimum level of political activity, whether that is parliamentary or extra-parliamentary. That introduces a degree of fairness in the system which I

think is absolutely essential.

131. SIR CHRISTOPHER KELLY: And that would cover the funding of policy development, for example?
132. DR GHALEIGH: It would certainly include policy development, yes.
133. SIR CHRISTOPHER KELLY: So they can punch their weight in the discussion and help with the agenda?
134. DR GHALEIGH: So that they can at least, at some very minimum level, scrutinise government on something approaching an equal footing. Of course, policy development grant or short money does not allow you to match the civil service but it is a reasonable sum of money that allows coherent opposition to be formed as long as it is used for opposition by appropriate purposes. It is not always.
135. SIR CHRISTOPHER KELLY: Thank you. Can I come then to my question. Do you see any particular problems in enforcing the current regulatory framework in Scotland?
136. DR GHALEIGH: One of the pinch points of the current regime relating to enforcement over the last six or eight years is that we have had a series of high profile, I will call them scandals for want of a better word, and we have a very complex regulatory regime. In none of the major scandals or episodes has there been a prosecution and there have not been prosecutions for a variety of reasons. In some cases, it was because an antiquated statute imposed an evidential burden that was impossible to meet. In other cases, decisions were taken on rather inchoate public policy grounds that prosecution was not suitable or appropriate. I think that in the eyes of some in the political community, that has raised the suspicion that the enforcement procedures are either inadequate or the will does not exist to take on the larger political parties. Of course, the smaller political parties have not been so fortunate. There have been successful actions against UKEP, the BNP, against individual candidates. There have been a good number of prosecutions but none of the high profile episodes have resulted in convictions or even prosecutions and I think that that is slightly troubling. One of your advisors to this Committee, Justin Fisher, takes the view that these are non-issues. If there is no prosecution, if there is no conviction, then there is no scandal. I think that is slightly formalistic.
137. SIR CHRISTOPHER KELLY: Thank you. You have very nicely anticipated a question I was going to ask you in this general area because what you have said has chimed with what previous witnesses have told us in previous hearings. Just on that, do you see the problem as something substantial or do you think it is an accumulation of caution, doubt, or lack of clarity at each level on the long chain that enforcement action has to go through?

138. DR GHALEIGH: Some of it is due to the failings in the statutory regime so the 1925 Act, for example, was the only tool available to deal with loans for peerages and perhaps that is an area for reform. Maybe this is something that a more substantial Bribery Act could deal with but the Bribery Act has been kicking around for almost a decade and for other reasons has not found its final form.

139. I think there is also an institutional problem in that the regulating body, the Electoral Commission, is also the body that has to engage with political parties. It has to register their donations. It has to train them to some extent. It has to make them aware of the regulatory regime -- they have spoken to you, I know -- and I would have thought that this puts them in a rather invidious position, that they on the one hand are required to maintain cordial relations with their regulated community and, on the other, they have the whip hand in advising on prosecutions in some cases. So this is a further structural difficulty, I think. I am not sure if that fully answers all aspects of your questions.

140. SIR CHRISTOPHER KELLY: No, that is helpful and you have described what could be a sort of inherent structural problem but you were here, I think, when I asked the previous witness how effective he thought the Electoral Commission had been here in Scotland enforcing the rules and he suggested they could have been more vigorous and more forceful. I think those were the words he used. Does that square with your perception?

141. DR GHALEIGH: I am not sure vigour and force are what the Electoral Commission lacks. In my evidence, I have given a reference to the recent finding of the Tribunal on the FOI request of an individual in Scotland in respect of the Wendy Alexander affair which found that indeed the Commission's reasoning for recommending the non-prosecution was not adequate. It upheld the reasoning on some grounds but it did not on others. So the Commission certainly could, in that particular instance, have taken a less obscure position. But of course even though the Act is a decade old, we are still in a learning phase. I believe that the Alexander affair was the first time the Electoral Commission in Scotland had had to advise the Procurator Fiscal on such a high profile issue and if it did not measure up to the higher standards as the Court has found, I do not think that that is a structural issue, that is an issue of learning-by-doing very substantially.

142. SIR CHRISTOPHER KELLY: Thank you very much. Dr Ghaleigh, I want to read the transcript of your evidence with great care because you have said a lot of very interesting things but a lot of it has been to the effect that things are all right or it is too soon to change. So can I ask you the question again that I asked you at the beginning which is, is there sufficient of a problem for this Committee to be thinking of making radical recommendations?

DR GHALEIGH: I was not aware this was a radical Committee.

143. If the question is, is this the opportune time to make radical reform to the system of party finance in the United Kingdom and/or Scotland, I would say no. Radical reform is certainly not what is needed. Allow me to give you a very short anecdote.
144. SIR CHRISTOPHER KELLY: Please.
145. DR GHALEIGH: In my time as a scholar, I go to endless conferences and the most recent one was earlier in the year and it was a conference on party finance and electoral issues. There were people from across the Council of Europe area actually but also Japan, India and a couple of other Asian countries. The overwhelming view of scholars and practitioners at that meeting was that getting up to the Council of Europe standards would be a fair achievement for most democratic policies. These are fairly advanced democratic policies and, of course, the Council of Europe standards are very *de minimis*. Getting up to the UK standards would be beyond the reach of almost any other democratic policy. We have an extraordinarily high standard of party finance in this country. There may be difficulties at the margin but this is not a system which is in any sense broken as it was when this Committee last undertook a review of this subject matter.
146. SIR CHRISTOPHER KELLY: In relation to caps on donations with all the consequences that brings?
147. DR GHALEIGH: I simply do not see the case.
148. SIR CHRISTOPHER KELLY: Okay, thank you. Dr Ghaleigh, is there anything you have not had the opportunity to say that you would like to say to us?
149. DR GHALEIGH: No, thank you.
150. SIR CHRISTOPHER KELLY: Thank you very much indeed for coming.
151. DR GHALEIGH: Thank you.

DAVID McLETCHE MSP AND MARK MCINNES (SCOTTISH CONSERVATIVES)

152. SIR CHRISTOPHER KELLY: We will not have a break. We will carry straight on.
153. Welcome. Thank you very much for coming on this unpleasant morning. Would you like to introduce yourself so we are clear?
154. DAVID McLETCHE: Yes, I am David McLetchie, a member of the Scottish Parliament for the Edinburgh Pentlands constituency and I am the Chief Whip and Business Manager for the Conservative group in Parliament.

155. MARK MCINNES: I am Mark McInnes, the Director of the party in Scotland.
156. SIR CHRISOPHER KELLY: Thank you very much. On the whole we do not invite people to make long opening statements, but if there are things you would like to say by way of introduction I am happy to hear them, or we can go straight into questioning.
157. DAVID MCLETCHE: No, by all means, just go straight into questions.
158. SIR CHRISTOPHER KELLY: Thank you very much. Can I begin with a straightforward question, and I am talking generally about the UK, we will come on to Scotland in a moment, is there in your view an issue of substance about the funding of political parties, or is there simply a problem of perception?
159. DAVID MCLETCHE: I think there is an issue of substance. One of the major concerns is how to encourage the public as a whole to support political parties with their donations and membership subscriptions, and how we do that I think is a challenge because there is an aversion on my part, and among my colleagues in the Conservative Party to the idea of direct public funding for political parties for campaigning purposes. If one rules that out, then we have to find ways of encouraging people to support the political party of their choice through their own donations. We have seen in recent times in the United States and the recent presidential election is a good example of how considerable sums of money were raised from a very large donor base in support of various presidential candidates, and if we could find ways to encourage and facilitate that here in terms of support for our political parties I think that would be a major step forward.
160. SIR CHRISTOPHER KELLY: You say "if". Do you think that is a feasible proposition?
161. DAVID MCLETCHE: One of the things that might be looked at, for example, is to make donations to political parties tax deductible in the same way that donations to charities are. This would add value, and also demonstrate that supporting the democratic process in our country is something that is worthy of notice through the taxation system, in the same way that the taxation system encourages people to support charitable organisations and charitable works. I think sustaining our democratic system is a very worthy public benefit purpose and should be encouraged.
162. SIR CHRISTOPHER KELLY: So even though, in economic terms, tax relief on donations to political parties is the same as direct state funding, you would nevertheless be in favour of it?
163. DAVID MCLETCHE: Well it is the leverage element, is it not, because tax relief would only play a small part. The principal contribution would still come from the donor. More important than the element of public subvention through the tax system would be the very clear signal it would give that

politics and our democracy is worthy of support.

164. SIR CHRISTOPHER KELLY: At least one of our previous witnesses in other hearings has made very similar remarks as you have in terms of justifying tax relief, and has then gone on to remark that actually it would not make a great deal of difference in practice. Do you think that, if there was tax relief for donations, that your party would be able to use that as a way of levering in significant extra funds?
165. DAVID MCLETCHE: I think so because if you look at the appeals that are done by major charities, they always, in appealing for donations, focus very heavily on the benefit that comes from a covenanted gift or gift aid, so if for marketing purposes the organisations that are expert in raising money in that way think it is a useful lever to facilitate and encourage support, there is no reason to think that political parties would be any less adept in using that particular sales pitch.
166. SIR CHRISTOPHER KELLY: Just for completeness, if you were giving tax relief, would you also think it right to give a tax credit for non-taxpayers who wanted to make donations, for reasons of symmetry and fairness?
167. DAVID MCLETCHE: I have not thought that one through, so I would have to reserve my position on that. The only other thing I would say about tax relief is that clearly it is something that should be introduced with limitations. If the object of the exercise, for example, was to encourage small donations and support from a wide group of people, you could put some kind of cap on relief of say, up to £100. Some people might object to substantial donors obtaining substantial amounts of relief, but for a whole array of small donations from the general public, I do not think that would be unreasonable.
168. SIR CHRISTOPHER KELLY: The question I asked you was about whether you thought there were problems with the system, and you went straight into the participation and engagement issue, which of course I recognise. Does that imply that you do not think there is a big donor problem as some people believe, and, if so, is that because you have a particular Scottish perspective and there appear to be less large donors in Scotland than elsewhere?
169. DAVID MCLETCHE: I just think that we are moving away from that age. The changes that have been made and the changes that are under discussion are very much, it seems to me, and rightly so, about putting caps on donations from individuals so that one moves away from dependence on very large donations from a handful of people. Accordingly if one accepts in principle that general trend of policy, which I think is the right thing to do, and is one of the elements in terms of restoring faith in politics and political parties and the democratic process, then the corollary for that is how do we fund parties by other means, and that is where we come to this whole issue about expanding the donor base, which is certainly what we endeavour to do as a political party within the existing rules. The public policy issue is whether there are any changes in the law such as tax rules, as we have just

discussed, which could facilitate that for the benefit of all parties, not just the Conservative Party.

170. SIR CHRISTOPHER KELLY: In your view, are there any particularly Scottish issues about the funding of political parties?
171. DAVID MCLECHIE: The fact that we have a general election one year after another, does put enormous pressure on fundraising although we need to separate national fundraising from the local fundraising. There is an expectation in the Conservative Party that local parties will be self sufficient in terms of their candidates' campaigns, and it is the uniqueness of having two general elections within a short period which puts a lot of extra pressure on those local parties in raising money. At a national level obviously it makes it more difficult to raise significant money as well but it is at the local level that two general elections does put extra pressure on what are tight local budgets, as you can see from the accounts that went into the Electoral Commission.
172. SIR CHRISTOPHER KELLY: So where does that lead you?
173. MARK MCINNES: It leads you to a position where expenditure before campaigns is probably lower in the run-up to campaigns, and the amount of money available to candidates in the period up until the short campaign is probably lower than it would be if you had a two-year gap for local constituency parties to recover in their fundraising from having fought a general election.
174. SIR CHRISTOPHER KELLY: So the point, just to be clear, in terms of policy implications of what you are saying, is that the timing of elections needs to be addressed rather than the methods of funding parties?
175. MARK MCINNES: No, I just think it creates extra pressure in Scotland on fundraising. That is not a reason to change the dates of elections, but it is a different dynamic in Scotland as to the rest of the UK.
176. SIR CHRISTOPHER KELLY: Is there anything else? Some of the previous witnesses before you arrived were suggesting that there was an issue about the transparency of transfers between national parties and Scottish parties.
177. MARK MCINNES: We regard ourselves as part of the national party, which is the United Kingdom party, so I do not actually see that is an issue for parties that are constituted on a United Kingdom basis; they are entitled to support their operations in any part of the United Kingdom in which they contest seats.
178. SIR CHRISTOPHER KELLY: Do you recognise what I have just said as an issue, as having been raised before?

179. MARK MCINNES: I am sure it has been raised before, but that comes from a particular view of how parties should be organised constitutionally and legally. We are a United Kingdom party and we have an accounting system that follows these rules on that basis. We are therefore entitled to spend money wherever we choose in the United Kingdom for campaigning purposes.
180. SIR CHRISTOPHER KELLY: Thank you.
181. DAME DENISE PLATT: I want to look at the principles that underpin our political party funding systems. The current system is based on transparency, and complete transparency. How effective do you think that has been?
182. MARK MCINNES: I think the other thing that is helpful in terms of transparency in Scotland is that there is a great deal of media interest always on donations and quarterly accounts, so the fact that there is a strong Scottish media means there is scrutiny whenever there is a quarterly report on donations from Scotland, and that is a helpful thing. The interesting thing is that greater transparency has not affected our fundraising ability. Donors are happy with that transparency and for it to be known that they have given to political parties, so there has not been any drop-off from that transparency, which I think is a positive thing. But we would all wish to reach a situation where we were relying on far more smaller donations, rather than significant donations.
183. DAME DENISE PLATT: The scrutiny you get from the media, is that overblown, just right, distorted, correct, accurate?
184. MARK MCINNES: Well it is correct in that it is factual. They will have a subjective view on that, and as a political party we accept that, so I do not think that is a particularly bad thing. I think it is a healthy thing and an added element in Scotland is the closer scrutiny than maybe there would be at a UK level.
185. DAME DENISE PLATT: Yes, and it is more locally-informed scrutiny, is what you are saying?
186. MARK MCINNES: Yes.
187. DAME DENISE PLATT: What other principles do you think we should use to underpin our funding system?
188. MARK MCINNES: I think, as David has said, incentives and encouragement for all political parties is where they all want to go, which is increasing their donor base and turning supporters into donors. Over the last 50 years all political parties have seen a fall in membership and therefore income is far more reliant on donations for specific election campaigns. As the electorate is more informed and concentrated on specific election

campaigns, I think that is a healthy sign of democracy.

189. DAME DENISE PLATT: One of the principles that has been suggested to us is that the system should develop a level playing field between parties; is that a view you share?
190. DAVID MCLETCHE: Not particularly. At the end of the day the amount that a party collects is a reflection of its popular support, so I am not sure why one would want to handicap a party that is popular and successful. I mean it is a competition, it is a competition for power, to win seats, it is a competition to win public support, and from that to win funds. The playing field is in part level because of the expenditure limits which is traditionally the way it has been done, by setting limits on what can be expended by political parties in local and national campaigns. That strikes me as reasonable and fair, but to deal with it the other way around is not reasonable, because you would be penalising the successful.
191. DAME DENISE PLATT: Does that lead you to say there should not be caps on donations?
192. DAVID MCLETCHE: No, the Conservative party nationally has proposed a suggestion that there should be a £50,000 cap on contributions. As I understand it, that is under discussion at a higher level than I operate at, and may or may not come into law. I think the motivation behind that is reasonable because I think it is fair to say that there has been public concern over a number of years about the sizable influence that a small number of individuals have wielded in all political parties. There is a sense that is not a healthy state of affairs and therefore there should be some limitation which is why we have proposed it and that is why it is under discussion.
193. DAME DENISE PLATT: Would there be any particular effects on the Scottish part of the party if donation caps were introduced?
194. MARK MCINNES: Looking over the last three or four years, a figure of about £50,000 has been the maximum from any one individual, on an annual basis, so it would not have a significant effect, other than encouraging us to do what we are already doing, and that is seeking to widen the net of financial support.
195. DAME DENISE PLATT: If the cap was lower than £50,000?
196. MARK MCINNES: We would have to try and do the same thing.
197. DAME DENISE PLATT: You would just have to try harder.
198. MARK MCINNES: Exactly.
199. DAME DENISE PLATT: You commented that you were a national party, do you distinguish at all between what you fundraise locally and what

you receive nationally?

200. DAVID MCLETCHE: Each local constituency association is autonomous. It is a part of a kind of federal organisation and affiliated to the national party. Each association is set the task of raising funds locally to meet the local aspects of campaigns, whether these be for the Council or the Scottish Parliament or the elections to the House of Commons. On top of that there are nationally-funded and directed campaigns associated with all these elections, where we would seek to raise funds from our donor base to fund that level of activity. These can be quite considerable in say a Scottish Parliament election. You might be expending, during the short campaign, about £10,000-£11,000 in a constituency, and you obviously multiply that by the number of constituencies where you are competitive. In some you will not spend that amount, in others you will spend up to the hilt.
201. The national campaign is more difficult to break down because there are certain elements in Scotland of a national campaign where you would have Scotland-only publicity, whether it be a piece of literature or a poster. However there are other aspects, particularly in a Westminster election, where the issues that are being illustrated through that particularly campaigning medium are UK issues and that would be dealt with through the UK campaign. We have just seen a very good example of that in the recent general election here in Scotland.
202. DAME DENISE PLATT: So, in general terms, where would most of your revenue be generated, in Scotland or nationally?
203. DAVID MCLETCHE: It is generated in Scotland.
204. MARK MCINNES: It is generated in Scotland. I think the simple answer is the Conservative Party raises more in Scotland than is expended in Scotland.
205. SIR CHRISTOPHER KELLY: If someone was interested in investigating that, would they be able to find the figures to demonstrate it?
206. MARK MCINNES: They would be able to look at where the donors live and where the income for the Conservative Party comes from.
207. DAME DENISE PLATT: We have to tell you that there is some shaking heads behind you. Why might there be shaking heads?
208. MARK MCINNES: We are a UK party, so inevitably there will be people, for example, who have a home in Scotland and a home in London and donate to the Scottish party through their London address. There are elements of collaboration between the UK and Scottish party in elections, as David has alluded to. So, for example, expenditure on national poster sites will be part of the UK budget. So, inevitably with one accounting unit where we will be working very closely together, it is not clear to the public. However we are quite clear, and obviously we have to draw up budgets each year, that

we operate in a position where expenditure by the Conservative Party in Scotland is raised in Scotland.

209. DAME DENISE PLATT: Can you tell us what role do the Scottish trade unions play in financing politics in Scotland?
210. DAVID MCLETTCHIE: They do not play any role in funding us unfortunately; you had better ask other parties for a more definitive view.
211. MARK MCINNES: As far as we are concerned, no role, but at the elections there is a significant trade union election campaign.
212. DAME DENISE PLATT: What is your view of that?
213. MARK MCINNES: Our view is that trade unions may do as they wish and support or inform their members and the electorate of any concerns they have about any party. At the same time there needs to be the same transparency applied to that as is applied to all political parties, so that there is a level playing field in that respect.
214. MARGARET BECKETT: I want to look at the expenditure side, rather than the donation side, and the phrase that has been used to us is that there is, or has been on occasion in the past, an arms race with regard to political spending. Would you say that is true in Scotland?
215. DAVID MCLETTCHIE: No, because we cannot afford it. This comes back to the issue of frequency of elections. I would say that, in terms of the national cap on Scottish Parliament elections, no party has come close to spending that and part of the reason for that is the frequency of elections, and you can only go to the well so often in terms of your donors. Accordingly it imposes ceilings of its own on what you can spend. I do not think it is often appreciated by people who have not directly observed Scottish Parliament elections, just how intense these elections are and how competitive they are, and the amount of effort that goes into them. They are as significant in Scotland as a Westminster election; there is no doubt about that. We are about to have our fourth Scottish Parliament election next year and in that period we will have had UK three general elections as well so that is the equivalent of seven general elections in twelve years. You then add in the European Parliament elections, and we have had three elections to our councils as well in that period.

The council elections to date have been coincidental with the Scottish Parliament elections, although now about to be separated, so that will be another factor that will come in for 2012. So the consequence of that, for all of us involved in politics in Scotland, is that at the national level the limit cannot be achieved as the donor base is not big enough. I think there probably is more of an issue in terms of the expenditure limits at the constituency level.

216. MARK MCINNES: I think, because at a Scottish parliamentary election you have constituency, regional and national election expenses, as David

said, none of us come particularly close to our overall expenditure limits. At constituency level though I think it is true that the limit currently, on the constituency campaigns, is tighter, and I think that is a significant issue in competitive rural Scottish constituencies. For example postage costs have gone up significantly over the last 10 years, since I was a constituency agent, whilst at the same time election expenses have not gone up at constituency level at the same rate so you do find that there is an enforced cap, which is becoming ever more difficult to observe at constituency level. Where you have candidates who are competitive, you can very easily find that a basic literature pack is going to take up 70% of their total expenditure so it is more of an issue for them. I think parties are less able to fight the constituency campaigns they could have 15 or 20 years ago. For example 15 or 20 years ago, in a large rural constituency, parties would have several campaign offices across the constituency, which encouraged people to come in and help, and parties were seen as being active. Now, that is very difficult to achieve because of the other costs. Accordingly there is a lot of pressure at constituency level, but at national and regional level the expenditure levels are well within the total limit.

217. SIR CHRISTOPHER KELLY: When you say that, are you talking about Holyrood, or you are talking about both Holyrood and Westminster?

218. MARK MCINNES: It is the same, as the limits are the same for both.

219. MARGARET BECKETT: That is interesting, because we have had various people say to us that maybe one of the things that would help to both create greater stability and restore public trust in the context of a perceived wider electoral arms race, would be tightening expenditure levels. But, particularly at local level, you certainly would not favour that, and at national level you are basically saying it is irrelevant.

220. MARK MCINNES: In terms of the public view, then obviously the two things conflict because if they get a letter from David Cameron, they do not know that is not part of the local expense limit but part of a national campaign. So there is not an understanding at local level. However if we keep going the way we are going, in 10 years time, other than candidates being able to knock on doors, there is not going to be an awful lot more they can actually do in a constituency because the local constituency limits are so low. At national level the limits could be reduced, but it would be pretty meaningless when we are not getting close to them in Scotland at Scottish parliamentary elections.

221. DAME DENISE PLATT: Should they be rebalanced? Should there be a bigger limit locally and then a smaller one nationally?

222. MARK MCINNES: That would make sense when there is a significant overhead in the national expenses that is not being used and people are finding fighting good local campaigns increasingly difficult.

223. MARGARET BECKETT: There also the slightly separate question of how the limit presently apply and the issue of applying limits in the campaign period, however defined.
224. MARK MCINNES: Short or long, yes.
225. MARGARET BECKETT: I have two questions. What would be your reaction to a limit on all expenditure, not just specifically geared to campaigns? Is there a Scottish angle to that especially, particularly because, as you say yourselves, you have the Holyrood elections, you have the general elections to Westminster, you have the European elections, you have local council elections?
226. MARK MCINNES: I think in Scotland it is dictated by the income stream. Because of the number of elections we have most of our activity, and I am sure it is true for the other parties, is spent during the regulated periods, whether that is long or short spend, or one period, whatever that ends up to be. So I am certainly not aware of --
227. MARGARET BECKETT: You are basically always in a regulated period.
228. MARK MCINNES: Exactly, and that six-month gap between the end of one election and another is about recovery and pretty cheap campaigning, rather than lots of expenditure at that level.
229. SIR CHRISTOPHER KELLY: I think the question that was interesting was whether, with all these different limits on all these different elections, bearing in mind that quite a lot of your people are volunteers, whether there is any scope for simplification.
230. MARK MCINNES: Although it is not going to be applied to the coming Scottish parliamentary elections, I would have supported personally what the Electoral Commission recommended, which is one period from the period of the beginning of the year until polling day, rather than the long and short expense period, because I do think, for volunteers, that creates scope for mistakes to be made, for Westminster and Scottish parliamentary elections.
231. LLOYD CLARKE: Can I just return to state funding, but slightly in a different guise from that which you spoke about in your opening remarks with the chairman, in terms of the money that you receive from the corporate body, can I ask, how much for you is that of your annual spending, how much does that cover about as a percentage?
232. DAVID MCLETCHIE: That money is of course ring-fenced for the purposes of supporting the parliamentary group in the Scottish Parliament. From the Conservative perspective that funding worked out last year at £114,000, which is a per capita grant reflecting the number of members that we have in the Parliament. The funding is ring-fenced and is directed towards the employment of staff who support our members in their

parliamentary duties. So it is notionally paid to the party, but effectively is dedicated to the employment of staff who support the members.

233. LLOYD CLARKE: Then you would draw on that, do you?

234. DAVID MCLETCHE: The party employs these staff members and effectively it covers the cost of their salaries and their overheads. That is separately accounted for and audited and certificates provided to the Parliament. So it is never mixed in with the general funds in that regard.

235. LLOYD CLARKE: Is that sufficient then for you, because the notion is that is there to help you to perform your parliamentary duties?

236. DAVID MCLETCHE: No, it does not, because in addition to the staff who are employed by utilisation of the Scottish Parliament short money payment, we also employ another half dozen members of staff who are employed through the pooling of allowances by members. We have a common employment pool, as do other parties in the Parliament, and our members will transfer to that common employment fund an annual contribution. In our case it is £9,000 per member. That goes into a common pool and we use that to employ about half a dozen members of staff who are there to provide research support to our members in fulfilling their parliamentary duties. You will appreciate that all our members will have some kind of specialist roles as spokesman on this or a shadow member for that, and so the idea of the pooling of the allowances is to provide a specialist research team who can support them in these duties as spokesmen in the Parliament. Now of course what that then means, from the standpoint of the MSP, is that the MSP is having to make a contribution into that pool for that purpose at the expense of the staff that the member would employ in his or her constituency or region to deal with constituency-related matters.

237. LLOYD CLARKE: But at least that is a matter of choice for yourself as to how you actually spend those funds.

238. DAVID MCLETCHE: It is a matter of choice for us, but all I would say is that every party needs to have a core of research staff to support their MSPs as spokesmen/women in the same way that the governing parties have the support of the civil service. You have to have some balancing of the playing field which was the whole idea behind short money when it was created 30-odd years ago at Westminster. So I think it is a fair principle and all I would say is that the equivalent in Scotland does not sustain the minimum support that is required by a group of members, and the members therefore have to collectively supplement their short money payment in order to provide them with the kind of research support that they need to do their job.

239. LLOYD CLARKE: You have said it is a fair principle, is it a fair process in respect of the allocation of that pool of money?

240. DAVID MCLETCHE: Well it is fair in the sense that money follows success, so the larger group you have, the more money you get, and I think that is reasonable. For any group to function across the range of the parliamentary responsibilities it has, and the subject matters that are required, you need a certain core level of staff to assist you to do that job. However beyond that core level the more members you have the more they will need support and assistance in their duties.
241. LLOYD CLARKE: So there is a clarity and a transparency of the process, and I suppose there is an encouragement to you as political parties to go out and do your best, because you know it is actually going to directly impact on the funds that then become available to you.
242. DAVID MCLETCHE: Yes, it but is the funds needed to do the parliamentary job. I mean if you had 50 members, as opposed to 40 members, you would not necessarily quid quo pro need a proportionate increase in the number of your researchers.
243. LLOYD CLARKE: How did the public react to it when public funding was made so explicit?
244. DAVID MCLETCHE: I did not notice any particularly adverse reaction, I think the principles behind short money and the pooling principle that we utilise are well understood. Anyone who has been involved in politics knows that there is a huge difference between political research and objective research. The House of Commons has a library facility and we have a research information service, a very good one in the Scottish Parliament known as SPICe, and they provide a lot of briefing, very good material for members to assist them in debates but it is not political research, and you need to have people who will do that, and who are more specifically directed by you and focused in particular areas, as opposed to a research organisation like the House of Commons library or SPICe, which produces lots of very good material, but does so for wider public consumption and information.
245. LLOYD CLARKE: With the exception being that of the issue of tax deduction, etc, you were very clear in your opening statement about your opposition to funding for campaigning. Is that a pragmatic one, because the timing is not right, or is your opposition to that one of principle?
246. DAVID MCLETCHE: In my case it is one of principle, I have never supported state funding of political parties for campaigning purposes.
247. SIR CHRISTOPHER KELLY: What is different about Short money that makes that acceptable to you then?
248. DAVID MCLETCHE: Because Short money is about rebalancing and is directed towards providing specific support for members once they are elected to Parliament to fulfil their duties; it is not money expended or given to political parties to get them there in the first place. Short money therefore

exists, and of course it is only applied to opposition parties, not to government parties to provide opposition parties with the resources and the backup needed to fulfil their job of holding the government to account.

249. SIR CHRISTOPHER KELLY: So there is a distinction made clearly there between campaigning and other resources.
250. DAVID MCLETCHE: Absolutely, yes.
251. SIR CHRISTOPHER KELLY: Does it follow from that the auditing that goes on of Short money is in your view an essential part of the process, and not an unnecessary exercise?
252. DAVID MCLETCHE: It is an essential part of the process, because it is ring-fenced and dedicated to a particular purpose, so I think it is incumbent on us as parties to show that it is properly applied for that purpose. We have no problem with it being audited and have had no problem in the Scottish Parliament with any of our audits since the system was introduced.
253. LLOYD CLARKE: A final question on third parties. In respect of third-party organisations, and a presumption from me in asking this question, but put me right if I am wrong, that your political party works with third parties. A suggestion put to us that if there are controls or caps on donations or expenditure, then monies will be diverted and funnelled into supporting third parties. Do you agree with that as a proposition and is it an appropriate way to use such funding?
254. MARK MCINNES: I think that is why the transparency required for third parties is so essential, so that, if that were to happen, then a body such as yours could then consider what caps could then be applied to third-party expenditure as well, and the closer control of third-party expenditure.
255. LLOYD CLARKE: I think I am right in saying that only about 12 or 13 individual bodies registered with the Electoral Commission that they were third parties, I think I have that right from previous evidence, so it seems that either it is at the margins at the moment, is it, or is it that people are not registering when they should do?
256. MARK MCINNES: It is not a significant issue at the moment in Scottish politics.
257. DAVID PRINCE: I just wanted to ask you about the regulatory framework and the enforcement of it by the Electoral Commission. First of all, do you think the regulatory framework is about right in terms of how it bears on you and your officers and your volunteers and so on, is it proportionate, are there particular concerns that you face at the receiving end of it?
258. MARK MCINNES: We have in Scotland a Political Parties Panel, which meets with the Electoral Commission on a regular basis, and there is an

understanding from the Electoral Commission, over that period of time as we have built a relationship, that whilst we are all professionals employed by our parties, the army out there are volunteers. That is why all materials and information available must keep that in mind at all times and all assumptions must recognise that we are dealing with volunteers who are giving up their spare time to play their part in the democratic system in the country.

259. I think the issue with the Electoral Commission is to ensure it is resourced to a level that, when matters are referred, it can react very quickly to, and come to a conclusion very quickly. We have seen and I mentioned this last time I gave evidence a new ploy of all political parties was, if you were not happy about something you refer it to the Electoral Commission. There would then be a piece in the paper the next day saying it had been referred to the Electoral Commission, and there would be an assumption that there was something awful happening. Accordingly it is incumbent in that situation that the Electoral Commission is resourced so that it can investigate issues quickly and come back with a response very quickly. Political parties in Scotland have a positive relationship with the Electoral Commission and respect their views on any issues that occur.

260. DAVID PRINCE: When you talk about the issues that have been referred, is it suspicions that things are wrong? that they need to turn around complaints more quickly? Or are you also saying, if they could give you more guidance sooner around some of these complex issues?

261. MARK MCINNES: No, I think the guidance given is fine, but what changed 10 years ago is, before, if someone wanted to make a complaint about another candidate, they had to go to the police. They were quite unlikely to do that, and the police also did not particularly enjoy becoming involved in political argument. Thus the Electoral Commission now deals with complaints and I think we need to ensure it is able to deal with them quickly.

262. DAVID PRINCE: Subject to that, you are not seeing any other problems now in enforcing the current system in Scotland, looking right across the piece, not just your own experience, but looking across the political scene, do you see any problems of enforcement?

263. MARK MCINNES: I cannot think of any case where the Electoral Commission has failed in its duties and responsibilities.

264. DAVID PRINCE: Again, I think you alluded to this earlier, about the relationship that you had. You seem to be saying that now, through the learning curve, the present system has been pretty effectively enforced by the Electoral Commission; that is your view?

265. MARK MCINNES: I think so, yes.

266. DAVID PRINCE: Thank you.

267. SIR CHRISOPHER KELLY: With apologies, can I return to this point about the distinction between state funding that is okay and state funding that is not okay, because, not only do you accept Short funding, you also accept free postage, free air time, as a party, on the television, free use of public buildings, and so on, all of which explicitly are for campaigning purposes. At first glance I was quite attracted by your distinction between money, which is to support people in questioning and challenging, and money for campaigning. But in thinking about it, it is not quite as clear-cut as you might have suggested, or have I misunderstood?
268. DAVID MCLETCHE: No, you are right. The free post for the delivery of an election address is clearly a public expense, which is directed to a campaigning purpose, as opposed to a research process. However, that goes back to the element of fairness because that facility allows everyone who has been validly nominated as a candidate an opportunity to get at least one communication to every elector or every household in a constituency. I am not sure what the genesis of the free post was. It has been around as long as I have in politics and who thought of that I do not know, or why it was thought of I do not know, but it has been an integral part of the system, and I can see how it provides an element of a level playing field among candidates by giving them the ability to at least give something to every voter before they go and vote. I do not have any particular problem with that.
269. I suppose the issue with air time, because nobody can buy air time on the BBC is that it is a public service, part of the public service obligation of the BBC and ITV and it is allocated according to the parties proportionately. But, yes, it does have an exclusively campaigning purpose. I think however our system of allowing parties a limited amount of air time to put across their own unadulterated messages, is probably preferable to a system where air time was purchased by political parties.
270. SIR CHRISTOPHER KELLY: Yes, and the reason I ask this question is because those who have given evidence to us and wanted to make a case in support of state funding have made the obvious point that political parties are an essential part of the way that the democratic system works in this country. They are the means by which people can make choices, and that purpose is just as deserving of state support as all the other enormous amounts of money that are spent in maintaining the electoral system.
271. DAVID MCLETCHE: I can see that, but of course it is a bit like football in terms of parachute payment. Your state funding is based on your last performance, not how you are currently performing. Your resources coming up to an election on a non-state funded basis are based on how you are performing, and whether you have public support. If you have a state funding system then inevitably it is on the basis of how you performed the last time around. So this will tend to reinforce incumbents because they were the ones who got most of their members elected the last time around.
272. SIR CHRISTOPHER KELLY: If that was the way of doing it.

273. DAVID MCLETCHE: Yes, I am assuming that there would be some system based on per capita of votes received at the last election, or something like that.
274. SIR CHRISTOPHER KELLY: As you pointed out, you cannot pay for air time on BBC, but nevertheless it has an opportunity cost.
275. DAVID MCLETCHE: Yes, and the BBC is very good at that through promoting its own products I have noticed.
276. SIR CHRISTOPHER KELLY: If you were given the value of that air time in cash, would you want to spend it on party political broadcasts on the BBC? Hypothetically, if all the subsidy that was given to political parties, free postage, short money, use of state halls, free air time on the BBC, was instead bundled together in some way, and you were given the cash equivalent, would you get the same pattern of expenditure, would you do the same things as you do now?
277. MARK MCINNES: I do not think you would. You would lose the universality of every party doing a party election broadcast, which every elector can view. If we were just given a lump of cash you would end up with very targeted campaigns. In that situation would a taxpayer who lives in a safe constituency for one party be happy that they are paying for a tax subsidy to political parties, none of which is ever spent by other parties in their area, because they are not in a marginal seat. I think the thing about the election address postage, and the party election broadcast, is there is universality whereby every elector can be engaged from watching a PEB or reading an election address. If the parties were given far more discretion on that state spending, it would then not be used in a way that would benefit the body of electors.
278. DAVID MCLETCHE: If you could determine a spend in terms of broadcasting, I think you would probably find that parties would have advertisements that were a bit snappier than your standard PEB, and you might have a well-crafted 30 second ad, rather than a 4-minute solemn address from the Prime Minister or other leading politician.
279. SIR CHRISTOPHER KELLY: Just one final slightly more detailed question. One of the noteworthy features about the elections for the Mayor of London is that all the election addresses are put together and given in a single booklet, so that if you are an elector for the Mayor of London you receive the election addresses of all the candidates at the same time, and distributed in a much more cost-effective way. Is there a lesson to be learned there about other elections?
280. MARK MCINNES: I think we would have to be aware of the loss of flexibility to parties. At the moment we can send different messages to different electors, where we have a right to a free post to each elector in a constituency. I think the political parties would be reluctant to lose this.

281. SIR CHRISTOPHER KELLY: Do you mean individual by individual, or constituency by constituency, or region by region? At what level do you want the flexibility?

282. MARK MCINNES: I think it depends. Each regional candidate is going to think that their election address is the most important, a constituency candidate is going to think theirs is. There is a problem at Scottish parliamentary level, and I guess this is the premise behind the London mayoral pack, which is that we all spend all our time trying to manipulate the delivery because there are individual constituency election addresses and regional election addresses going out at the same time as well as local government candidates delivering their literature so at times people have received a big pack. Being the most inventive in terms of trying to ensure your election address was wrapped around the others, actually became the main aim. So I can see why there would be an argument for election addresses to be put together. It may be more suited though to a mayoral election where it is very much about choosing from a number of individuals, rather than looking at party lists or individual constituencies

283. SIR CHRISTOPHER KELLY: Is there anything we have not given you the opportunity to say that you wanted to say to us?

284. MARK MCINNES: No, I do not think so.

285. DAVID MCLETCHIE: I think we have gone through most of the things that we had noted down. I appreciate that very much.

286. SIR CHRISTOPHER KELLY: Thank you very much.

PETER MURRELL (SCOTTISH NATIONAL PARTY)

287. SIR CHRISTOPHER KELLY: Mr Murrell, you are very welcome.

288. PETER MURRELL: Thank you.

289. SIR CHRISTOPHER KELLY: Thank you for your evidence, and thank you for this piece of paper, which we have just been handed. Is there anything you want to say by way of general introduction?

290. PETER MURRELL: No, that is fine.

291. SIR CHRISTOPHER KELLY: In the first paragraph of your letter of evidence you refer to your regret that the Hayden Phillips proposals were not accepted, and you describe them as proposals which are both pragmatic in their approach as well as radical in their vision of a regulatory arena that may restore public confidence in arrangements. Some of our other witnesses have doubted whether there was a problem sufficient to require radical measures. Why do you take a different view?

292. PETER MURRELL: I think for us, our experience, obviously the regulatory regime is meant to cross political parties and third parties and regulated donees, who primarily are parliamentarians, and on the back of that, parties are meant to, across its donations, its accounts and its campaign expenditure, present what it believes is a full and open account of its finances. I think that I can take each of those different elements and pick fault at the current system. I think for us, we have approached since day one, from the Neil Committee, and prior to that to the 1999 elections when there was no regime in Scotland and the parties got together and agreed some principles in terms of donations and campaign expenditure.
293. The SNP always approaches the regulations in an attempt to be full and open in its approach, and by that build confidence amongst our supporters and amongst our wider electorate for the activities of the SNP, so building a reputation on our openness and transparency in the system, and as we advance this afternoon, that is why I handed out various bits of paper, we have various examples of where we believe we are heading towards best practice, and can give examples where we think other parties are at best cutting back on what they need to provide to make the Electoral Commission and the public happy.
294. SIR CHRISTOPHER KELLY: In terms of transparency?
295. PETER MURRELL: In terms of transparency.
296. SIR CHRISTOPHER KELLY: I am interested in that, because a feature that most people notice about the Hayden Phillips proposals is a proposal to put a cap of £50,000 on donations, which, in the system as a whole, would have quite significant implications. But you start with transparency, not with large donors?
297. PETER MURRELL: I think it is a complex fix that is required here, because I think that much of the difficulty that some parties have fallen into is rooted in the arms race, and difficult decisions taken by politicians and by head office staff, based on the arms race, so I can give an example about pointing fingers, but 2005 election I think the Labour Party overspent nationally across the UK, and then got themselves into a fix of how they pay the bills by the regulated payment date, and a solution was found to pay the bills, which subsequently got the Labour Party into some difficulty.
298. SIR CHRISTOPHER KELLY: We are talking about loans?
299. PETER MURRELL: Yes
300. SIR CHRISTOPHER KELLY: Loans were taken out by all three main parties.
301. PETER MURRELL: There is nothing harder, when you are approaching a donor, the last thing you can do when you are approaching donors is go to them after the election and say, "Actually, we have a slight

problem, we cannot pay the bills". That is nothing to attract a donor in terms of making over a cheque to you, and so I can fully appreciate from my guesstimate as to what happened in that case, but I think a very desperate attempt was made to pay bills late, let to the loan situation, which then was made public, and we know the history of that. So I think the arms race for me is at the heart of the challenge that we face, and if we can do something about the amount that is spent and cap that, then some of the other difficulties will not arise, and part of that solution I think is a cap on donations.

302. SIR CHRISTOPHER KELLY: Because that would starve people of funds and therefore require less spending of money.
303. PETER MURRELL: So, if you were to ask me what I think you could do, I think the position of Scotland is vastly different, I do not think both the Labour Party and ourselves spending £1.4 million, £1.12 million, on a cap of £1.5 million, and if you were to multiply that up to the UK then that would be a cap of about £50 million; at present it is £30 million. We will find out tomorrow how much the UK parties spent in the UK general election, but I think some of them might be close to the cap, and if you ask the academics on the polling evidence, "Did much of the campaigning have an impact?" the answer would be no, because the trends, despite the blip in Liberal Democrat support, the trend lines effectively were the end result of the campaign, so you have parties spending cast sums of cash, trying to change the electorate's mind, which from my seat you could question its value in terms of expenditure.
304. SIR CHRISTOPHER KELLY: Forgive me for not quite understanding the logic of your position. If the problem is too much expenditure, why do we not address that, rather than by trying to put on a cap and cut off the funds.
305. PETER MURRELL: I think it is all part of the same mix, I think that the cap on expenditure is key here. I think it is a question you have to ask yourself of the public, what do they think if the percentage given by a particular donor is a significant percentage of the total expenditure, so I think you would have to scale everything back, so you would bring back the expenditure cap and bring back the amount of a cap that someone could make as an individual donation.
306. SIR CHRISTOPHER KELLY: We will come back to some of those issues later. So far we have been talking about national issues, as it were, are there particularly Scottish issues? Does the present framework of party funding take sufficient account of devolution and, as various witnesses this morning said, now a different financial settlement, even if your party thinks it does not go far enough?
307. PETER MURRELL: I think what has been alluded to by the first two speakers this morning was a lack of transparency, and again we would point to that, in that obviously we are a fully registered political party in the UK, but only operate in one region of the UK, as the Electoral Commission tell us, and you are then in a position where the Labour Party and the Liberal Democrats, although they market themselves in a Scottish Labour Party or a Scottish

Liberal Democrat context, are then accounting units of the main party, and the Conservative Party you have just heard from are not an accounting unit, so there is zero transparency, so when Mark says that, "We more than raise what we spend in Scotland", there is no evidence for that, because they do not publish accounts, and at least with the Labour Party and the Liberal Democrats, they publish Scottish accounting unit accounts, and you can analyse that. The thing for me is, well, obviously there is a gap between what their accounts say that they would spend in an election, the Labour Party in the last Scottish election spent £1.1 million, but its turnover the previous year showed expenditure for the campaign of £680,000, so there is a funding gap, so there is no transparency at that level, and there is no transparency when you analyse some of the other parties either, there is a massive gap between what they say their turnover is in Scotland and how much they spend on an election.

308. SIR CHRISTOPHER KELLY: Just to make sure I understand this point, the retaliation that the witness got in first was to say, "We are a national party, so of course we account in national terms".

309. PETER MURRELL: Well, they would say that, but if we are meant to try and blow this open in terms of transparency, if the public are meant to see, if academics and journalists are meant to trace this and say, "Well here is a piece of expenditure, where did the money come from?" There is no need for these parties to declare, "This proportion has come from our head office". That would be a very simple thing for them to put in place and to be open and honest about, but they do not do it.

310. SIR CHRISTOPHER KELLY: In relation to elections to the Scottish Parliament?

311. PETER MURRELL: Yes, or any elections, because as parties we are expected to account for our expenditure in England, Scotland and Wales. We are not expected to say where our income came from across those same areas, so you have, on one side, you will see this tomorrow, you have detail of how much each party spends in each part of the UK, but where the money comes from is just a total, so we do not have any transparency as to where money is flowing to and from within political parties.

312. SIR CHRISTOPHER KELLY: I do not think I had appreciated that beforehand, so you do not have to account for the expenditure just on elections to the Scottish Parliament, you have to account for all spending in Scotland in whatever election?

313. PETER MURRELL: Yes, so if you look at the third piece of paper, and I am not picking on the Labour Party for any reason, but there is how much they spent in the 2007 election campaign, but they do not have to do an exercise in terms of where did the money come from. It would be a very simple thing for each of the parties to do, and does it really require a piece of legislation to force them to do that? I would not say so, but at the moment we have no

transparency as to where the money flows are taking place.

314. DAME DENISE PLATT: I want to come back to the principles that underpin a funding system for political parties. Our current system is based on transparency, and you are casting some doubts on parts of that transparency, but on the whole, how effective do you think transparency has been as a principle underpinning the system?
315. PETER MURRELL: I think when you look at donations to political parties, I think it has been fairly effective, a means by which you have injected some transparency into the system, and obviously academics and journalists are the key people to analyse that data on a quarterly basis and publish whatever stories or research coming out of that.
316. I think in the other areas, if you take accounts as a good example, I have just done a quick analysis of the UK party accounts. Our accounts as a small party, operating in one part of the United Kingdom, we have a turnover of £1.8 million in 2009. Our accounts stretch to 42 pages, of which the SNP contributes 19 of those pages in terms of background to what we do as a party, how we are funded, and then you will see probably on the first and second page of what I have handed in, these are just four examples of data that we use within our annual report to try and advance the business, as it were. So where do our donations come from, how do we get more of them, you can see in those four examples that I have given in table 4 are how our party income has grown. We have heard much this morning about the membership of political parties falling; that is not our experience, our membership is rising, and as you can see from table 4 our income is rising, and peaks at Scottish Parliament elections, because that is the election at which we receive most donations.
317. We also, last year, we have introduced table 5, which is to analyse the actual individual donations and what percentage of those make up our income stream, so we are tending to operate much more like a charity would. The reason for that is because the Electoral Commission came to us two years ago and said, in order to get more transparency into the accounts, which they believed they were not getting, they were going to go to a restricted funds model, which came from the charity sector. To date, we are the only political party in the United Kingdom that publishes our accounts on that basis, so the Electoral Commission approaches us and says, "This is where we think we are going, we do not want to go down the legislative route, what do you think about that?" Well I have a discussion with my auditors and here they are, we have had two years of this model. You would have to ask the Electoral Commission why that model has not been accepted by the other political parties, but I would think, in my seat, if I was being asked questions, then it is much better if I have an annual report that causes me some concern, than an annual report that has no information and you cannot be challenged on.
318. So, in comparison to us, we have an annual report that stretches to 42 pages, the Labour Party UK accounts on a turnover of £27 million have 21 pages, only 4 of which they have contributed as a party. Conservatives 26

pages, only 7 of which they have contributed, with a turnover of £42 million, and the Liberal Democrats 28 pages and only 6 pages contributed by the political party in terms of background information, and they have a turnover of £4.3 million.

319. I think the Electoral Commission had the right idea here, it is just they have been scared off, the idea of having restricted funds perhaps, I do not know, but I would suspect the idea of having restricted funds and proper analysis of where the money comes from, and even tying it up to the donations register, that is when you see the donations set out in a tabular form in your annual report, it would take an academic to go to the Electoral Commission website normally, but the Electoral Commission wanted this model introduced so that all parties could report on the same basis, and you could analyse line-for-line the likeness between each of the parties, or the separation.

320. DAME DENISE PLATT: So your argument is that transparency has improved; transparency is there in the system, it is working in the system, but actually, for transparency to work more effectively, everyone should be prepared to produce the sort of accounts, which you prepare, and that would actually be of benefit to the system, is that where you are coming from?

321. PETER MURRELL: That is the Electoral Commission, and that is our view as well, because it challenges you as an officer of the party, as an executive, to think much harder about what information it is you are putting into your accounts, and how you might drive forward donor plans, which will widen the donor base and increase your income. Because I think much of this, the parties can sort many of these things themselves, the solution is not state funding, the solution is a wider donor base, Engagement with the electorate, and building confidence in what you are doing.

322. DAME DENISE PLATT: Can I ask about the donations, I want to ask about the donor base, and you said in your answer to Chris that you supported Hayden Phillips and you supported a £50,000 cap on donations. Why is that?

323. PETER MURRELL: What we have experienced, and I have been out of this for 10 years almost, 9 years, and we have always experienced the thresholds, the point at which someone's donation becomes public, it used to be £5,000, it is now £7,500, that does operate as a cap, and from that point your pool of donors shrinks down to a much, much smaller number of people. So we have always experienced that problem, and I think we spent 10 years trying to solve this, and you see that from the income rise, that we spent 10 years, because, to be honest, back in 1999 we made some of the same mistakes as we saw from 2005, and we were asked by our bank to sell our headquarters and move to a smaller HQ, and that was the bottom point for us, and from there we have slowly built the whole thing back up again, so we are in a much more comfortable position these days, because we have had to work that much harder in widening the donor base and getting more donors, and if you can persuade someone to give a donation over £7,500 then that to us is the icing on the cake, it gives us a little bit more money to spend in an

election campaign, but it is not critical to keeping the business afloat, which is where I fear some of the other parties, who have a very high debt level, are these days, they are accepting large donations just to pay interest.

324. DAME DENISE PLATT: Then, could you argue that the £50,000 cap suggested is too high, it should be lower?
325. PETER MURRELL: I think that we all have to approach this on the basis of how difficult it may be for some of the UK-wide parties to come down to that level. You could certainly look at making it lower, but it would be based on what would not make a major UK political party go under, because it could not pay its debts. You would have to give some flexibility I think in terms of the ability of people to give. When you think of that figure of £50,000, Mark is was saying that I think they accepted a donation of that level, it is a large sum of money in these times, so I think that is, to me, it would be a lot of cash for a campaign, so it seems like a correct balance, which does not stretch the UK parties.
326. DAME DENISE PLATT: So a donation cap would not have much effect on your party's revenue?
327. PETER MURRELL: We would work around, or work with the cap, we would not work around it obviously, but we would work with the cap.
328. DAME DENISE PLATT: That is very transparent.
329. PETER MURRELL: But I think for me, much of this has to be driving how you approach the whole thing, so these things are luxuries to us, we have always experienced the threshold being the cap, so £50,000 to us is a large sum of money.
330. DAME DENISE PLATT: Can I come back to the principles, transparency is an important principle; what other principles might you recommend?
331. PETER MURRELL: I think transparency is key to all of this, and I do not think there are others, I think transparency is the overriding one for me. I think there is still some way to go for us to bottom-out transparency in the three different elements of the political system that are regulated, and then how they are expected to report on that transparency, and I think that, for me, is where the effort is required. I cannot see driving in more principles is going to assist in the process.
332. DAME DENISE PLATT: So that is the overriding key principle. Level playing fields, participation, those things are desirable extras, but the driving principle is transparency from your view
333. PETER MURRELL: Yes.

334. MARGARET BECKETT: You heard other people say there is no arms race in Scotland in expenditure but that is not what you said, if I heard you correctly.
335. PETER MURRELL: There is certainly a gap between what the Labour Party and ourselves would spend. If you go back another four years in the Scottish Parliament to 2003 then we were outspent by the Labour Party by a similar proportion. Do I think that £1.5 million is a reasonable amount of money to allow a political party to run an effective campaign in the Scottish Parliament elections? The answer to that is, "Yes, it is". It would allow you to do pretty much anything you would want to put on a wish list as a campaign manager.
336. I would just take the simple population share multiplier and say that your UK cap needs to be halved down to something like £15 million to limit the expenditure. Obviously you could ask an actuary or someone to work it out. It should not be that difficult to work out what political parties should be allowed to spend on a campaign based on their turnover. It should not be that difficult.
337. I am comfortable that if we were to try and, say, next year £1.5 million, that seems a lot of money to me right now and would allow us to do pretty much anything we wanted to do in Scotland. I am just slightly concerned that, in the UK context, the arms race is something that is driving a much deeper problem. The parties are outspending their cash flow and it gets them in trouble.
338. You will see from the parties' accounts how much debt each of them is in. I do not know what tomorrow's figures are but I would expect the Conservative Party figure to be phenomenal because of the type of campaign that they ran in May. Pretty much every billboard poster in Scotland was covered with the Conservative poster from start to finish, and that kind of weight of spend across the United Kingdom is a huge sum of money. I would expect the Conservative figure to be extremely high and very close to the limit.
339. MARGARET BECKETT: On what they spent or of what they overspent?
340. PETER MURRELL: What they spent.
341. MARGARET BECKETT: You kept talking about interest and debts. Are you talking about what they spent beyond their income or are you talking about what they spent?
342. PETER MURRELL: We will not know that until we see their accounts next July.
343. MARGARET BECKETT: You clearly have a thought about how you think it is going to be.

344. PETER MURRELL: All the parties would be the same that you would think that the Conservatives do not really have trouble raising money and part of what is driving some of this is just everyone trying to compete with the Conservative Party. Labour try and compete with the Conservatives. It goes back to 2005. Nobody thought the Conservatives were going to win the 2005 election but yet Labour still spent £15 million but nobody across the United Kingdom did think that Labour were not going to win. Then you get the emergence of the loan trouble for the Labour Party. What was driving the Labour Party thinking at that time? I have no idea. I am just guessing but I would think it was, "We need to raise more money; we need to spend more money because the Conservatives are doing X, Y and Z".
345. MARGARET BECKETT: So your basic contention is that it would be good for the health of the system that political parties spend within their means?
346. PETER MURRELL: If they cannot do it themselves, then they have to be regulated or it has to stop. If they cannot analyse themselves how much they can afford within their cash flow then someone should suggest to them that a new cap is required. An actuary or someone could work it out very simply and they could even come and tell me that we are spending too much at £1.5 million next year, but we will see.
347. LLOYD CLARKE: Could I return to state funding. In your evidence you have said that the current economic climate has closed the window on increased public funding. Does that mean, in principle, you support increased public funding? If you would, separate that which is for campaigning and that which is for performing parliamentary role. In principle would you increase public funding? And then how would you want to see that regulated?
348. PETER MURRELL: I think for us what interests me the most is how do we engage more people in the political process; how do we gain more trust in a democratic process? I do not think straight state funding is the answer. I do not think we should just come to the public bodies and say, "You should take over campaign expenditure from henceforth and pay for all of that".
349. LLOYD CLARKE: Indeed, because the argument would be that if you want to increase participation you do not give state funding. We make political parties go out there and do it on the street. That is the way of greater engagement.
350. PETER MURRELL: What intrigues me most about this is how you incentivise small donations because I think that is the key. You get more people back into the system. Whether that ends up as a tax break or as a straight matched funding formula, I think there is certainly value in looking at that area. Again, it comes back to the parties have to do a lot more themselves first. It might just be a coincidence of our bad experience ten years ago but they have all got to do what we have had to do which is go back to basics and figure out, "How do we keep this whole thing afloat?" And many of the parties have not analysed their cost centres, so perhaps their

headquarters are too big based on their cash flow as well. We need to strip apart and that is what the accounts exercise was meant to do to show what your operating costs as a party were against what you are spending on campaigning. Again, this formula that the Electoral Commission had come up with, which was not original but it has come from the charity sector, starts to separate these things out so that the Electoral Commission academics and others would have some understanding of how much it costs to operate.

351. LLOYD CLARKE: Even if it is gift aid then that is money that would normally go into public coffers so how do you sell that to the public?
352. PETER MURRELL: That is not on the agenda at the moment so all of that has gone. It is an exercise where I can think of a day when we might come back to this but we have to survive in the current climate. Each of the parties at the moment will have to meet their own cash flow and I cannot say when that is going to change. The key here is to get more people in at the basement level. That is what you see from American politics and it has certainly paid us dividends over the last few years in terms of building our donor base and building our income level.
353. LLOYD CLARKE: Just for clarity, you do think there is a case to be made for public funding in the form of gift aid/matched funding but now is not the time to do it. Is that a reasonable assessment of what you say?
354. PETER MURRELL: That is reasonable.
355. LLOYD CLARKE: Of course there is funding for Parliamentary duties. Can I ask how much of your annual spending that was in terms of as a percentage, recognising that it was to perform the parliamentary duties?
356. PETER MURRELL: Being the government, we do not get it. However, in previous days, if you want to go back to when we were in opposition, which is 73 out of the 76 years of our existence, our funding level at Scottish Parliament level to support the group activities in the Scottish Parliament would be about £160,000 or thereabouts. Again, as David accurately presented it, that money does not make its way to the Scottish National Party. It is spent in providing research and media back-up to the parliamentarians, so the group.
357. David said that the Conservative MSPs contribute £9,000. Even to this day our MSPs contribute £5,000 to a common pool because, although we are in the government and the whole argument about short money parliamentary support is that you are trying to equalise the gap between opposition parties and the government who have civil service back-up, we felt that we still needed that. I do not know what the other parties do at Westminster but certainly our MSPs contribute £5,000 for some group staff to still support the group's activities which are separate from the government team.
358. LLOYD CLARKE: Out of their allowances presumably?

359. PETER MURRELL: Out of their allowances, yes. To give total transparency here we, as a party, also have a levy on our parliamentarians and each of them contributes £3,000 to the SNP from their personal pocket.
360. LLOYD CLARKE: You did allude to a principle of fairness so in terms of the current system, recognising that you do not get it, is that process fair? Does that seem appropriate to the needs of parliament?
361. PETER MURRELL: I think it does to the needs of parliament. You can put your star marking on how good or bad the civil service back-up may be but to allow you to operate in parliament as an opposition group you do need some resource.
362. LLOYD CLARKE: Are you content in respect of transparency at this stage because we have heard really conflicting things; early on from our first witness that it is not transparent and now that it is totally transparent?
363. PETER MURRELL: It is totally transparent. You asked the question “What percentage of the income of Scottish Conservatives that is?” You cannot answer that because we do not have accounts for them so I cannot answer that; you cannot answer that; no one can. We do not know what percentage that is and how that is broken down. Certainly, for us, for Labour and Liberal Democrats, it has to go through, in their case, accounting units. In our case, as a political party, all public funds are reported through the thresholds that are on accounting units and the parties. The figures are there and can be analysed and, within the registers, are separately itemised.
364. LLOYD CLARKE: The final question from me is in respect of third parties, the proposition being of course that if you limit donations, even more so if you limit expenditure, then is the money not just going to be channelled to third parties, think tanks or whatever?
365. PETER MURRELL: I think then it comes back to transparency again because as long as these things are transparent then that will just be the future. It might be that there might be some think tanks or some new third parties. What was the figure of regulated third parties? Twelve, thirteen. And what is our experience in Scotland? We have only had one experience of third party entering election campaign that came in last time. Again, the Electoral Commission takes the view, “They can late register because they are not registered”. And you come back to the regulatory regime and say, “Should someone be allowed to participate in a campaign when they have not pre-registered?” They just turn up; they put an advert in the paper and some weeks later they are allowed to retrospectively register themselves. By that time the campaign is over, the money is spent and the election is fought or lost.
366. Again, it comes back to the point I was trying to make at the beginning that there is much discussion with the parties about all of this. There are missing elements, in terms of regulated donees. The issue is one of lack of awareness on the part mainly of parliamentarians in terms of their obligations

under the various pieces of legislation. You saw again, unfortunately for Labour, some examples of that in the previous leadership election campaign, and that is just a lack of knowledge. The issue with third parties, however, is a lack of regulation. They are much tougher. If you bring in the caps then you are going to have to have a much tougher regulatory regime on third parties.

367. SIR CHRISTOPHER KELLY: What was the third party you were talking about?

368. PETER MURRELL: I think they were called Lynnet Leisure who took an advert in one of the tabloid newspapers in Scotland, not in favour of the SNP. I would not like to cast aspersions but not in favour of us. It could be most described as being anti independents. There was an instance where we perhaps got a tip off that there might be a second advert coming where we tried to get the Electoral Commission to move a bit faster to intervene and say, "You are not registered; therefore you cannot spend the money" but we could not persuade the Electoral Commission to do that.

369. DAVID PRINCE: The Hayden Phillips proposals did recognise that there would need to be, alongside all the other proposals, a strengthening of the regulatory regime and indeed the regulatory capacity of the Electoral Commission. What particular areas would you point to as needing further regulation? You have started to talk about some of them; do you want to develop that and point to areas that could be even tougher or should be even tougher?

370. PETER MURRELL: The danger here is to say that you would need to start again. Where they are, from today, the inherent new powers to break down people's doors and to fine them on the spot and whether that is successful or not I have no idea. The Electoral Commission, as it was originally established, had no enforcement staff, as far as I am aware. Only in the last three or four years have they started to employ enforcement staff. You now have Lisa Klein, who is the director, who you have heard from already. They have gone through a fairly rigorous process of establishing an enforcement team who have investigative powers and they gained some of those today.

371. Obviously, as a political party, we have been continually disappointed by the lack of action in cases that have been raised by the media, and you get to the point where it is the media who are regulating the system not the Electoral Commission. It is the media that bring these things to the public's attention and then the Electoral Commission tag along somewhere and get involved to investigate them.

372. DAVID PRINCE: The Electoral Commission can only operate and decide cases within the legislative framework that is there at the moment. Are you suggesting the legislation is too complicated or they are still learning their way through it or that they are just not proactive enough in dealing with cases? I am not quite clear what charge you are levelling around them, if that is what

you are doing.

373. PETER MURRELL: The initial problem has been that they had no enforcement staff. They describe themselves as a regulator but they had no regulatory staff. It is very difficult to do that job if you do not employ anyone so they have begun to tackle that challenge.

374. At the back-end of me are 300 to 400 volunteer treasurers who watch all of these things play out in the media, and my job is to tell them that for every donation they receive over £500 they have to tell me. If it crosses a threshold of £1,500 from an individual donor then that gets reported to the Electoral Commission. While all that is happening, you have many public examples of parties being investigated for various things but no action taken at the end of the day. It is a very difficult balance that you have to get right here, and the Electoral Commission got the balance wrong at the very beginning. They have gone now to where they should always have been, which is to have a proper regulatory investigative team who will take things forward. As we look to other political parties, we always can say they did not take action in a certain case.

375. DAVID PRINCE: That is why I really wanted to come to the system as it operates now. Given they are discharging the role in the way you describe now, do you think the regime is proportionate to deliver the transparency that is so essential?

376. PETER MURRELL: Obviously the regime that starts today could be quite tough on volunteers. That is the consequence of the last ten years; we thought there was a bright new dawn but then there was not. From day one parties have reported donations late and got away with that for a few years and then other things came out and they got away with that, and so it has gone on for ten years. Where we are now is just a consequence of all of that so my job is to try and make sure that the volunteers do not end up with a fight.

377. The messages are very simple; they always have been very simple. The law can be very complex for people but if you keep the fundamentals correct, which is about checking donations that you receive, making sure that they are within the law, it is not complex. Someone earlier said it was all very complex but it is not really if you stick to the basic principles and try and drill that through because, as you appreciate, treasurers of political parties change accounting units all the time. If you stick to the basic principles of reporting £500 contributions or loans then the system is fairly simple to administer, even for parties that have a large number of accounting units.

378. DAVID PRINCE: Just one final question around regulation, the first witness talked about donor plans and how you might operate that across your party. It has been put to us that donor plans would be the way that parties would get round a donation cap. It only takes a family of six or seven people to give donations under £7,500 over five or six years and you have a very substantial donation coming in that might be less transparent than the rules

now. Is this something that concerns you either in your own party or when you look at your rival parties?

379. PETER MURRELL: Obviously there are regulations in place to stop you in terms of being an agent for someone else. The thresholds are where they are. You see from the chart that is in our accounts that the vast majority of our donations that we receive in terms of percentage of respondents is £10. When someone comes along and says, "Here is £10,000", which is through the threshold and has to be reported, that is seen as a good thing. Again it comes back to that thing; it depends how you approach this. If you approach donors and say to them, "You should donate £7,499" because that way you do not state it, that is no basis on which you should approach anybody. People should give an amount of money that they think is within their means.

380. I do not think we have ever approached anyone for a sum of money that was on or around the threshold limits. What scares people away is certainly the threshold. The number of people that we talk to about that is a tiny, tiny number and they probably were not going to stretch to that figure anyway. We have to obviously make people aware of what the £500 donation figure means and we have to make them understand about the £7,500 or the £1,500 to our accounting unit but you should never, ever approach a donor on the basis of, "Give us this and you will remain private". I do not think the SNP has ever done that since the act became law on 1 March 2001, or whenever it was.

381. SIR CHRISTOPHER KELLY: Just following up on that, does it follow that if the £7,500 limit was raised you would expect the amount of income the political party received to go up?

382. PETER MURRELL: It is certainly true that we have always found that the threshold has acted as some form of cap, but I do not think so. I do not think that would be the case anymore. If people have a figure in their head of how much they were going to give a political party, and I can talk really quite knowledgeably in this area, if someone comes along and says, "£10,000" that would be an excellent thing for them to do; a very generous measure. We would accept that. I do not think the threshold, at that level, becomes the issue for someone who has a figure in mind. I do not think anyone is going to stretch, so if someone was thinking of giving £6,000 we say, "Well, you could give up to £7,500". That is not the business that political parties should be in. We should just accept what people are preparing to offer us.

383. SIR CHRISTOPHER KELLY: I understand the point about the business you should be in. I am interested in the behavioural effect of increasing the reporting level to more than £7,500.

384. PETER MURRELL: Certainly since the change, which has only been around for 12 months, we have not had that discussion once with anyone.

385. SIR CHRISTOPHER KELLY: You have not had an increase in the donations at all between the two?
386. PETER MURRELL: Not coming from the change in threshold.
387. SIR CHRISTOPHER KELLY: Leading on from that, we have a threshold on the basis that the present regime assumes that transparency does everything and that is why everything above £7,500 needs to be transparent. If we are going to move to a system where there is an upper cap on what you can give, I am just left wondering whether you really need transparency as well or, although there might be a transition problem in bringing the two together, whether you could not just have one limit which is “above this you cannot donate” because doing it in that way completely rules out the possibility of buying any influence for your donation?
388. PETER MURRELL: That is our position that we think there should be a cap at that level and that should just limit, in one calendar year, how much an individual or a company should be able to give.
389. SIR CHRISTOPHER KELLY: But retain the need to report between whatever the level of the cap is and the present reporting level.
390. PETER MURRELL: I think the threshold is handy. £7,500 is still a lot of money. £50,000 is not going to buy any influence in a political party. I cannot see that sum of money in terms of even with our turnover; you are not in that business. £7,500 is still a lot of money for individuals to give and I think to ensure the public have as much transparency as possible. I am not entirely clear where the change has come from between £5,000 and £7,500. I do not think it has made a huge difference to transparency. £5,000 was a perfectly adequate threshold in my mind and £50,000 would seem a reasonable cap on donations.
391. SIR CHRISTOPHER KELLY: A final question. There are lots of reasons for the decline of mass membership parties. One of the things that has been said to us about the present situation, however, is it is not surprising that parties do not go out after members because the cost of acquiring a member is greater than the membership fee or other donation you might acquire. What is your response to that? That is one of the reasons why tax relief for donations might be attractive.
392. PETER MURRELL: We have moved away as much as we could from having a minimum subscription. Our rates are the second lowest in the UK. Our rates are £12 per annum for a standard subscription and £5 for someone who is unwaged. The Liberal Democrats are the only people who have a subscription rate smaller than ours.
393. SIR CHRISTOPHER KELLY: Do you know what the cost of acquiring members is now?

394. PETER MURRELL: In terms of the amount that they are serviced as a member and a donor, you would probably be talking about £6 these days. The unwaged rate probably operates as a loss leader but these days we approach people for a direct debit based on a monthly sum of their choosing. Again, it is back to that thing of just let the donor decide how much they wish to give per month and they will self-select a figure which is £5/ £8 a month. That is how we have turned things around as a political party since 2003 when we were at our low point in terms of income and expenditure. We have just gone and opened the system up to people joining the SNP based on our policy base and political vision for Scotland and left their decision of what their membership is worth to them. The average for us is £8 a month; just under £100 a year.
395. SIR CHRISTOPHER KELLY: Which covers the cost of acquiring a member?
396. PETER MURRELL: When you are thinking of youth members or student members I think it would be a much smarter thing for parties to invite people in almost for free and just get them in the door and slowly bring them into the political system.
397. SIR CHRISTOPHER KELLY: Do you think that other parties would be able to acquire members and/or supporters in the way you have done or do you think there is something special about the appeal of being a national party?
398. PETER MURRELL: Since the election Labour Party has made various claims about a rise in members. They could perhaps talk about that in terms of detailing how they have found that experience. Certainly from about 2004 onwards our membership has been on a steady rise and continues to go up. We have not done any of the innovative things that I have just suggested, which is to allow students, young people, etc, to come in for nothing. We have not done that yet. These days you can devise systems to make sure that the cost to the SNP of these members is low so you would not issue a membership card. You would effectively just perhaps capture mobile telephone numbers and you would text them updates or engage them on Facebook or Twitter. There is very little cost in any of that.
399. The key thing in all of this is we have to get more people into politics and that has to go at a faster pace for us. If you have a political system where all the news coverage is of major donations of £2 million there and £5 million here and they have spent £30 million on a general election campaign and you are standing with your £12 in your hand you are thinking, "I am not going to play much part in that political party, am I, because they are for big business or whatever?" You are going to be put off getting involved because you think the role that you can play is not great. What we have tried to do is to say, "Come in and see what you can do. You can help develop policy and, like Labour, we have one member/one vote so you can select your parliamentarian, your candidates for parliament. You can select the leader and the deputy leader". We have tried to be innovative in ways to make sure

that members were engaged. We have much more to do but I think we are quite far down the road.

400. LLOYD CLARKE: From your experiences of 2003, and something that you said earlier, are you also suggesting that there is never a case to be made for loans and that they have no place in political party funding?

401. PETER MURRELL: The regulations obviously cover all sorts of loans not just free loans from members. It is the case that donors, at retirement point, may have some extra cash and they may not have the ability to donate that so we have loans from members at zero per cent.

402. LLOYD CLARKE: Are you content that the regulation is appropriate for loans at this particular time?

403. PETER MURRELL: Yes. I do not think that the regulations covering commercial loans to political parties are quite there. I am quite comfortable that across the parties, including ours, where you probably have pretty accurate capture now of how many members had lent money at a percentage rate and, even before the 2006 regulations came in, we always used to report the sum which was the difference between the zero percent and what that could be commercially borrowed at from a donor, so in our accounts prior to 2006 you could see a figure, because we operate two schemes, one for branches, our accounting units, to lend money to headquarters, which is about making sure that we do not operate in overdraft and save money on our bank charges. Historically, and again rooted in 1999, we sought loans from members which again were made up of many of them over £100 here, £10 there, and we have operated that. We are now in a position where our lending from members is we have two large loans of £50,000 which are outstanding, all of which can be seen here properly reported.

404. The new system that was brought in, in 2006, has captured that. Where there is difficulty in that regulation I would very much doubt that regulated donees would think that if they ran around the country campaigning and ran it up on a credit card they had to report that to the Electoral Commission. If you went round asking regulated donees that question, I do not think a very high percentage would say, "Yes, that is the law right enough". There is a lot of regulation still out there that certain regulated third parties and regulated donees would not have a full understanding of what they are meant to do. Is that their fault?

405. SIR CHRISTOPHER KELLY: That was extremely interesting and useful. Is there anything else you would like to say to us? Thank you very much for your time. We now break until 1.45pm.

MARTIN HAYMAN (SCOTTISH LIBERAL DEMOCRATS)

406. SIR CHRISTOPHER KELLY: Martin Hayman, Chief Executive of the Scottish Liberal Democrats, thank you very much for coming. Is there

anything you want to say by way of an opening statement?

407. MR MARTIN HAYMAN: Thank you, but not particularly, no. I am quite happy to go straight into the questions.
408. SIR CHRISTOPHER KELLY: I will ask the same general question I ask everybody, which is about the UK as a whole and not just Scotland. One of our witnesses has said that the current state of party funding stinks. Others have said that actually there is not really much wrong with it but there may be frayed edges. Where do you stand on that spectrum?
409. MARTIN HAYMAN: Party funding from a Scottish perspective is challenging. However you look at funding political parties, there is never enough money to do what we need to do. In terms of the funding structure as it stands at the moment, PPRA's introduction significantly improved the nature and position of it. However, there are improvements that can and should be made to the system, most of which were outlined by the submission that the federal party made when you asked for written evidence rather than by any submission that we have made specifically in Scotland.
410. SIR CHRISTOPHER KELLY: Thank you. That is the national position. Can we move on to Scotland? Are there particular issues in Scotland?
411. MARTIN HAYMAN: There are issues that differ between the different parties depending how they are structured. Within the Liberal Democrats we are structured as a federal organisation and therefore in Scotland we are a fairly much financially independent operation. We run our own affairs here in Scotland; we raise our own money here in Scotland. There are financial links with the UK party. We purchase services from the federal party by arrangement. Things like membership administration and candidate approval services are done but that is a financial arrangement with them. I do not know the fine detail of how other political parties structure their relationships north and south of the border but, for us, that is the position we are in.
412. Something we see in the way that the PPRA rules apply actually disadvantages the Liberal Democrats and to some extent Labour and the Conservatives as well. That is the issue of declaration levels. Parties that are registered in Scotland, the SNP and the Scottish Green Party, can accept gifts of up to £7,500 without it being made public. For a gift to the Scottish Liberal Democrats the threshold is £1,500 because under PPRA legislation we are treated as a simple accounting unit of the UK party. The legislation does not really take into account the federal nature of our party's structure.
413. SIR CHRISTOPHER KELLY: Is that an oversight on the part of the people framing the legislation?
414. MARTIN HAYMAN: Probably, yes. I would certainly like to think that it was an oversight rather than otherwise. I do not know. But if we are looking at changes, it is perhaps an anomaly of the system that could be amended

next time around.

415. SIR CHRISTOPHER KELLY: Forgive me for saying so, but that sounds like a relatively small thing.
416. MARTIN HAYMAN: Yes. It is significant in terms of securing donations to the party. A lot of donors are uncomfortable with the publicity that that generates. At the moment we have a situation where one political party in Scotland can receive donations five times higher than other political parties because of the way the legislation is produced.
417. SIR CHRISTOPHER KELLY: If your limit over which donations have to be reported is raised from £1,500 to £7,500, would you expect to get a large increase in donations?
418. MARTIN HAYMAN: There is certainly a significant number of donors who wish to remain anonymous and therefore their gift is limited by that threshold. Yes, there would be a number of situations where we would receive a greater level of donor funding if that was changed.
419. SIR CHRISTOPHER KELLY: I realise that this is a near impossible question, but is it a significant number? Would it make a noticeable difference to your funding?
420. MARTIN HAYMAN: It would make a noticeable difference to our funding, yes. I would imagine that it would make a similar difference in funding to other parties who are headquartered or have main offices south of the border.
421. SIR CHRISTOPHER KELLY: Donors who might otherwise give you more than £1,500 are reluctant to do so because it would mean that their donations become transparent?
422. MARTIN HAYMAN: The main reluctance is just an uncertainty about how they will be treated by the press. I have an example of a donor who gave funding to our then party leader, Nicol Stephen, in Aberdeen and he was giving £100 per month. That added up to £1,200 in the year and the local party declared that because it was over the then threshold of £1,000. The local paper ran a story saying something like, "Businessman bankrolling party leader". I do not know if anybody can claim that £1,200 a year is bankrolling a party leader, but that is the impression if people do not read below the headline to the level of funding. That is the level of press coverage it received. As a result, an awful lot of other people who may have given and who were prepared to put their heads above the parapet thought, "Hold on a minute. If that is how we are going to be treated by the media, should we go near it?"
423. SIR CHRISTOPHER KELLY: That is the problem with transparency, of course.

424. MARTIN HAYMAN: That is the problem with transparency and I have no problem at all with transparency providing the rules on transparency are fair and equal for everybody. At the moment, that same donor could have given five times as much to the SNP without it being an issue and without it being made public.
425. SIR CHRISTOPHER KELLY: Thank you. The immediately previous witness to you, the Chief Executive of the SNP, told us with great pride that his accounts showed what money was raised in Scotland and what money was spent in Scotland and that his party was unique in Scotland in that respect. He gave us some examples of some of the other parties where the expenditure was transparent but not the income.
426. If I understood you correctly, you asserted a few minutes ago that what you spent in Scotland was raised in Scotland. Is it possible to demonstrate that?
427. MARTIN HAYMAN: We certainly are responsible for raising a significant amount of money. Particularly at the time of the general elections, the federal party down south make decisions on funding and target seats in Scotland, so at that point we do receive funding from outside Scotland.
428. SIR CHRISTOPHER KELLY: If I was inquisitive and wanted to know how much of your funding came from Scotland and how much came from party headquarters, would your published information make it possible for me to find that out?
429. MARTIN HAYMAN: You would not be able to see the clear amount that came from south of the border, no.
430. SIR CHRISTOPHER KELLY: So he was right in making that assertion?
431. MARTIN HAYMAN: Yes. But one other element is that our members in Scotland give and give regularly to appeals from the party headquarters, so there will be a significant amount of donations heading the other way as well. Again, because of the nature and the structure of the party, that would not be evident from our accounts because the money does not go anywhere near our accounts in Scotland.
432. SIR CHRISTOPHER KELLY: Thank you. Devolution is now well established. Does the framework governing party funding sufficiently recognise the existence of the devolution?
433. MARTIN HAYMAN: The bulk of it does, yes. Devolution has had a very heavy impact on the level of expenditure that we undertake and the level of campaigning that is needed as there are fundamentally more elections. But it has also strengthened the role of the state party. The Scottish Liberal Democrats has been strengthened as a result of devolution. Throughout most of the time, we have greater financial assets. Prior to devolution, the Scottish

party was heavily reliant on funding from the federal party and from south of the border. It is less so now.

434. DAME DENISE PLATT: I want to turn to the principles that underpin party funding and you have mentioned transparency. The current system is based on as much transparency as possible. How effective do you think that is?
435. MARTIN HAYMAN: The PEPRA changes have addressed a significant number of the problems that existed previously in terms of public ability to see where party funds come from, so that has made a very significant difference. Yes, the fact that the public can see that is very good. The media interpretation of some of that and the media interpretation of individuals' motivations behind donations is a very difficult problem and there is often a political motivation behind that interpretation, so there is a flipside. But on the whole transparency has been achieved and that has improved the situation a great deal.
436. DAME DENISE PLATT: Following on from one of the questions that Sir Christopher asked, it has been put to us that there is a big gap in transparency in Scotland because it is not possible to identify how much money from outside Scotland is coming into Scotland to be spent in various political campaigns. Do you have a view?
437. MARTIN HAYMAN: When there is a UK general election, funding decisions are generally made at a UK level. Funds are raised, primarily, at the UK level for that election. Our accounts will not show that and I cannot see any situation, however you change the legislation that would enable it to be clear because we are a national party. At a Scottish election, it is quite clear where the funds come from and how they are spent because they are raised in Scotland and spent in Scotland.
438. DAME DENISE PLATT: From your perspective, there is not a gap?
439. MARTIN HAYMAN: I do not think there is a gap because, when we are looking at funding for a UK general election, that is a UK election and funds will be moved from one part of the country to another, wherever the need is greatest within the party. With the best will in the world, we do not need to spend a huge amount in some seats. In other seats in other parts of the country, we may need to do so.
440. DAME DENISE PLATT: What are the principles that you think should come into play when we consider funding political parties?
441. MARTIN HAYMAN: The issue of fairness is one. How do you achieve a greater level of equality across political parties? The next big step is addressing the issue of capping political donations.
442. DAME DENISE PLATT: It has been put to us that fairness and a level playing field penalises the successful and that everybody should not be

brought up to the same level. The playing field should be bumpy. funding will go up if they are popular..

443. MARTIN HAYMAN: There is a balancing act to be done. If you have political parties that are heavily dependent on a small number of single funding sources, that is an uncomfortable position in terms of public perception. Rather than the capping of donations restricting a successful party, the successful party simply needs to be identifying more people who will support it. Our party traditionally has been funded by all of its members paying a small amount into the pot. We have been more successful in recent years in increasing the number of people who have been giving larger donations. Certainly through the recent general election, that was very much the case, but that was a concerted effort in terms of fundraising activity. Rather than trying to secure one gift of £10 million to fund the whole thing (which raises an issue about how much influence one donor can buy with that big gift), most of our efforts are focused on securing a large number of significant but smaller gifts.
444. DAME DENISE PLATT: Would a gift of that size buy influence? I know £10 million has never been given as a single amount.
445. MARTIN HAYMAN: With the situation in Scotland, it has to be asked. One donor, Brian Souter, made a very significant donation to the SNP, which amounted to about 50% of the SNP's donation income in 2007. That came from one donor. That amounted to 40% of their election campaign costs from one individual. Can you say that a doubling of their income did not change the election result, given that the election result hung on one seat? I do not know, but is that too much influence from one individual? I say yes.
446. DAME DENISE PLATT: Was that a one-off or is there a big donor culture in Scotland?
447. MARTIN HAYMAN: There has not been a big donor culture, but traditionally a lot of the Labour Party's funding will come from unions. In that sense, yes, there is from union funding. But there has not been a major donor culture in the past. The announcement that gained slightly larger publicity was probably Sir Tom Farmer's announcement a few weeks earlier of a £100,000 gift to the SMP. That made people sit up and say, "Wait a minute".
448. DAME DENISE PLATT: So you are in favour of donation caps?
449. MARTIN HAYMAN: I am in favour, as was the federal party's submission, of donation caps in line with what was being proposed and discussed by the Hayden Phillips review.
450. DAME DENISE PLATT: Would a donation cap have a significant effect on your party?
451. MARTIN HAYMAN: It would have an impact because we received a number of gifts during the recent election campaign that were more than that.

It would encourage us to focus on securing more gifts at or below that level?
It is only right that we should be doing that.

452. DAME DENISE PLATT: It has been put to us that even £50,000 is quite a large amount of money and that an ordinary person would still see that as an amount that could buy influence. Is £50,000 the right place for a cap to be?
453. MARTIN HAYMAN: If you look at the level of funding that is required to fund a general election campaign, £50,000 is a small percentage. £500,000 or £1 million is a significant percentage of that. There is a judgement call as to what percentage of any campaign should be funded by one individual. £50,000 is probably the right kind of level.
454. DAME DENISE PLATT: How would £50,000 play in Scotland in a Holyrood election?
455. MARTIN HAYMAN: £50,000 of funding in a Holyrood election would be a very significant chunk of any campaign for any party. In terms of spending it would have been 20% of what we spent last time and is probably at the limit of what I would have thought would be acceptable in terms of public perception.
456. MARGARET BECKETT: We have talked so far about donations, caps on donations and so on, but we have had quite a number of people say to us that one of the things that is driving the quest for donations is the permitted level of expenditure and that it would contribute to greater stability and public trust to bring down the permitted level of expenditure. Do you have view about that?
457. MARTIN HAYMAN: There is a balancing act between what is spent at a local level on local campaigning and what is spent nationally on national campaigning. The change that brought in the long campaign and the short campaign funding and the thresholds for that actually encouraged a greater level of spend at local level without reducing the cap over the national and overall campaign. In terms of public engagement in politics, a local campaign is very important. Local activity, people on doorsteps delivering leaflets and seeing local literature is actually important. If you drop the threshold for local campaigns too much, that becomes difficult to achieve. As it stands at the moment, the production of the election address can cost a quarter to a third of the local election limit.
458. MARGARET BECKETT: People have not concentrated much on lowering the cap at local level. They have talked about the national level.
459. MARTIN HAYMAN: At national level there is potential to lower that and I think there would be benefits.
460. MARGARET BECKETT: The other thing is that you touched on the fact that it is all getting increasingly complicated. We now have the long campaign and the short campaign. In Scotland, as in Wales, there are a lot of different

elections as well.

461. One of the other points that has been raised with us is that we are in a time of 24-hour news media and with substantial numbers of elections we should simply apply expenditure limits across the piece, whether on an annual basis or whether there is a different pattern, but not differentiate simply between a campaign period and a time when there are no holds barred.
462. MARTIN HAYMAN: There is a balancing act to do because campaigning that happens closer to the election has a bigger impact. Previously, before the long campaign was brought in, parties could spend very significant amounts of money up to a date before the election effectively trying to buy a seat. In that sense, the long campaign has prevented that and has levelled the playing field. That is a very positive outcome. It is complicated. It is complicated for the membership and for our treasurers to understand in terms of making returns. But it has achieved a greater levelling of the playing field than the previous system. If you just set the expenditure level over a 12-month period, you will probably find that all of that spending would be concentrated into the short period in the run-up to the election rather than spread over the year. I am not sure that that would create a level playing field. I do not think it would.
463. LLOYD CLARKE: Could I just ask a follow-up question on expenditure? I have the Electoral Commission data for May 2007 Scottish parliamentary elections. There is a spending limit of £1.5 million. Why did you spend only £303,000, way below the limit? Was that because you did not have sufficient funds?
464. MARTIN HAYMAN: Yes. Straightforwardly, we spent as much money as we had. We actually spent slightly more money than we had and ended up with a deficit that year, but that is the reality of it. We spent what we could afford to spend.
465. LLOYD CLARKE: Interestingly, nobody spent up to the cap. The nearest was the SNP and they only spent £1.4 million, but nobody spent up to the cap. You really do stand out as to what you spent then and I was trying to understand that.
466. MARTIN HAYMAN: That is about how much we had to spend. Quite a lot of our money was spent by local parties rather than the national campaign. More of our activity, probably, than the other parties' is channelled at local level. If you look at the spend in individual constituencies, we spent more than some of the other parties. That is our campaigning approach, more than anything else, but the reality is that we do not have £1 million to spend, so we cannot.
467. LLOYD CLARKE: I have a difficult question to answer but I am going to ask it. If you had another £500,000 because donations allowed it, would it have had a significant impact on the result?

468. MARTIN HAYMAN: It is a difficult question to answer. In certain areas, yes, it might have had an impact. For a seat that is marginal one way or the other, something a bit extra may have made a difference. Would it have made a huge difference and completely changed it? We have a situation in Scotland where the balance of power is on a knife edge, so any change in the position, one seat one way or the other for any of the parties, would have changed the outcome of the election.
469. LLOYD CLARKE: May I turn to state funding? Clearly, we understand the system here. The Scottish Parliament corporate body provides funding for activities and performing parliamentary duties. You have talked about principles of fairness, equality and transparency. Does that funding achieve that? Is the process of allocation fair and transparent?
470. MARTIN HAYMAN: The short funding into the Scottish party certainly makes a significant difference in terms of creating a level playing field between opposition parties and the party in government. We have had experience of three different scenarios: one where we were in government and received no short money, one where we were in government and received a proportion of short money and one where we were not in government and received the full allocation of short money. It enables us while we are not in government in the current situation to employ a number of people on the policy and media side of things that we would not otherwise be able to have. Our party budget would not enable us to do that, so it does create an element of equality. It is just short of £108,000 this year. That is three or four members of staff.
471. LLOYD CLARKE: You could always spend more, I guess.
472. MARTIN HAYMAN: The reality is that you could always spend more. One of the difficulties in the current climate, particularly in the run-up to an election, is policy development. When you are looking at a situation of how to save money and how to spend less money, there is actually a huge amount of work to be done looking at the whole range of public sector spending and trying to work out how we manage and propose a budget going forward into the election, with what is a very small staff to work with.
473. LLOYD CLARKE: In terms of greater state funding, do you have a view on that, whether it be by tax relief or matched funding? Is this the right climate to do that?
474. MARTIN HAYMAN: Now is a very difficult time to do that. For any political party to put its head above the parapet and we say that we think more public money should be spent on political parties would be a difficult position.
475. LLOYD CLARKE: But if the timing were different, would the principle of more state funding be acceptable?
476. MARTIN HAYMAN: The principle of more state funding would be. The proposals that were put forward by Hayden Phillips and supported by the Liberal Democrats were the right level of proposals. There was an element of

matched funding that was about public participation and based on the level of public support. That balance provides state funding to the parties that clearly have public support and is the right way to address it.

477. LLOYD CLARKE: If we put a cap on donations and/or a cap on expenditure, an argument might be that people will just find ways of channelling money into third parties. There are not that many third parties registered with the Electoral Commission. Is it going to just channel the money elsewhere and might more regulation be required for that?
478. MARTIN HAYMAN: It may be. To be honest, it is not an area that I know much or have much experience of, having never needed to channel money through any other source because we have never been anywhere near the thresholds. What does need to be looked at is the situation where a third party can spend money in an election as a third party but also be a donor and therefore effectively double the amount of money that they are able to put into political campaigning. That needs to be addressed.
479. LLOYD CLARKE: You say that that could be done. Has it ever been done? Has it ever been challenged or can you give an example?
480. MARTIN HAYMAN: I do not know any situations, certainly not that I am aware of here, no. In theory, it could be.
481. LLOYD CLARKE: Preventative action is what you seem to be suggesting.
482. MARTIN HAYMAN: Yes.
483. LLOYD CLARKE: Thank you.
484. DAVID PRINCE: I want to come on to the current regulatory framework and its enforcement by the Electoral Commission in Scotland. Looking generally, do you think the current framework is about right? Is it proportionate or are there ways that it could be streamlined or made less burdensome? You mentioned your treasurers, for example, earlier. Is it about right in terms of the transparency that it delivers?
485. MARTIN HAYMAN: The level is about right in terms of getting the balance for transparency. Yes, there is a burden on treasurers. Part of handling that for us has been reducing and removing unnecessary accounting units within the party because the level of work is multiplied by the number of accounting units you have reporting. The Liberal Democrats have historically had regional parties and local parties, each having their own independence. That creates workload. We have in recent years deliberately reduced the number of accounting units to cut down the amount of time that is required. It does not change the level of transparency whatsoever but it has significantly reduced the workload in terms of the number of people needing to fill out reports. But on the whole the work the Electoral Commission does on this

matter is spot on.

486. DAVID PRINCE: Just on the accounting unit point, I understand that the Electoral Commission is working with parties and trying to produce a standard format for the publication of accounts. Is that something that you are keen on taking part in or would like to see happen?

487. MARTIN HAYMAN: Yes, absolutely. It makes it easier for everybody and is the right way to go.

488. DAVID PRINCE: I am almost tempted to ask why it has not happened already. Is that because it is still in the pilot stage?

489. MARTIN HAYMAN: I do not know.

490. DAVID PRINCE: Do you see any particular problems in enforcing the current regime in Scotland? Are there any Scottish dimensions to the general legislation that the Electoral Commission has to be careful about or ought to put more focus on?

491. MARTIN HAYMAN: Not that I am aware of.

492. DAVID PRINCE: From your overall perceptions, do you see the Electoral Commission as having been effective at enforcing the framework as it now is? Of course, it is about to change.

493. MARTIN HAYMAN: I think it has, yes.

494. SIR CHRISTOPHER KELLY: Is there anything else that you have not had the opportunity to say that you would like to say?

495. MARTIN HAYMAN: No, that is everything that I wish to say.

496. SIR CHRISTOPHER KELLY: Thank you very much for coming to talk to us.

497. MARTIN HAYMAN: Thank you.

COLIN SMYTH (SCOTTISH LABOUR PARTY)

498. SIR CHRISTOPHER KELLY: Welcome. Thank you very much for coming. Is there anything you would like to say by way of general introduction or should we pass straight on to questions?

499. MR COLIN SMYTH No, I am quite happy to go straight on to the questions.

500. SIR CHRISTOPHER KELLY: I have asked everybody else, so I ought to ask you. At a UK rather than a Scottish level, do you think there is a problem with party funding or do you think there is just the perception of a

problem?

501. COLIN SMYTH: I agree that there is a problem. It is fair to say, though, that we have come an awfully long way in the last few years with a number of pieces of legislation and a significant number of new regulations. There are a number of areas that still need to be tidied up. The issue of spending limits in particular is obviously one but we have come a long way and improvements can be made.
502. SIR CHRISTOPHER KELLY: I am sure we will ask you to elaborate in a few minutes on spending limits. If that is the UK as a whole, are there any issues that are unique to Scotland that we ought to be aware of, in your view?
503. COLIN SMYTH: There is a number of issues but they are reasonably small scale. One matter raised by the person giving evidence for the Liberal Democrats previously and that was the disparity between the SNP and the Scottish Green Parties as parties that only fight elections in Scotland and the UK-wide parties and that is the level of disclosure. Effectively, the Scottish Labour Party, the Scottish Conservatives and the Scottish Liberal Democrats are classed as accounting units in the same way as a local constituency party, so we obviously declare donations above the £1,500 threshold, whereas obviously the SNP does not declare donations until they reach the £7,500 mark. You made the point that it is to an extent minor but it is an issue that does get raised with us.
504. The prime example is sponsorship for conferences. A number of organisations in Scotland will sponsor several parties' events at conference because they do not wish to be seen to be supportive of one party above another. For example, if they sponsor an event that costs £2,000, obviously we will declare that as a donation to the Scottish Labour Party. The Liberal Democrats will do the same, but obviously the SNP would not declare that because they are not required to. That gives the impression that that particular organisation is not supportive of all the parties and is actually excluding the SNP. That is certainly an issue that has been raised by the media, which has looked at examples of that and effectively accused those organisations of being against the SNP, if you like, when in fact it is purely because of the threshold.
505. It is also confusing for those individual organisations. We explain what the threshold is and they kind of scratch their heads and ask why the threshold is lower for the Scottish Labour Party than it is for the SNP. You then have an explanation about UK parties, et cetera, to go through. It is an issue for those particular organisations and it does make them feel uneasy because they are not being seen to be supportive of all parties. That is certainly an issue that needs to be looked at.
506. SIR CHRISTOPHER KELLY: I understand the point about sponsorship, which is about more than money. If the limits were equalised and if you were given a £7,500 threshold, in your case would it make a major

difference to the funds that you received?

507. COLIN SMYTH: I am not sure it would make a significant difference to the funds because I do not see significant evidence that an organisation will not support a Labour Party event but will support an SNP event because they do not have to disclose it. The issue is that it would be more transparent if all the parties that were receiving a similar amount of money in Scotland had to declare that similar amount.

508. The only other area that I know has been flagged up in the past is the support arrangements for opposition parties. The support arrangements are similar in Scotland to those at Westminster. The only difference is obviously the levels of support. They are both effectively paid based on the number of seats you have in parliament but the level for the Scottish parliament, short money, effectively, is obviously significantly less. It is not just based on 10 per cent of the rest of the UK, as in the population of Scotland, but actually the payments per seat and per parliamentarian are actually a lot less in the Scottish Parliament than it is at Westminster and that is an issue that has been flagged up.

509. While the arrangements are similar, the levels are certainly different. The current level the Labour Party receives in the Scottish Parliament is around £300,000 per year. Since December 2007 we have received about £800,000 in total. If you look at the last year of the Conservative opposition at the UK level, the figure was nearer £5 million, so you can see even as a proportion it is significantly higher. Another example is the leadership allowance. The current leadership allowance at Westminster is around £600,000 but for the leader of the main opposition party in the Scottish Parliament the allowance is around £24,000 a year, so you can see there is a significant difference in the levels but obviously the arrangements are the same. Apart from those, there are no significant differences.

510. The big issue is obviously the impact of devolution on parties. The main impact has been simply on the sheer number of elections and the sheer pressure on party finances of actually competing in those elections. Obviously, it is a major burden on parties. It is a welcome burden because we are obviously very supportive of the Scottish Parliament but it is a burden on parties both at a national level and also, crucially, at a local level as well. Local parties obviously have to raise funds to fight their campaigns at a local level.

511. One of the unique things we are going to have for the forthcoming Scottish Parliament election is that since devolution parties have effectively had a two-year gap between the Westminster election and the Scottish Parliament election, until this year. The gap is now just 12 months and that obviously puts burdens on local parties in having to raise funds to make sure they can fight those elections effectively. Instead of having one general election, we actually have two general elections in Scotland every four years.

512. SIR CHRISTOPHER KELLY: What should the response to that particular problem be? Is that just one of the things that happens, not least because in Scotland there are four-year fixed terms and in Westminster there are no fixed terms but might soon be five-year fixed terms?
513. COLIN SMYTH: Absolutely. It is something that we are prepared to live with because we support having a devolved Scottish Parliament.
514. One of the things that would have been helpful is when Westminster is considering fixed terms, as it currently is at the moment. If they had four-year fixed terms, the gap between the Scottish Parliament elections and the Westminster elections could have been two years to allow parties to raise funds in Scotland. Because it is a five-year term, the gap will be different every year, effectively, and it is very difficult in planning terms.
515. SIR CHRISTOPHER KELLY: I understand the point. I am not sure it is a point for us. However, on your point about the disproportionate size of Short money and the leadership allowance, presumably the levels of both of those were set deliberately. Someone must have had a view at some stage as to what the relativities between Holyrood and Westminster should be in those areas.
516. COLIN SMYTH: I do not know exactly what the view was at the time and why the particular levels were accepted. It was obviously prior to 1999 when that was set. But I know there was a review recently of a number of areas and that was certainly one that we flagged up as a party. The levels were relatively small. I suppose it comes to the point, particularly in the current climate, that arguing for more public funding of a party is obviously a very difficult place to be. I suspect that might be the reason why those levels have not been increased in Scotland.
517. SIR CHRISTOPHER KELLY: It might have something to do with what is reserved and what is devolved, but in that case you might expect it to change as new powers have come into the Scottish Parliament.
518. COLIN SMYTH: It may. I am not entirely clear whether or not that is contained within the current powers or the Bill that was announced yesterday but, yes, that could be a possibility.
519. DAME DENISE PLATT: I was just wondering if you know how the allowance for the leader of a party compares with the allowance for the leader of a council.
520. COLIN SMYTH: In Scotland there is a banding system for leaders of councils, so each council is given a band. The largest councils will be in band A and I think the salary of a council leader is set by that band at £40,000. But there is no funding as such, other than what a local authority may decide, for an actual leader's office. There is no formal level across Scotland. It is entirely up to the individual local authority whether it provides any support.

521. DAME DENISE PLATT: That was just a tangent. I am going to concentrate on the principles that underpin our current party funding system. The prime one is fundamental to the system: transparency. How effective do you think transparency is in the current system?
522. COLIN SMYTH: It has been exceptionally effective. As a party, the Labour Party has strongly supported transparency for a considerable period of time. We have published our annual accounts since our party effectively began. Even before there was regulations requiring parties to declare donations, the Labour Party declared who our donors were, so it has been successful. It underpins the fact that the ultimate arbiter of whether or not a political party is conducting itself in an effective way is the public. They can see from where a party receives its donations and on what a party spends its funds. At the end of the day, a political party is answerable to the public at election time and obviously people can see and take that into account when they are casting their votes.
523. DAME DENISE PLATT: Do you see any gaps in the information that is publicly available?
524. COLIN SMYTH: There are none that spring to mind, to be perfectly honest. Looking at it from a political party point of view, I cannot think of anything that we could publish that would make a significant difference without adding considerable burdens on the party. Nothing springs to mind.
525. DAME DENISE PLATT: One of the gaps which has been raised with us is the point you touched on earlier, the inability to identify money raised outside Scotland and spent in Scotland.
526. COLIN SMYTH: The reason it was raised is because the party that raised it would like to see Scotland as an independent country, to be perfectly honest. We are a UK party and we are proud of the fact that we are a UK party. Consequently, we are happy with the fact that there are number of areas in which we work incredibly closely with the party as a whole. For example, there are services provided at a UK level and it would just be daft to actually have them separate in Scotland. The UK party will provide a human resources service for all the party units in Scotland. They will provide an IT service. My laptop will work the same in Dumfries as it works in Carlyle. I do not need to have a separate Scottish party IT department. Therefore, it would be very difficult to actually work out and calculate how much of that service time is actually spent in Scotland. It would be incredibly difficult to do that.
527. Likewise, in terms of donations as well, there are individuals and particular organisations that may donate to the party at UK level. They may have members in Scotland as well as members in the rest of the UK. You would then have a situation where you would have to calculate how many members they had in Scotland to decide what proportion was effectively coming from Scotland. It would be incredibly burdensome and something that from a principled point of view I just do not agree with because we are obviously a UK party. I fundamentally disagree with the view that that sort of

transparency is not there already.

528. DAME DENISE PLATT: In your view, is it a political issue rather than a transparency issue?

529. COLIN SMYTH: It is a political issue. The issue that people are trying to imply is that somehow parties that organise across the UK are effectively funded by down south, to be perfectly honest. The reality is that it is a UK organisation, not an English organisation, that may provide support for a particular arrangement.

530. DAME DENISE PLATT: Are there any other principles that you think are important and that should be brought into play?

531. COLIN SMYTH: Transparency is by far the most important one. I have heard the issue of fairness mentioned by a number of people. It is always a difficult one because it would depend how you define fairness.

532. One thing that is important is that whenever any changes are proposed they are fair to all parties. In particular, if there are changes, we should be aiming for a degree of consensus before those changes are actually introduced. It is important that changes in party funding are not used by one party to attack another party because you would simply end up with a situation where, if that other party were to come into power in the future, they may seek to reverse that. I do not think that does justice to the issue at all, so it is important that we achieve consensus as far as possible with any changes.

533. DAME DENISE PLATT: I want to move on to donations. You had a little local difficulty up here with Wendy Alexander around inadmissible donations. Did that event change or damage public confidence around donating to political parties in general? Did it have any impact, other than on the individual?

534. COLIN SMYTH: It certainly received considerable coverage in the Scottish media. I took over as General Secretary of the party towards the end of the issue. I took over in early 2008 and Wendy stepped down as leader of the party and the Scottish Parliament in June 2008, so I was not aware and was not involved in the various discussions that took place up until her actual resignation. But I am obviously aware of the background to it and the fact that it was an impermissible donation.

535. Whether it has had a long-term impact I have to say I doubt. There have been a number of changes introduced as a result of that particular incident. There have been a number of changes in the regulations in the Scottish Parliament, for example. One of the issues raised at the time was that Wendy had not declared to the parliamentary authorities particular donations despite having declared them to the Electoral Commission. That whole issue of dual declarations has now been changed in order to simplify that, so there have been changes.

536. The other issue, of course, at the time was that Wendy received advice from the Scottish Parliamentary Standards Committee clerks. She followed that advice and it transpired that the advice was wrong. Effectively, she was punished for following that particular advice. Again, that has been changed. If advice is given, the parliamentary authorities have to take that into account before they effectively hand out punishments. There have obviously been changes in some of the regulations in relation to the Electoral Commission as well. So, if there is an impact, the impact has been the making of a number of changes to the process.

537. What that illustrated was the scale of coverage that happens when you have an incident such as this and the fact that the amount of money involved has no impact at all, certainly in the Scottish media, on the level of coverage. It was donation of £950. That does not change the fact that it was an impermissible donation and that is obviously an important issue, but I have the impression that if the donation had been £50,000 or £100,000 it probably would not have received any more coverage than it actually did for £950. There were not too many more pages to actually fill at the time, so the issue did receive an awful lot of coverage.

538. Taking it away from that particular issue, I heard someone earlier talk about the fact that often complaints are made to the Electoral Commission. As soon as you use the phrase “complaint to the Electoral Commission” and “Electoral Commission is investigating”, you are guaranteed column inches in national newspapers, irrespective of what the particular issue is. I do not think it has a long-term impact but it certainly had a major impact at the time.

539. DAME DENISE PLATT: It has affected behaviour in different ways. We have heard a lot about the influence of big donors in evidence that we have received from across the UK. In your view, is there an issue around big donors or a big donor culture in Scotland?

540. COLIN SMYTH: It is not an issue that has impacted on the Scottish Labour Party since I became General Secretary. We do not have a huge number of large donors. I know that one example given earlier was the substantial donation given to the SNP by Brian Souter, which covered almost 50% of that particular party’s election funds. It remains to be seen whether that will happen again in the run-up to the 2011 Scottish Parliament elections but I do not envisage a lot of very large donations being made.

541. DAME DENISE PLATT: The big organisational donor to the Labour Party is the trade unions and we hear evidence from a variety of people that the relationship should be modified or made more transparent. What is your view?

542. COLIN SMYTH: The first point I would make is that the regulation of funds from trade unions for political purposes is already considerably regulated. In comparison to companies, for example, we have a range of legislation. The 1913 Act, the 1984 Act, the 1992 Act all put regulations on trade unions. They have to have ballots of members to agree political

objectives and individual trade union members can opt out of paying a political levy, so there is already considerable regulation. Shareholders cannot opt out of a company making a donation to a political party but they can opt out if they are a trade union member, so it is already reasonably heavily regulated.

543. People also have to understand that the Labour Party is an organisation of individual members but it is also made up of affiliated organisations as well. The trade unions are very much part of the Labour Party. It is not an external source, effectively, donating to the party. They are very much part of the Labour Party. They are affiliated to the party and individual members have a say in leadership elections, for example, for those affiliated organisations. There is a danger that people use the current and ongoing reviews into party funding to focus on trade unions without fully understanding the history of the party and the way trade unions fit into the Labour Party.

544. DAME DENISE PLATT: Do you mean that it is a bit of jealousy?

545. COLIN SMYTH: Absolutely, yes. I am very proud of the relationship between the Labour Party and our trade union comrades. I am a trade union member and I know exactly how much I pay to my trade union. I know that I could opt out of paying the political level if I chose to do so. Obviously, I am not going to choose to do so.

546. DAME DENISE PLATT: What is your view on donation caps?

547. COLIN SMYTH: It is a difficult one. It is interesting if you look at the various reviews that have taken place over the years. Your predecessor said no to donation caps and then Hayden Phillips said yes, so it is interesting the way in which things have actually moved along.

548. I suppose the fundamental issue with donation caps is that if you limit the donations you are likely to limit the amount of income of a political party and you are then going to have to find that income from elsewhere. The alternative, as Hayden Phillips said, is to look at increased levels of public funding. Of course, then you get into the real difficult issue of how you secure increased public funding at this stage. So the theory behind donation caps is obviously well made but it raises particular difficulties.

549. There is a particular difficulty in the level that has been suggested by Hayden Phillips of £50,000. If you are going to have caps, the Labour Party's position is that it should be lower than that. You could have a situation where a wealthy donor will simply have a number of members of their family make individual donations of £50,000 in order to get up to a far higher figure. If the cap was at £500 to £1,000, for example, the desire to do that is obviously going to be significantly reduced unless you have an incredibly large family in order to achieve that.

550. I have mixed views on caps. If they are going to be introduced, they need to be introduced at a lower level to avoid that sort of circulation of family

members to make donations and, crucially, you are going to have to fill the gap elsewhere because political parties will still need to make an income and it would be incredibly difficult with a very small cap.

551. DAME DENISE PLATT: Would it have a significant impact on your party in Scotland if there was a cap on donations?
552. COLIN SMYTH: Specifically for myself as the General Secretary of our unit in Scotland, we do not have a significant number of large donations, so it will not have a major impact. But it will clearly have a major impact on the party across the UK.
553. SIR CHRISTOPHER KELLY: As a matter of interest, if you had decided to opt out of your affiliation through your union membership, in your particular case would you pay a lower subscription?
554. COLIN SMYTH: I am no expert on trade union funding, to be perfectly honest. I have never looked into opting out, so I am not entirely sure. I assume I probably would.
555. MARGARET BECKETT: We have heard some people today say that there is not an arms race on spending in Scotland and other people say that there is. My first question to you: is there or is there not, in your view?
556. COLIN SMYTH: If there is an arms race, I would have to say that it is not one that the Scottish Labour Party has been competing in over the last few years, but overall there is clearly an arms race in party political funding across the UK. There is no question about that.
557. MARGARET BECKETT: You said in your opening remarks that you think, whether or not there is a cap on donations, that there is something to be said for tightening on expenditure. What did you mean by that?
558. COLIN SMYTH: There needs to be a look at national spending limits. There is no question about that. The level of limits basically means that there is not a level playing field. We will see tomorrow the publication of the election returns from the general election and we will see quite clearly that the Labour Party obviously spent well below the actual limit, so it is quite clear that there is not a level playing field when it comes to those limits.
559. There is scope to also look at the issue of whether or not the current regulated period for local spending should actually be year-round instead of for just that period of time. The regulated period for the Scottish Parliament elections, for example, begins on 1 January. It seems it is worth looking at whether the regulated period could be actually all year round so you look at expenditure all year around.
560. The one challenge with that of course is that the regulated period affects individual candidates' expenditure rather than local parties' expenditure. At what point does a Scottish Parliament candidate kick into the

regulated period and at what point does a Westminster candidate kick into the regulated period? There is obviously an issue there.

561. But to me it is clear, if you have substantial national spending limits, that that is simply a signal to political parties that they have to make a dash to get donations in order to compete. If you therefore reduce the spending limits at a national level, the parties are under less pressure to get large major donations because they are unable to spend more than the actual limit. That is a key point.

562. MARGARET BECKETT: That was a very important point you made and you are the first person who has made it to us. There has been a lot of general mention of all these campaigns, especially here in Scotland and presumably similarly in Wales, where there are an extra number of campaigns. Why not just control the whole thing? You are right. There is an issue of how and when it applies to the candidates and to local parties, which had not focused on.

563. There is also the general idea going around that if there were limits on expenditure and therefore less pressure for donations and perhaps for big donations, that would encourage parties to campaign more widely and at a more grassroots level. Do you have a view about that?

564. COLIN SMYTH: The way in which we focus campaigning is where it has most effect as much as anything else. I am sure it may be the case that if spending limits were reduced the campaign would be an awful lot more focused. Certainly the challenges the Labour Party has had in terms of donations have meant that in many ways we have been more focused on more targeted campaigning. You will not see many large expensive billboards used by the Labour Party at the moment in the run-up to an election, but you will see an awful lot more targeted mailings. I suppose in many ways having less funds to spend will put a focus on a better use of resources, yes.

565. LLOYD CLARKE: I am interested in the spending cap. You were saying that you would expect tomorrow the release of the Electoral Commission's information on the last election will show that you have not come up to the spending limit. Is that because you just do not have the money to spend? It is the same question I asked the previous witness. If you look at the Scottish Parliament election of May 2007, you could have spent up to £1.5 million? Did you choose to spend just £1.1 million or was that simply because that was the funds you had available?

566. COLIN SMYTH: That was the funds we had available.

567. LLOYD CLARKE: You may have spent more if you had had the funds to do so?

568. COLIN SMYTH: Yes.

569. LLOYD CLARKE: State funding comes in a lot of different guises, whether it be postage, television or whatever else. Specific to Scotland and in respect of the grant you get from the Parliament corporate body, you are the greater beneficiary of that by virtue of the number of seats you have. In proportion, the amount you get is about £300,000. How much of that is needed or is it more than that? What percentage of your spend is that?
570. COLIN SMYTH: As well as the short money that the party receives, individual Labour Members of the Scottish Parliament also contribute just over £3,000 each from their allowances to support the work of the team in the Scottish Parliament, so it is actually less than is currently spent.
571. LLOYD CLARKE: We are talking about principles of fairness and equality. Do you think the process of allocating that funding is correct and transparent?
572. COLIN SMYTH: It is certainly transparent and to allocate funding based on the number of MSPs seems the fairest way to do that. That is the way it works at the moment.
573. LLOYD CLARKE: I do not know if you can cast your mind back, but what was the public perception when it was made overt that money was going to be spent in this particular way? Can you remember if there was a reaction from the public or not?
574. COLIN SMYTH: I do not think there was a reaction. Very few people will know what short money is, to be perfectly honest. It receives far less coverage than, for example, what one Member of Parliament may spend their constituency expenses on, for example. Both are legitimate expenditure, but I have seen very little coverage of the use of short money in Scotland.
575. LLOYD CLARKE: Is it not transparent enough, perhaps?
576. COLIN SMYTH: It is certainly very transparent but it is clearly not something that excites the public.
577. MARGARET BECKETT: There is a focus on Parliament. People do not understand and it does not particularly emerge.
578. COLIN SMYTH: That is absolutely correct. I listened to David McLetchie earlier and obviously he was in a slight difficulty over saying that it should only be used for parliamentary purposes and then of course it was pointed out that we have the election address and party political broadcasts. If there the use is specified for any public funding, that deals with that problem to a large extent. If you simply said, "We are going to provide X amount of funding for a political party and they can decide exactly what they are going to spend it on", that may be more difficult than actually saying it is for a particular purpose.

579. LLOYD CLARKE: Thank you. Is there a case for increasing state funding? There is a pragmatic answer that says now is not the time, but might there be a case to be made overall?
580. COLIN SMYTH: You are absolutely spot on. Now is certainly not the time and it is not an argument that we would win. I have no principled opposition to increased funding for political parties if it is properly regulated and for a particular purpose. If you are talking about donation caps, you have to find additional funding from somewhere. Political parties have a crucial role to play in the political process and I do not think we should hide from that fact. They have to receive their funds from somewhere.
581. LLOYD CLARKE: Do you have any preferred method?
582. COLIN SMYTH: Not in particular. Earlier somebody mentioned the issue of taxation. The difficulty with that is that it benefits people who pay the most tax and therefore have the largest income. For people on low incomes, there is no real benefit in the tax process. There is no significant benefit.
583. LLOYD CLARKE: You could make an equal benefit.
584. COLIN SMYTH: Yes, you could, but the level of tax rebate would depend on how much you were able to actually give. It would favour larger donors. But I have no strong views on how that is funded, other than the fact that if it was for a particular specified purpose, that would be quite important.
585. Finally, just to go to third parties, a case has been made to us that if we start to cap donations and if we start to cap expenditure, the money is just going to be funnelled into third party activity. Is that an argument that you subscribe to? If it is, what needs to be done about it?
586. COLIN SMYTH: There is no question that it has that potential. We do not have a significant history in Scotland of third party involvement in elections. That is not just those parties that are registered, I have to say. Generally, there is no media involvement of third parties. Inevitably, if you had a cap on donations, there would be an increase in the number of third parties. There would be an increase in people channelling funds towards single issue organisations, so it would not necessarily be a registered third party who was trying to influence an election. It could be a single-issue campaign, for example, and that could take in a whole range of ways. The danger is that single-issue campaigns have a significant role to play, but they cannot ever replace political parties who have to provide a package of policies across a whole range of areas because we are competing to form governments. The danger would be that money would be channelled away from political parties into single-issue campaigns and third parties. In my view, the issue is not really about trying to regulate that. It is the damage that that could do to political parties. It would actually weaken their role in the political process.

587. DAVID PRINCE: I wanted to ask you about the regulatory framework and its enforcement by the Electoral Commission. First in a general sense, do you think the current regulatory framework that you are all subject to is about right? Is it proportionate? Is it bearing unfairly on the volunteers or the treasurers? Are there any changes that you would like to make?
588. COLIN SMYTH: The difficulty at the moment, today in fact, is that obviously the new regulations have come in and the Electoral Commission is publishing the framework today as well, so I have not even seen the actual framework. I am aware of some of the new powers but not the exact detail of the individual framework. It is a case of looking at how the new changes that come into play today actually work in practice and given that period of time before we look back. Obviously the framework yesterday is different from the framework today.
589. DAVID PRINCE: Up until the point where the new regulations come in, do you think the system is generally delivering an appropriate level of transparency and is all right?
590. COLIN SMYTH: I think so. It does place burdens on national parties and also local parties. I do not know anybody who came into politics because they wanted to be a treasurer in their local Labour Party. There are additional burdens that are placed on individual members because of that. It can be quite burdensome on those members. If anything needs to be looked at, it is maybe reducing the burden on those individuals. Simply the level of paperwork, for example, as much as anything else.
591. One of the specific issues in Scotland is that we have tried to minimise the number of accounting units we have. The constituency Labour Party is an accounting unit and there are obviously 59 in Scotland. The challenge we have had is that the boundaries for the Scottish Parliament constituencies are different from the Westminster constituencies. There are actually 70 individual Scottish Parliament constituencies and they can cut across a constituency of the Labour Party. Under the rules that we tried to implement, it is still the constituency Labour Party that is responsible for declaring that individual donation, even if the donation is made for a Scottish Parliament campaign. That becomes quite difficult. The alternative would be to allow the party to also organise units at Scottish Parliament constituency level, but that would add over 70 accounting units, which is obviously not something we want to do. There are challenges there and the way we have tried to deal with it is that an individual constituency could be responsible for one or two Scottish Parliament campaigns in terms of declaring donations, but it does add to the burdens on individual treasurers.
592. DAVID PRINCE: Yes, I understand that. That is very helpful. Are there any other problems affecting either you as a party or Scotland in general around the regulatory system?
593. COLIN SMYTH: Nothing in particular. Obviously as a UK-wide party a lot of our dealings with the Electoral Commission are at a UK-wide level. In

Scotland the Electoral Commission provides a good forum for parties to raise issues not only with the Commission but a number of organisations in Scotland. The Commission organises regular party panels and it is not always to look at specifically Commission issues. It may be an opportunity to speak to the Boundary Commission for Scotland or the Scotland Office or even the Scottish government on a range of areas. The Commission provides a good forum for debate on those issues and bringing parties together and we have a good working relationship with the Commission in Scotland.

594. DAVID PRINCE: In general, you regard them as having been effective in terms of working within the rules that they have been given?

595. COLIN SMYTH: Absolutely. They have been effective. As I said, our relationship is probably different at the Scottish level than it is at the UK level because the regulatory issues are dealt with at a UK level and Scotland is very specific on the Scottish issues. Obviously most issues relating to funding are reserved issues at UK level rather than devolved issues.

596. DAVID PRINCE: Finally, you mentioned that you publish your annual accounts. Are you in support of the Electoral Commission's push to get everybody reporting in a standard format across the parties?

597. COLIN SMYTH: We certainly tried to introduce a standard format for our local parties because it is helpful to them as much as anything else. It provides a resource. We have an Excel spreadsheet, if you like, that local parties can use and it does simplify the process. Anything that helps to simplify the process for local parties is something we would support, providing that that particular agreed format is not complicated. If you look at some of the forms that local parties fill in at election time for election expenses, for example, they are overcomplicated and I would not like to see anything introduced that was overcomplicated. A local party could be penalised for effectively putting something in the wrong column, for example. If you have a simple process, that would be beneficial, yes.

598. DAVID PRINCE: Thank you very much.

599. SIR CHRISTOPHER KELLY: Is there anything you have not had a chance to say that you want to say to us before we finish?

600. COLIN SMYTH: No, I have nothing extra to add.

601. SIR CHRISTOPHER KELLY: Thank you very much indeed for coming to talk to us.