

## Opening statement

- Thank you very much for inviting the Commission to give evidence at an early stage in your review of party funding. I am joined by my colleague Lisa Klein, who is the Director of Party and Election Finance at the Commission.
- You set out a challenging list of questions in the paper you published in September. We have sent you a written submission, and Lisa and I will of course be happy to expand on that today.
- It may be helpful to start by mentioning what we - as the independent regulator of party finance - see as the key issues. I should say first that we are not policymakers - our focus is on regulating effectively, in line with the recommendations in this Committee's Eleventh Report.
- But of course we have a strong sense of how the current system works in practice, and we want to make sure that any significant changes can be made to work. That is important for us, for the parties, and ultimately to give voters confidence that the system is fit for purpose.
- So what are the key issues? We have identified three limbs to the current system. The first is **transparency**. Probably the single biggest change brought about by PPERA is that party donations and spending are now squarely in the public domain.
- It has become an integral part of our political culture, and perhaps people now take it for granted. But it is a massive improvement on the situation before 2000 and has become embedded relatively quickly – in just 10 years. Though it is not enough on its own: recent research shows that members of the public think it is vital to have an independent body checking that the rules are followed.
- The next limb is how to control the **supply** of political funding. We have raised two issues here. The first is about the **rules on who can donate to parties**. We check that donations come from legal sources, and compliance with the rules is generally good.
- But some of our recent casework has highlighted the scope of the permissibility tests that Parliament agreed in 2000. This review is a chance to look at whether the tests need to be adjusted.
- The second issue is whether there should be a **cap on donations**. There are a lot of factors to consider, and to some extent any move to cap

donations will have to be a political negotiation as well as acceptable in terms of public opinion.

- In practical terms, the Committee's Fifth Report raised some significant concerns about how a cap could be made to work effectively. We think those questions would still need to be addressed if you decide that capping would be appropriate.
- The third limb is demand for funding - how parties spend their money, and whether the PPERA **spending controls** are still appropriate.
- This isn't straightforward – the first step is to work out what the controls are aiming to achieve. But the current rules are also quite complicated for spending limits for parties and candidates at UK general elections, and the Government's proposals on fixed term Parliaments for Westminster could pave the way for them to be simplified.
- We have also commented in our submission on the current role of public money in funding political parties. And we have summarised our approach to enforcing the rules. Our powers to do that are about to be improved – thanks in part to this Committee's Eleventh Report.
- Finally, I would like to underline two general points that we make in our submission.
- First, the need to **think about the future** when changing the rules. Some of the debate around party funding is – understandably – focused on past problems. And there is always a risk in regulation of adjusting the rules to “fight the last war”. But things change fast in political finance, and a lot of the issues are inter-connected. The system needs to be reviewed regularly to make sure it is fit for purpose. Taking account of future needs is particularly important at the moment, since the Coalition Government has a big agenda of political and constitutional change.
- And we have also flagged the need to bear in mind the sheer range and diversity of politics **across the UK**. A lot of discussion about party funding is purely Westminster-focused, and that is dangerous. The different democratic structures in Scotland, Wales and Northern Ireland have varying needs, and the rules have to work for all of them, as well as for smaller parties who may still have an important role in local government.
- We are happy to continue to work with you to support this review if it is helpful. Your real challenge perhaps is to define the outcome that you want the regulatory system to achieve – and the principles that should shape it. I look forward to seeing the fruits of your labour with interest.

**Jenny Watson**  
**Chair**