



HOUSE OF LORDS

Revised transcript of evidence taken before

**The Select Committee on Trade Union Political Funds and Political Party
Funding**

Inquiry on

TRADE UNION POLITICAL FUNDS AND POLITICAL PARTY FUNDING

Evidence Session No. 2

Heard in Public

Questions 8 - 13

THURSDAY 4 FEBRUARY 2016

11.05 am

Witness: Lord German

Members present

Lord Burns (Chairman)
 Lord Callanan
 Lord De Mauley
 Baroness Dean of Thornton-le-Fylde
 Earl of Kinnoull
 Lord Richard
 Lord Robathan
 Lord Sherbourne of Didsbury
 Lord Tyler
 Lord Whitty

Examination of Witness

Lord German, Treasurer, Liberal Democrats

Q8 The Chairman: Lord German, good morning. Thank you for coming to see us. I think you have been present for part of the previous session. Would you like to make an opening statement?

Lord German: Thank you, Lord Chairman. For the record, my name is Lord German and I am treasurer of the Liberal Democrats. I suppose in that context I have an interest to declare in that I have made payments to the Liberal Democrats in the course of my lifetime. Like many other political parties, the Liberal Democrats are committed to the reform of political party funding. We believe, like others, that political parties are the backbone of our democracy; they give us structure and leadership from which voters can choose when they are casting their vote. They develop policy, they build support for those policies by engaging with the electorate, and they provide support for those individuals who serve our country and make up the governments and oppositions across our Parliaments, Assemblies and councils in our country. They need adequate funding in order to do these vital tasks, funding that frees parties from the suspicion of favours and influence in return for donations. That is why all parties were committed to taking the big money out of party politics.

The Committee on Standards in Public Life indicates in its report there are only three ways to do this. Those are: one, capping donations; two, limiting expenditure and increasing transparency; the third one, of course, is providing taxpayer support for democratic activity. There are many international comparators that show all those three elements in play around much of the developed world.

As if by magic, the OECD has produced a report today on the funding of political parties and election campaigns and the risk, as it calls it, of policy capture. It includes detailed case studies on nine countries, including the United Kingdom. I am afraid I have only been able to read the executive summary in the short time that it has appeared on my phone this morning.

To work effectively, as recognised in the report of the Committee on Standards in Public Life, there has to be a combination of all three elements. It is needed now. The evidence is that there is an urgent need to address this matter because there is a spending race, a race that does not appear to have an end. In the lead-up to the 2010 general election, six political parties spent £31 million. In the lead-up to the 2015 general election, the same six political parties spent £37 million. That is an increase of 19% in spending, which is well above the rate of inflation, which has been very low in the intervening years. The spending race has no end in sight. Therefore, it is of immense importance—to encourage and to receive the confidence of the people of this country—that we are funded in a way that reduces the suspicion of influence and favours.

Q9 The Chairman: Thank you very much, Lord German. Have you tried yourselves to make any estimate of what the impact of the provisions in the Trade Union Bill would be on the funding of political parties?

Lord German: Clearly there is an impact upon the Labour Party and it is for it to identify what the impact would be, but on the Liberal Democrats there will be very little impact on our overall funding, except if people were to choose in some way to be able to fund us as a consequence, but we do not anticipate a large change in the party as a result of these changes. The main reason we are concerned about this is because these two clauses are about party political funding, and I quote in evidence the Conservative Party manifesto, the relevant page of which I have with me, that says: “We will legislate to ensure trade unions use a transparent opt-in process for subscriptions to political parties. We will continue to seek agreement on a comprehensive package of party funding reform”. It is our belief that you cannot do the first without the second. That is the crucial issue that we face with these two clauses, because the net result of doing the first without the second will be what Lord Forsyth called, in his contribution to the debate on 20 January in the setting up of this Committee, “a war of mutual destruction”. I could well see the opportunity for replacing that first sentence with something like: “We will legislate to ensure that there is a cap upon

donor income. We will continue to seek agreement on a comprehensive package of funding reform". Simply changing the first part of that would be a partisan approach just as much as there is a partisan approach here. The crucial issue is that we need to find a way of dealing with this matter collectively. It will be hard for all political parties, but you cannot do the first without the second.

Lord Sherbourne of Didsbury: Do you have a view about people opting out or opting in? Is it a matter of principle that people should be allowed to opt in, or is it simply a matter of pragmatism?

Lord German: No. We agree with the Committee on Standards in Public Life that a change should be made. Our difficulty with it is that it is being done in a unilateral way, which will damage the prospect of ever dealing with the whole issue, which, as I said, has three component parts to it. I have no objection to the issue, which would have to be dealt with in a comprehensive way, but dealing with one without the other, as I said before, would not be a recipe for ensuring that we deal with the wider and broader issue that has to be dealt with and which the OECD report today accentuates.

Lord Sherbourne of Didsbury: As I understand it, as a matter of principle you are opposed to opting in, but you do not think we should deal with that unless we deal with other things at the same time.

Lord German: You should follow what the Conservative Party manifesto says: "We will continue to seek agreement on a comprehensive package of party funding reform". There are steps that could be taken. There has been no indication in this Parliament to attempt to secure any cross-party discussion on political party reform, and that ought to happen, given that it is a party commitment.

Lord Sherbourne of Didsbury: This is my last point. Does it bother you, as a matter of principle, that trade union members do not have a chance to opt in to contribute to a political party?

Lord German: Yes. As I said, the package that is laid out of those three principles bothers me, and I am bothered by all three. That is why, as the Committee says, we have to deal with this in a way that does not harm the balance that we have in our political party structure in the country.

Q10 Lord Whitty: I have two questions. First, on the point you were just raising, would you accept that the recommendations of the Kelly commission, and indeed the wording of the

Conservative manifesto, relate to affiliations to the Labour Party and payment of money to the Labour Party, or to any party, whereas the propositions in this Bill relate to the status of political funds in total, whether or not money goes to political parties?

Lord German: Yes. As far as we can see it, this is a matter of dealing with one side of the discussion and not the other. If the commitment was given, as it was, by all parties to take the big money out of party politics, you have to deal with political party donations, high-value donors and that issue at the same time, because the overarching suspicion that political parties are receiving favours in return for donations or getting special treatment is the one we particularly have to deal with.

Lord Whitty: Since you are here as treasurer of the Liberal Democrats rather than a valued colleague, could you perhaps give us a brief idea of where the Liberal Democrat money comes from? For example, what proportion of your income comes from individuals, members and companies; and in relation to a company, or indeed any other institution, are you aware of any other institution in the land that is allowed to make political donations but is subject to requiring a separate political fund that the members or shareholders are able to opt out of or are asked every 10 years to reaffirm the validity of?

Lord German: The noble Lord Whitty asks a very weighted question.

Lord Whitty: As ever.

Lord German: The answer to the part you have given me is that I cannot think of one, but I am sure you can. The balance of funding in the Liberal Democrats is that about 19% of our money comes from donations, and beyond that a large chunk of our money comes from our membership and other forms of raising money, which are common to all political parties.

Lord Whitty: Of that 19% donations, it is mainly individuals, is it?

Lord German: It is mostly individuals. There are some company donations.

Lord Whitty: As there are for all parties.

Q11 Lord Robathan: Lord German, basically you refer continually to party political funding and the Committee on Standards in Public Life. Might I pursue that further and, indeed, your role as treasurer of the Liberal Democrats? You used the term “overarching suspicion”. If I might say so, I do not necessarily have an overarching suspicion, but I have a slight suspicion that your argument is for public funding for political parties, as in CSPL, which I am against and by the way, contrary to what it says, I think most people in this country are against. I

certainly do not want to fund the BNP, UKIP, the Socialist Workers Party, or whomever it might be. Therefore, my question is: are you, as a party, in trouble with your funding?

Lord German: We are fine, thank you very much.

Lord Robathan: You are flush.

Lord German: I did not say “flush”. As to where we are in the funding race, I am not prepared to speculate where we will be by 2020, but we are confident that we will carry on with the activities that we are doing.

To answer your first point, which is about public funding, I would prefer to look in the round at the issue of public and taxpayer support for democracy. All of us in this room are currently part of the beneficiaries. Taxpayers are paying for the work that we do. There are many other aspects of political funding, which are party funding or, if you like, political party funding, which are a result of continuing activity that we do in this country. There is a case to be made for looking at that in the round. I also believe that there might be a case for the way you deal with these things being staged. One of the principal objections for the Conservative Party was that the level of the cap proposed in the Committee on Standards in Public Life report was too high. There may well be a case for staging in the changes agreed by all parties so that over time these things, with a sense of direction of where you are going, are sorted out. It would be wrong to give the impression that the country and the taxpayer do not support political activity and political funding.

Lord Robathan: That is a matter for debate, but my experience as a Member of Parliament for 23 years is that nobody, not even my opponents, suggested that we should be spending more money on supporting political parties. That included the Liberal Democrats with whom I often spoke.

This is my final question or comment. While you are quite right about the spending race—and I deplore it—I would make the point that it does not necessarily have a tremendous impact. I well remember the 1997 election, when I know that we well outspent everyone else and lost over half our seats in the Conservative Party. I would not put too much faith in spending money. My question is a simple one. You can reassure the Committee that this is not a question of self-interest for your party. You absolutely believe that public funding should be increased.

Lord German: I believe that the three elements are necessary to ensure that we have confidence from the public—and by the way, as to the third element, which is the level of

public funding, I think we need to look at that in the round. We may well be able to find savings in what we do already that we can divert into other forms. That is a matter of debate between the parties and it seems to me that that is something we ought to achieve. As to your point about the race and whether spending actually works, all I can point to is the increase in funding that parties put into what they call central campaigning, which has no effect on local funding returns, from local campaigns, and that money is where a lot of the extension is going. There will be some learned people who would, I am sure, be able to demonstrate that that has had some effect, but certainly anecdotally and in my party's estimation that sort of spending has had an impact. One element about limiting expenditure and there being transparency in that operation, which is one of the three elements we have to fulfil, is pretty crucial to making sure that we all live in a sane and sensible world and that we have the confidence of the electorate.

Q12 Lord Callanan: Following on from Lord Whitty's question, I think you answered the question to say that the Liberal Democrats are currently funded in a similar way to the Conservative Party by individual donations and membership fees. I assume—I do not know—that you do not receive anything from trade union political funds.

Lord German: We do not.

Lord Callanan: But you have lobbied and written to the TUC saying that you should.

Lord German: Individually. Members and certainly candidates have. I am hesitant because there are some candidates in elections who will have had some support from unions. Whether they are individual or from their political fund, I could not put my finger on it exactly, but we are not talking about big money here; we are talking about small-scale sums. In passing, I would like to take your first comment about us being funded in a similar sort of way. There is a fair bit of a difference between the 19% and the 59% of all individual donations put together to all parties; 59% of them go to the Conservatives, so there is a bit of a difference in the mean balance between the two.

Lord Callanan: Yes, but if individuals choose to give their money to one political party rather than another, that is an opt-in system and a matter of choice.

Lord German: That was one of the issues the Committee on Standards in Public Life wanted to ensure—that there was transparency of that operation and that we were taking the big money out, and big money is what contributes to that total.

Lord Callanan: We established from the previous witness—surprisingly to me—that less than 50% of trade union political funds are given to the Labour Party. Some 55% of them, presumably, are spent on other political campaigns. You said earlier that you support the principle that members should be allowed to opt into the political levy. The founding purpose of this Committee is to explore what impact the opt-in system might have on the funding of the Labour Party. Given those figures, would you like to share with us your view as to whether it is likely that trade unions may choose to increase the percentage of the political levy that they give to the Labour Party?

Lord German: It would be wrong of me to speculate. I have no internal information based upon any substance, but logic tells me that this would have a major impact on the Labour Party's funding. That is what I would suspect. That is something that presumably the Committee will want to examine. The issue and the nature of how people make their commitment to their political fund ought to be part of a package that political parties put together in order to achieve the consequence of all this, which is to get an agreement that can move in the right direction so that we all know that we are all, as parties, giving security to the voter that they are removing fear of undue influence.

Lord Tyler: I have a supplementary to follow up on Lord Robathan's point. You were implying that within the existing level of state funding it might be possible to make a reallocation without a net increase in the total amount. I think all parties at the time of the Committee on Standards in Public Life thought that was not exactly the right moment to make the total increase. Are you aware that the cost of the Royal Mail freepost over a six-year period—admittedly, this was at the time of the Committee rather than now, so presumably it has gone up, and it is a privatised service now—was £47.5 million of taxpayers' money? Can you think of a way in which that might be more effectively reallocated in the present world?

Lord German: I would not like to commit the Liberal Democrat party to an absolute policy on this issue, but it demonstrates that there is a large sum of money going into supporting the activities of the political parties from the taxpayer and that an examination of that, and particularly the large sums that you mention, might mean that you could find agreement between the parties that this could be reallocated in a different way. Heaven forbid, we might even be able to reduce the budget that supports the Members of the House of Lords and reallocate some of that, but I would not like to speculate on that.

Lord Richard: Can I try and sum up the Liberal Democrat position as I understand it? First, you are saying that any change in the existing pattern of party funding should only take place by consensus after discussion and agreement between the parties.

Lord German: Right.

Lord Richard: Secondly, I suppose it follows from that that you believe it would be wrong for radical changes in the pattern of party funding in this country to be imposed by the will of the majority party in the House of Commons.

Lord German: Do you want me to make a comment?

Lord Richard: Go ahead.

Lord German: For the reasons I outlined earlier, a partisan approach to this matter will only result in what Lord Forsyth calls a war of self-destruction. We are all democrats, and democrats believe that there will at some stage be an alternative and different Government of a different political persuasion. That is the nature of our democracy. If we believe in that, people can feel released to be partisan themselves in the future, and it will not encourage the second part of that manifesto commitment to continue to seek political agreement. Without having made that attempt yet, it seems that we put horses and carts in the wrong order.

Lord Richard: Just to square the circle, so to speak, Conservatives have been arguing that this Bill and these provisions are nothing to do with party funding but to do with something else. Do I take it that you do not share that view but take the view that this is consummately to do with party funding, particularly the funding of my party?

Lord German: I pray in aid the manifesto of the Conservative Party. Would you put those two sentences together in the same paragraph, at the end of the paragraph, if you do not believe that they are about political party funding? They are there together. The obvious impact on political party funding for one party is one of the key issues related to this matter. I have, as I say, no component disagreements with the contents, but without that consensus it puts the second part of the agreement under real threat.

Lord Richard: I have one final comment on the point that has been put to you by Lord Callanan. If in fact he is saying that the trade unions could make up the deficit by an increased contribution to the Labour Party, does that not assume that the effect of these provisions will be a diminution in the income of the Labour Party?

Lord German: It could be, and I am not in the best place to judge how the internal mechanisms between the trade union movement and the Labour Party work, but if the balance of funding were to be affected, that would have an impact upon the way in which this funding race, which I have described, continues. Our party's view is that this funding race is not helpful to our democratic structure.

Q13 Lord De Mauley: May I refer back to the line of questioning that Lord Robathan was pursuing and ask Lord German if he had made an assessment of the impact on Liberal Democrat party funding should the state-funding component of the report on the Committee on Standards in Public Life be introduced?

Lord German: It depends on the formula that you use and the arrangements that are there to accommodate it. At the moment, we all benefit universally—provided you put up candidates in all constituencies—from the same level of freepost arrangements as anybody else. If the decision were taken by political parties joining together that at this particular time we will not seek an increase but seek to readjust the income that is already there, it depends on the structure of the arrangements that make the difference. If, for example, there were a diminution in the freepost arrangement, that is taken equally in terms of the numbers of candidates you put up across the whole country. Where and how that money was redistributed would affect that balance. It would be a bit speculative at the present time to talk about that, but it does predict that we should have the conversation and that dialogue in accordance with the commitment in the Conservative Party manifesto,

The Chairman: Thank you very much. Do you have anything else to say, or is what you have just said your closing remarks?

Lord German: The issue of transparency is crucial in this matter. Whatever else we do in political party funding, it is increasingly important to the electorate that people can see what we are doing and how we are doing it. I do not think that at present there is an effective cap on political parties' expenditure in the way the public expect to see it and, often, as many candidates think there should be.

The Chairman: Thank you very much.