

## **Opening statement – Lord Feldman**

The Conservative Party is committed to reform of the system of party funding. This is why we supported the Neill reforms, which has led to far greater transparency in political funding. Our manifesto committed us to ‘seek an agreement on a comprehensive package of reform that will encourage individual donations and include an across the- board cap on donations’.

We need to be clear about the current state of party funding. Under David Cameron’s leadership, the Conservative Party has undertaken a comprehensive programme to deal with its financial situation after the 2005 General Election, and to ensure that income generated from fundraising would cover its campaigning expenditure and at the same time enable it to pay down the majority of its historic debts. The Party centrally has not taken on a single loan from a donor since David Cameron became leader.

This has been achieved through the hard work of the voluntary Party Treasurers working in conjunction with a revamped professional team. The model has been based on the more successful charities and voluntary organisations operating in the UK today. There has been a multi-layered approach to fundraising including expanding donor clubs at all levels; a larger number of ticketed events; the development of a weekly lottery draw; far more sophisticated and targeted use of direct mail appeals and the emergence of on-line activity.

Contrary to the impression given by some sections of the media, in my experience there is no question of individuals either influencing policy or gaining an unfair advantage by virtue of their financial contributions to the Party. On the contrary, I have found donors to be motivated by a genuine desire to support the Conservative party and help it to win elections. They listen carefully to the arguments put forward by Conservative politicians, read the manifestos and other policy documents and then decide whether or not to support the Party.

However, we recognise that public perception is important, which is why we believe there is a case for a comprehensive cap on donations that applies equally to individuals, companies and trade unions. In the case of trade unions, there is a strong link between their donations and policy positions taken by the Labour party. Unions do not simply pass on monies raised from their members. They aggregate the money and make very large donations, using the financial leverage this gives them over the party to exact direct policy influence. This was most obvious with the Warwick Agreement of 2004, in which the Labour Party made significant policy concessions to the unions in return for funding Labour’s 2005 general election campaign. This strong, but informal influence is in addition to the formal role the unions have electing the Party’s leader and determining its policies at Party Conference and through the National Policy Forum.

We recognise that this relationship arises from the historic links between Labour and the unions, therefore it must be for the Labour party to choose to reform it. None the less, if the purpose of the cap is to deal with the perception that money buys influence, it must apply to unions where there the relationship is explicit. In the third quarter of 2010 (the last for which figures are available) over 80% of Labour's donations came from the trade unions and over one third came from the Unite Union.

It is recognised on all sides that a cap on donations would have, at least in the short term, a significant impact on party funding. Clearly all parties would need to take steps to encourage mass membership and a wider donor base, and, indeed, we have already taken significant steps in this direction. The Party has successfully moved to diversify and broaden its donor base and now has over 80,000 individual donors, 98 per cent of whom give less than £1,000. This does not include the contribution made by members of the Party through membership fees to their local associations.

We have also worked hard to increase participation in the Party and in politics more generally, for example, through our social action projects; a revitalised Conservative Policy Forum; building stronger links with the Association of Conservative Clubs, and by developing a very wide email data base to communicate with a range of supporters who may not be members.

However, this is a gradual process. As the Committee has itself commented, political parties are an essential part of the sound operation of the democratic process. A cap on donations would seriously hinder the ability of all political parties to raise money and, therefore, properly to carry out their role of campaigning and communicating with the electorate.

This process would, in turn, be further hindered by the introduction of lower spending caps. The fact is we spent less than the cap set in 2005 and 2010 - £17.8 million in 2005 and £1.2 million less than that, £16.6 million, in 2010. Moreover, the cap has actually fallen in real terms by 21 per cent since its introduction in 2001 and is predicted to fall by around 26 per cent between 2001 and the end of the fixed term parliament in 2015. The current cap of £18.96 million sounds large to many people, but it needs to be placed in context. An example of a basic level of voter engagement might be the sending of a single letter to each voter once a year – that would cost £14 million – over 90 per cent of the Party's budget in a non-election year.

It is also worth noting, that the cap is small by international standards. President Obama spent \$740.6 million on his General Election campaign in 2008.

With an already declining spending cap, which is not being hit, the idea of an 'arms race' in party spending is shown to be a myth. In fact, as Dr Michael Pinto-Duschinsky has shown, Conservative Party spending over an electoral cycle has fallen in real terms since the late 1960s.

It is commonly argued that additional state funding for political parties is the solution to dealing with the loss of income resulting from a donations cap. However, it seems highly unlikely that the public would accept handing over significant sums of taxpayers' money to political parties at a time when the Government is having to make tough decisions and cut public spending. In the aftermath of the expenses scandal, greater state funding of political parties simply risks further undermining the reputation of politics and politicians in the eyes of the voter.

But more importantly, there is a matter of principle here. Political parties should belong to the people, not to the state. General state funding would represent a significant constitutional shift and would risk turning our political parties into little more than public utilities. Furthermore, state funding based on past election results acts as a significant barrier to entry. New parties would find it all but impossible to spring up without access to donor or state funding. That would be significantly detrimental to the democratic process.

There is however one approach to state funding that does not suffer from these disadvantages - a form of gift-aid or tax relief on donations. A form of this was recommended by the Neill Committee. In 1998 the Committee concluded: 'We do not believe that the arguments against tax relief by deduction at source are very strong... We therefore conclude that the balance of argument is in favour of allowing tax relief on donations to political parties by deduction at source'.

Such a system would encourage political parties to raise more from individual donations, to broaden their base. It would also recognise that giving to political parties is, in the words of the 1998 Neill Committee 'meritorious' and 'a contribution to the democratic process'. Further, as the gift-aid system is already understood and approved of by the public, such a system has less risk of alienating the public.