

The Truth About Westminster

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'In politics a man must learn to rise above principle.' Anonymous MP

'I would rather be an opportunist and float, than go to the bottom with my principles around my neck.' Stanley Baldwin (1867-1947)

'The Tory Party is in so much debt that it could be insolvent by the turn of the century.' David Porter MP (1948-),

'I've no idea about party finances.' Government Minister, 1995

The funding of political parties in Britain is in urgent need of reform. Fund-raising is a vital part of politics, for without funds a party ceases to exist. Money means advertising, promotions, leaflets, campaigns and an effective media office. Traditionally most Conservative funds have come from business and wealthy donors, while Labour has been underpinned by unions and the other parties have struggled to survive on individual donations. However, the picture is changing and so are the influences, for with money comes obligation which has been seen most clearly in the historic domination of the Labour Party by trade union pressures.

Crisis for Conservatives

The national Conservative Party is desperate for cash, heavily in debt and is in a very precarious state, judging by recent balance sheets. Very few people realise that if bank loans had been called in during 1995, the Tory Party could have been forced into immediate bankruptcy, going bust owing millions of pounds, even after the sale of buildings and all other assets. Yet the most striking thing I have found has been complacency or ignorance among MPs I have talked to - with one or two exceptions.

A former Tory agent told me: 'You never knew where the money was going. In one constituency I refused to send any money for our quota. A way they bribe you is the golden, silver or bronze award. Gold is three times your quota. Then you're invited for a bash in Number 10.' 114

A Tory back-bencher, who feared for his future if identified, told me: 'When I was first elected in 1983 I got no help from Central Office. I had no financial backers. I was just brought in on the coat tail of Margaret Thatcher. We spent £ 1,239 and we had everything. So where all this money goes centrally I don't know. I'm supposed to be a key marginal. I think [when it comes to the threat of bankruptcy] we will just have to take the consequences.'

David Porter is another Tory back-bencher who is in no doubt about the seriousness of the situation, but he sees a way out. 'If Labour gets in there will be state aid. The Conservative Party is in so much debt that it could be insolvent by the turn of the century with a receiver called in. A new party would then be formed with a different name - certainly not the Conservative and Unionist Party.' 115

The greatest problems have been created by lack of openness which has opened the Party to speculation and criticism. What are the facts? For decades the entire financial position of the Party has been shrouded by oppressive secrecy. There have been no balance sheets, no published records of income and expenditure or of pension fund details.

With an annual turnover in excess of £11 million a year, party officials have had no legal requirement whatever to allow public scrutiny of the accounts. All companies are required to provide audited accounts and regulations are also very strict for charities above a certain size, but parties are exempt.

Under increasing pressure from party members and the media, the Party finally agreed to publish a balance sheet towards the end of 1993, but there was still no information about previous years. At the time the Conservative reforming Charter Movement strongly objected to the culture of secrecy. It was worried particularly by rumours of substantial foreign donations, even if they were entirely legitimate, from individuals or organisations. 'The Party should not be funded from abroad. It should not be financed by those who have no vote in the UK elections. It should not be funded in a furtive way. It should not be financed by excessively large donations or loans from those who are not prepared to be publicly identified. It should not be financed without proper accounts to its members for its income, expenditure and its reserves for debts.' 1

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It was inconsistent, they said, for the Conservative government to oblige unions to reveal to members how their money was used, without allowing members of their own party equal access to such information. 117

Just three weeks before, in April 1993, the Guardian had run the headline: 'Conservatives given £9 million by foreign donors,' quoting as their source 'a former Party fund-raiser'.

Major General Sir Brian Wyldbore-Sinith had been the Party's Director of Fund-raising from 1980 to 1992. He said that huge amounts had come from abroad, from individuals or companies quite legitimately, rather than from governments which would not have been allowed. 'These people have an interest in the success of the Conservatives.' Overseas funding was said to have provided two-thirds of the £ 11 million spent on the 1992 election campaign, over and above the normal year-on-year expenditure. 118

Sir Brian said that the £9 million was around 20 per cent of the total party income in the pre-election year, if local association turnover was included. Constituency organisations had raised £15 million and the Central Office £21 million (including the overseas amounts). The Party was reported to have overseas bank accounts in Jersey and accounts with British Overseas Banks Nominees. 119

I have studied in detail the only three years' accounts made available to me by Central Office. In the year ending in March 1994 the income came to just over £15 million, although the report says virtually nothing about where it all came from. 120 The expenditure in a non-election year was around £12 million, the surplus £2 million, 'So what is all the fuss about?'

The reason for concern is that on 31 March 1993, the total liabilities of the Party, including an overdraft and other loans of £18 million, came to £22 million. Listed under current assets for the year ending in 1994 is one item labelled 'cash deposits' valued at no less than £2.9 million. This relates to short-term loans from local associations to try to keep Central Office relatively solvent. 121

The interest on the bank overdraft and other debts came to around £1 million a year. The bank overdraft alone (15.3 million) was far greater than the entire annual income of the Party (£ 11.5 million). 122 If the bank had become nervous and insisted on repayment of the overdraft in March 1993, the Party would have gone bust, owing a staggering total of £13 million, a breathtaking sum, even after the sale of property together with every last computer, desk, filing cabinet and dictating machine.

By the end of the following year the figures for insolvency would have been £9.8 million, but over £1.3 million of the apparent improvement was because the valuation of property owned by the Party had been increased. 123

What kind of non-commercial organisation could possibly operate in that way? This is a vitally important question. As someone with many years' experience of working in the voluntary sector I have seen many times the nervousness of donors when asked to give. They want evidence of proper financial control, sound management, efficiency, professionalism - and above all else

they want to see a balance sheet based on audited accounts.

In the case of the Conservative Party there is no doubt in my mind that if proper accounts had been published year by year, many corporate donors could have been scared off, or insisted on stricter financial controls, as they would have done with donations to any other 'good cause'. In that sense a political party has far more in common with a charity than a business. After all it has no product to sell (unless there is overt corruption), and relies on voluntary support from people who believe the mission is worthwhile, and that the organisation is well run. For these reasons it is obvious that a decision to keep the state of the accounts secret could well have been influenced by fear over what might happen to income or senior jobs if the truth were known.

It is hard to conceive of a situation where a household name charity of many years' standing, with an income exceeding £ 11 million 2 year, could allow itself to spend so much more than its income for so long without radical changes at the top being demanded by supporters. What bank would normally lend a charity a sum exceeding its entire annual income on overdraft with so little collateral security? 11* interest rates rose, then 15 per cent or more of all donations could be spent simply maintaining the loan, but what about repaying it?

It could be argued that such a massive loan involved a significant risk, especially in the light of a falling party membership and an ever-fickle electorate. A rumour of imminent financial collapse could have triggered a major crisis with constituency parties wanting their own loans repaid and donors scared off.

The year ending on 31 March 1995 showed some improvement, with another surplus of income over income and expenditure. But this was a year when hard savings were needed to build up a reserve for the next election. The balance sheet remained very worrying.' 124

The overdraft was still £11.5 million, and would have been 17.2 million without other short-term loans. The only security given to the bank according to Martin Saunders, Finance Director, was leasehold property, estimated as being worth £6 million. In other words, almost £6 million of the bank overdraft remained unsecured. 125

In strict accountancy terms, on 31 March 1995 the Conservative Party was absolutely insolvent, depending entirely on the whim of senior executives in the Royal Bank of Scotland for its day-to-day existence. At any moment the bank could decide to call in the loan, making the Party spectacularly bankrupt.

If such a decision had been made by the bank in March 1995 then the bank's shareholders would have taken a loss of almost £6 million, and constituency associations would have been fighting tooth and nail to get their own money back. Many other angry individuals and companies would have been arguing their case with the official receiver over amounts owed to them of a further £ 1.8 million for goods and services not paid for. This would have been an appalling national scandal, one of the worst political disgraces in the last two hundred years.

One Minister told me: 'I wouldn't want to be a shareholder in a bank that lent so much money to

the Party.' The remark was made 'off the cuff' in a light-hearted way - after all, £6 million difference in the balance sheet of a large bank is hardly a major crisis for shareholders. Nevertheless he was recognising that the bank was taking a real risk.

Such a potential disaster remains a spectre in the future, but not a reality just yet, thanks to the goodwill of the Royal Bank of Scotland which continues to enable the Party to pay their bills on time with millions of borrowed money.

The dark day may never come. It may be that the Party will manage the near impossible. It may somehow manage to pay for the next election (perhaps £ 11 million extra expenditure), and still repay all the loans in a reasonable time. However it remains a risk and the Party remains financially vulnerable. It all depends on donors remaining convinced that a Labour government means disaster for Britain. But as Tony Blair's New Labour continues to identify with traditional Conservative values, that assumption of donor loyalty can no longer be taken for granted.

There is another concern. The size of the overdraft facility is critically dependent on the property valuation. Clearly there are limits to how much the bank will risk without security. It is therefore strange to read in the accounts that the valuation was carried out not by a wholly independent company, but by the directors of the Party themselves, in 'consultation with the professional property advisors of the Conservative Central Office'. 126

In other words the Party carried out its own valuation of its own properties. But what if those valuations were too optimistic? The entire future of the Conservative Party could hang on such a question. One might therefore have expected a fully independent process of valuation. Perhaps in reality the valuation was more robustly independent than stated in the accounts, but if so, then why not say so? Are such things considered unimportant?

Martin Saunders told me: 'I've got to save money. Formal evaluations cost money. We're not bound by law on this one [unlike companies]. We as directors have to take our own view as to the accuracy of the accounts. It's an internal evaluation [of property] by the directors. We do talk to an external firm but I cannot say more.'

'But the figure is very important for the bank.'

'What we say to our bankers is between us and our bankers.'

I asked him why the accounts had been so secret in the past.

'I came in 1992,' he replied. 'My brief was to bring up to date all the accounting and reporting systems. There's not an awful lot of stuff there which is highly secret, to be honest. The trouble is we have had three successive years with £5 million deficits, and it's been a lot of effort to sort it all out.'

One obvious and legal alternative to Conservative Central Office for worried donors would be to fund a cluster of marginal constituencies (so long as the official ceiling on each candidate's campaign costs is not exceeded), or to create a separate organisation to buy advertising hoardings and other components of a national campaign. Who wants to see their entire

donation swallowed up in paying off huge costs run up over the previous five to ten years? Companies give money to help win the next election, not to pay for a victory years ago.

There has already been some resistance by party members to funding head office, because of a squeeze on local party funds as an elderly membership has declined. Young Conservative activists are a tiny group who will be unable to sustain the Party's future on current trends. Almost half the members of Conservative associations are over sixty-six, only 5 per cent are under thirty-five and the average age is sixty-two. *127*

There is no Central Office record of Conservative Party membership but it has been estimated as around 750,000, down from 1.5 million in 1981, and 2.9 million in the 1960s Labour's own membership fell from a peak of a million in the 1950s to just 265,000 in 1988, but was 372,000 by June 1996. *128* There has been no new ideology to inspire and fill the void left by the debunking of capitalist and socialist myths.

This redundant energy and passion for idealism in politics has been channelled into new 'causes' such as animal welfare movements, or environmental agencies like Greenpeace. Greenpeace alone has more than 350,000 UK members, and Friends of the Earth 200,000. Even assuming some people belong to both, these two 'single issue' groups alone have more members than the Labour Party and Liberal Democrats combined. But single issue groups can never be a proper substitute for an overall vision for the future of society, and can produce unbalanced responses from government if they become too powerful. They also direct funds away from traditional parties.

As local party funds have been tighter, and as worries have grown about the running of Central Office, constituency quota income from local groups to Central Office has been falling from 20 per cent of total national income in the 1970s to around 5 per cent today. This is a fixed amount paid in proportion to a constituency size. In the year 1992-3, the yield was £1 million contribution towards the £15 million needed for the Party to survive. But one year later it had dropped by it further £250 '000, *129* although there has been a rise since. *130* Individual members give more each in real terms than they did twenty years ago which has compensated for some of the decline in membership numbers.

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Local associations have been so pressed for cash that many MPs have been paying up to £11,000 a year from their own parliamentary allowances to their local offices. *132* As we have seen, each MP received £41,308 in 1995 for research and secretarial services, which was an increase of 42 per cent on the 1992 figure. Conservative MPs alone now have £15 million between them to spend on these areas.

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Although these amounts are in theory for expenses incurred 'wholly, necessarily and exclusively for parliamentary duties', in practice it is often hard to separate local office activity to help re-elect an MP from work to serve constituents.

Many local associations 'charge' an MP for secretarial work and office space. Some MPs donate their own personal income to local parties, in addition to diverting their expense it] allowances This is a clear breach of the Maxwell-Fyfe rules introduced in the late 1940s to protect candidates from demands for cash which would otherwise prevent poor people from standing for Parliament. 134

One Tory MP in 1993-4 gave so generously from his own pocket that he was paying for half the entire annual budget of his local party. Another London MP gave £6,000 towards the salary of his party agent, and a similar amount for 'office and equipment and for publicity for advice centres'. A detailed survey revealed that almost forty Tory constituencies had received financial support via their MPs. The total value of these subsidies probably exceeded £250,000, mostly from official allowances. 135

Despite these emergency measures to keep local parties in existence, many constituencies are reaching a point where they cannot afford even a part-time agent, making re-election more difficult. The picture then is of a party structure in serious decline, hardly a healthy state for paying off massive debts. (See note at end of this chapter.) If the Prime Minister had carried through a recent threat of a snap election over Europe, he would have been very foolish. Not only were the opinion polls stacked against him, but he could have pushed the Party into practical insolvency.

Where does the money really come from?

Some £15 million a year is a lot for the Tory Central Office to find, and much more will be needed - ideally around £20 million a year over the next few years to pay off debts and pay for the next election (or two). If less than £1 million comes from local associations, what then? Complete secrecy over the sources of most party funds has bred damaging rumours. That kind of money does not just fall out of the sky. It has been said that enormous sums come from companies in Britain, but there is little evidence of this.

In September 1989, the Labour Shadow Leader Frank Dobson published Labour's annual survey of political donations by companies. The report revealed that 275 of the country's top 1,500 companies had given almost £3.5 million to the Tory Party or its supporters in 1988. 137 However, what disturbed him was that 'last year we managed to ferret out details of donations of just over £5 million to the Tories and their front organisations but the accounts circulated at the Tory Party conference showed an income of over £15 million. The Tory Constituency Associations contributed £1.2 million - so the rest, amounting to almost £11 million, came from secret, undisclosed sources.'

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The survey found that only £3,800 of the £3.5 million donated by companies went to parties other than the Conservatives. None had gone to Labour. 139

An important question is whether the Conservative Party might be receiving in good faith, quite unwittingly, large sums of money through indirect routes from foreign governments. Foreign governments are an obvious potential source of vast wealth, particularly oil-rich but insecure

countries in the Middle East. They may feel they need a government in power that would not hesitate to go to war again in the Gulf. Donations to political parties by foreign governments are against the rules but I believe it is possible for foreign governments to circumvent these rules.

For example, there is a blurred distinction in some Arab nations between the wealth of a Royal Family, and the wealth of the State. In a country with a ruling monarchy, how can you tell the difference between a personal donation and a government gift? The answer is that it is near impossible. It is hard to stop such a government from providing substantial party income, whether via a number of intermediary companies operating in various parts of the world including Britain, or through other less well-known individuals. In this way very substantial amounts could be donated by a foreign government, and accepted in all innocence, without anyone in the Conservative Party having the faintest idea what was happening.

The potential for indirect funding of the Conservative Party by foreign powers is ever present and probably impossible to detect or prevent under current practice, despite all the efforts to do so by past, current and future party officials.

And so the rumours have continued. I doubt if they will ever go away so long as the Conservative Party allows not only single donations of unlimited size, but also donations from any individual or company anywhere in the world, and a guarantee of absolute confidentiality.

Eric Chalker was on the Conservative Board of Finance as well as being a Joint Honorary Treasurer between 1989 and 1993. He told the Home Affairs Committee of the House of Commons that he had been very disturbed by the lack of openness and accountability.

'There is no higher body with financial responsibility within the party on which a place can be secured by direct election . . . Yet members of the Board are consistently denied more than the barest minimum of financial information.

'When I first joined the Board, its members did not even receive the annual income and expenditure account that Central Office had published, with great reluctance, since 1984. There is still no formal presentation of these figures to the Board and their approval of them is not required I was elected to the Board with a specific mandate to pursue the quest for more information than had previously been available. As a consequence I regularly sought details of Conservative Office expenditure. I regularly sought examination of their budgets and I regularly sought some discussion of what was clearly (to me, at least) an impending financial crisis. It was all virtually to no avail. The paid employees and the vested interests obdurately stood their ground and democratic accountability was non-existent.

'Board members were actually entitled to some of the information I sought, by virtue of the Board's constitution', but this made no difference to the actual availability (including, initially, even the existence of the constitution itself). Board members - despite having been elected - are effectively there as guests of the unelected Chairman, in whose hands the power lies.'

The Select Committee Report goes on to say: 'Of his four years on the Board, Mr Chalker says, "Over £69 million of expenditure was recorded by Conservative Central Office in that time, but

nobody had to account for one penny of it to the Conservative Board of Finance nor to any other elected body." More than £43 million in donations was received by the Conservative Party during Mr Chalker's four years on the of Finance. He says, "while members ... receive a partial breakdown of donations by UK region, value and number more complete information is kept from Board members In 1991, press reports started to appear of some very specific, very large individual donations to the party, including some from abroad; this caused me grave concern and as a consequence, I asked the then Chairman of the board (an appointed Officer) for information that I believed would reassure me and the constituency associations that I represented namely the following: Was there any limit to the amount of financial support that the (appointed) Treasurers were willing to accept from any one source? Was he aware of any potential donor who had been turned away, or of any offered donation that had been declined? Was there any established policy that would have prevented the acceptance of a particular donation, or would have subjected an offered donation to special scrutiny?

"No answers were forthcoming." 140

I decided to find out for myself the level of knowledge about Tory finances among senior members of the government I went to see a Minister who is widely respected for his integrity and his measured approach to sensitive issues. I have known him for some time and regard him very highly. There are few people in politics today whom I would trust more I asked him first whether he was aware of the size of the Tory Party debt. He replied: 'I don't know to what extent it is underpinned by assets.'

I had to spell out to him the uncomfortable truth: that the assets still left a net liability of around £11 million. I asked him what sort of bank he thought would lend such a large sum without any security. He commented: 'The bank may have made a commercial decision as they make assumptions about what is in their-best interests, or they may be satisfied - although how can they tell? - that the risk is very low.' He then added almost in the same breath, 'I've no idea at all about party finances.'

I expressed to him considerable surprise that he had needed to ask me about the size of Tory Party assets versus liabilities. I pointed out how odd it seemed to me that the figures seemed not to be being taken seriously, even y people as senior as him.

He then said: 'I suspect that the Conservative Party has had an overdraft for some time, bigger now.'

'Suspect?' I asked.

'Well, it is in fact the case that I don't take much interest in the financial position of Central Office.'

'Even though it has an overdraft of £15 million?'

'It makes no impact on me as a Minister. It makes no impact on me as a local MP. Central Office does not play a large part in my life so. . . .'

'So what do they do with £15 million income a year?' I was curious.

'They run the party conference and they service the Party, and they service the political bit, the political side of government is served by it. As I understand it, income and expenditure are no longer in imbalance.'

'Yes, but in a non-election year!'

'Yes, but the income goes up, I suspect. But I'm afraid I don't regard this as a very important issue.'

I asked him if it would be more important to him if he thought the Party could become bankrupt.

'But what is the organisation that goes bankrupt?' he replied.

'Central Office . . .'

'But what is that? I'm not quite sure what is the vehicle.'

'The national association - doesn't that worry you?'

'I don't think it would go bankrupt. I think there are commonwealth people managing the Party, Chairman, ViceChairman. I don't worry about the Central Office's financial position Perhaps I should but I actually don't.'

I asked him whether he had any concerns about where income came from, about secrecy and the possibility of single donations of several million pounds hidden in larger totals.

'My understanding is that Central Office are now much more cautious about accepting money from anyone. In a sense it's good that Ministers don't know, because our decisions shouldn't be contaminated by how the Party's funded and it isn't, because we've got no idea at all who is funding the Party. I haven't the slightest idea who has contributed.' He seemed unaware of the lists of publicly available information about corporate donations.

He continued: 'I think one just has to rely on the good sense and good judgement of Central Office, when they decide where to ask for money and who to accept it from. The key thing is that it shouldn't contaminate the decision-making process in government. I genuinely don't believe it does.' 141

However Peter Lilley was far more worried as a Cabinet Minister about the debt problem of the Tories. He told me he was very concerned about it, 'especially trying to fight an election on a £11 million overdraft'. 142

I also asked Lord Whitelaw about funding. He was Tory Chairman from 1974 to 1976. I wanted to know what he thought about secrecy and why he had never at that time publicised any accounts. He admitted to me that debt was nothing new 'There was certainly a major overdraft when I was Chairman. We had two general elections in a year. But I got enough money to fight the election.'

'But why have the accounts been so secret for so long?'

'I think the answer to that is that we don't see why we should give the details of all the people who happen to give money, nor do I think there is a very good reason why you should.'

I pointed out that the first issue was where the money went after it was donated - accepting for the sake of the argument that donor anonymity would be preserved.

'Then you will go a long way towards it after all.'

'But why have we only just got audited accounts? Why the secrecy over how the money is spent?'

Lord Whitelaw explained: 'A lot of money goes from the centre to the constituencies - of course I accept there is a lot of money spent at the centre on advertising and the rest. That's where it goes.' (I doubt if many constituencies would agree with him.) 'I suppose the answer is the same in all parties. The trade unions on their side still have the money from their own arrangements and give their money to the Labour Party. It's not very different.'

I explained that the absence of audited accounts seemed strange to me.

'I don't think it's strange because it is a perfectly fair answer for both the Conservative and Labour Parties, that there have been over the years various ways of obtaining money whereby donations from individuals and from firms. . . .'

'But I'm talking expenditure here. That's why the Charities Commission requires charities to have audited accounts, to prevent someone from putting £250,000 into their own pockets. Why did it take so long?'

'Well I suppose it was because it was a private affair among people who were working together and that was the reason it was done.'

I remarked that it was extraordinary that the very first set of accounts should show such a massive debt. I wasn't surprised the Party had been reluctant to make the accounts public.

'It just never was [made public],' he replied.

I asked how he was sure there were not large donations being made to the Party by foreign governments indirectly.

'A rather silly comment, but I don't think anyone imagined that it had ever happened - ever.'

I reminded Lord Whitelaw about the former Tory fundraiser who said £9 million had come from abroad in a single year.

'I don't think it ever occurred to us that this would happen, because it had always been the same. But it has been built up in all the parties in the same way. A great many things in life just go on. One doesn't even know. The accounts were there, one knew roughly, but that's about all.'

So who would have known in his day?

'The Treasurers. I had three of them.'

'And it would rely entirely on their personal integrity?'

'Yes.' 143

I also raised Tory financing with Lord Archer with his experience of helping run Central Office in the past, as part of a wide-ranging interview.

'I think that anybody has the right to give money to anything they like as respectable as the

Conservative Party or the Labour Party, without having it disclosed. I don't see why you should disclose. I don't have to, to give to the Red Cross, or to Save the Children. I don't see why I should have to - say how much I give to the Conservative Party.'

'But what about overseas funding?'

'It's all the same. If they want a Conservative government, if they want a Labour government, it's up to them if they want to give money to it.'

'And from a foreign government? There is a restriction

'You're quite right. I don't remember that arising when I was in Central Office. I mean, it may have done but I wasn't in the Treasurer's Department and as I am sure you have found out already that is a very secret Department. Even the Chairman and Deputy Chairman are not in it. I can see no harm if people want to support the Party.'

He agreed however that there should be a restriction on accepting money directly from foreign governments. But how would he be able to tell if - say - the Saudi Royal Family were putting in £11 million?

'At least!' he exclaimed with laughter. 'Sixteen million pounds down! Well yes, I can see what you're getting at and the purists would obviously say that's disgraceful and shouldn't happen. I've never been faced with that dilemma. That's interesting. No, obviously, no government should be helping another.' 144

I asked a Tory back-bencher what he thought of state funding for parties. A sensible idea surely?

'Disastrous. I've never heard such a stupid idea in all my life, that the State should pay for political parties. Let's be quite clear about this. Once you get the State doing that you are institutionalising political parties. I do not think existing parties should be here for ever. It is wrong to buttress support on something that happened before. It's up to political parties to raise money and if they do it corruptly then the full force of law should be brought down on the party.' 145

Finally I went to visit the Conservative Central Office itself. It is an impressive building, surrounded by security cameras just a few hundred yards from Parliament. After being ushered through metal detectors and guards, I was led upstairs to meet the then Chairman, Jeremy Hanley. He was larger than life, warm, effusive, friendly and accommodating - and to my surprise happy to see me on my own, unlike the escort requirements of Cabinet Ministers. What was his explanation for the past secrecy over accounts?

'It's not odd that an organisation like ours should not publish its accounts, because there is no legal requirement to do so.'

But was there further delay because of the embarrassing size of the overdraft?

, Quite the reverse. We published our accounts when our liabilities were at the highest. In any case, the vast majority of the supporters of the Conservative Party give to their local Conservative Association. All those accounts are published every year.'

'So why not Central Office?'

'If you're asking about history, don't ask me. The fact is that we do publish accounts now. I am

looking forward to publishing my accounts this year so it seems sterile to ask, ---Why didn't you publish accounts before then?" There is a very big difference between the funding of the Conservative Party and the funding of the Labour Party. The Labour Party is funded by trade unions. They have between £5 million and £6 million a year which has to be paid on an annual basis. Therefore they get a very "flat" income. Whereas the majority of our donors give at the time of an election. Between elections we live on a deficit. If we spend more in an election campaign than we raise, then there is a deficit to carry forward.' He agreed that it was very hard to pay off debt and build up a 'war chest' at the same time.

I asked Jeremy Hanley about the sources of funding and secrecy over donors. He pointed out that Labour also have two companies through which anonymous donations can be made I asked him whether he had thought about giving more information about donation numbers and values, while still keeping them anonymous.

'But whose interests am I whetting by giving this information?'

' Suppose it's me ... I am a potential donor.'

They can come and ask me,' he replied.

'I am asking.'

'But I don't believe you are a bona fide potential donor. I respect the anonymity of our donors. I publish our accounts voluntarily. They are audited. We also adhere fully to the code that was published in the Select Committee Report last year. In other words we don't accept money from foreign sovereigns, foreign governments or foreign heads of state. We don't accept money from illegal sources.'

'. . . but there is a fuzzy edge?'

'By the way, the income from foreign sources is a tiny proportion of the total raised in a year.'

'But isn't there a possibility that government money from - say - an Arab state could find its way into the Conservative Party through a back door without you even realising it?'

'Hang on just a second. The Treasurers themselves have this Chinese wall between the government and the Treasurer's Office. That is why the Labour Party set up these two front organisations by their own admission. Government Ministers don't know anything about the amount individuals give to the Party. As you know, as far as the honours system is concerned you have independent scrutiny.'

I pressed him further.

'If we knew that [a donation had come from foreign governments] we would return it. If we knew that it was illegal, we would return it. But what you're saying is an impossibility. You're saying that if we've been given money by a person, we would have to know who they are, satisfy

ourselves so far as such a thing is possible that the money is completely bona fide . . .' He pointed out that it would be impossible anyway to prevent laundering of illegitimate foreign funds through UK subsidiary companies.

'What I've done,' he continued, 'is to examine every penny of the money raised since I became Chairman of the Party I have said that I will not accept a single penny except where I am satisfied that we have adhered to the Code of Conduct. And that I've stuck to.'

'So if I was a foreign donor, who decides whether my money is accepted?'

'The Treasurers are chaired by Lord Hambro. There are three, four, maybe five Treasurers in all. They will investigate an individual. So long as that individual is to their satisfaction they will then come to me and ask if I am satisfied and I will then ask additional questions.'

'Would it help to have some kind of independent body to help check?'

Jeremy Hanley replied: 'Will you consider that perhaps most of the stories are rubbish stories. Would you just consider for a moment that there are people with honour, financial honour? As a chartered accountant, that means more to me than anything. I have actually rejected donors because I am not satisfied ... There is a slippery slope which is so easy to follow There is one principle which I think is vital: there is a right of individuals, a right which is ever eroded by our press which seems to enjoy destroying every institution we have in our country. When it comes to political donations, I see no reason on earth why I shouldn't have an element of privacy if I choose over the money that I've earned. There's no reason why anybody can't publish the fact that they have made a donation. Companies of course have no choice but to publish their donations.' 146

Unfortunately for the Conservative Party, while they continue their absolute commitment to donor secrecy, three quarters of the population in Britain say that the identities of all major donors should be revealed. 147

Of course, one immediate way to deal with many of the concerns about the sources of overseas funding would be to ban all donations other than those with an obvious origin in the UK, excepting perhaps those with British voting rights resident abroad. It is worrying to think that a powerful alliance of foreign sources might try to interfere with a British election by funding one British party against another.

In summary it is clear to me that the Conservatives have chosen to sacrifice the reputation of the Party for financial gain. Thus the Party has continued to survive, bolstered in the past by secrecy over its precarious financial state, and by the continued acceptance of millions of pounds of income from secret albeit entirely lawful sources outside Britain.

The trouble is that overspending has been allowed for so long, and on such a grand scale, that refusal of future funding from overseas could precipitate total bankruptcy. Listing large donors by name could also have the same effect, because so many might be severely embarrassed if the extent of their political generosity were revealed. Therefore we are very unlikely to see any

policy changes in the near future, and the Party's reputation for secrecy is likely to continue.

The Labour Party

The Labour Party also faces severe problems of its own. Any party reliant on trade unions for income is going to be vulnerable following the catastrophic decline in union membership throughout the 1980s and early 1990s. And with union funding comes a feeling of union ownership and obligations, which are increasingly embarrassing to 'New Labour'.

Their income is around half that of the Tories in a non-election year and the amount they have available for media campaigns is usually far less. So ironically, one effect of the Tory cash crisis might be to level the playing field. The Labour Party has also traditionally been at a disadvantage in much of the so-called 'Tory' press, although with a possible slight compensation in broadcast media such as the BBC. That is now changing, with many Tory editors taking a very anti-Tory line, especially over sleaze.

The Labour Party has been criticised for the same kind of concealment of donor identities as seen with the Tories. On 23 February 1995, the Register of Members' Interests showed that both Tony Blair and Gordon Brown had received funding from a shadowy organisation called the Industrial Research Trust headed by Lord Gregson. The money is said to come mainly from unions, although the identity of donors is kept secret even from Tony Blair. ¹⁴⁸ When Tony Blair was elected party leader, his personal campaign budget was almost twice that of any other candidate. He showed no inclination to reveal where around £80,000 had suddenly come from.

As one of the longest-serving Labour politicians in the country Lord Healey is unhappy about the funding of the Party by unions. 'The Labour Party has got a problem but is prepared to face it and would welcome, certainly Blair would welcome a chance to break with the union financial connection

'Is that a problem?' I asked.

'Oh yes,' he replied. 'Without union money in many cases WC Could not run election campaigns. The unions do expect a return for it. I was a union-sponsored MP. In my case I got a £ 200 contribution to my expenses at general elections. The cash dependence on the unions of the Labour Party is a problem.'

So is he against all voluntary funding?

'I wouldn't object to that, providing it is all registered. What is quite unacceptable I feel with the Tory Party is that the source of their funds is never disclosed.' ¹⁴⁹ But Labour Also has a Foundation which launders anonymous funds. Indeed, a new one has been created called Common Campaigns Ltd, with directors Lord Haskel and Lord Clinton- Davis.

¹⁵⁰

Lord Healey admitted the existence of such trusts. He described how the Cadbury Foundation gave money openly to the Parliamentary Labour Party, so that members of the Shadow Cabinet would have research assistants. The identity of the people who give to the Cadbury Foundation

is never disclosed. But donations from the Foundation are declared. 'They funded one shared research post for me when I was Shadow Chancellor.'

Ken Livingstone says that candidates from all parties routinely break the strict funding rules in by-elections, where there is a strict legal limit on the amount that can be spent on campaigning in a constituency.

'Rules are systematically broken ... in by-elections. All the main political parties spend much more than the legal limit. But because they all do it and everyone knows it, no one does anything about it. But once you get to a general election. . . . the first problem is raising even the money allowed. You get occasional errors when people spend more than they should have done.'

I asked what support he got from unions himself.

'At the general election, TGWU will give £2-3,000 towards my election. After that they will give me £600 towards my general office costs. Now some unions do cough up £ 10- 12,000 but I've never heard of anyone getting more. I was once approached by the NCU and they were talking about £ 12,000 for a researcher, primarily looking into NCU areas of interest and policy. If you are being sponsored for that sort of sum, then they expect you would really be doing some work for that.' 151 This therefore is identical in many ways to pressures- on an individual MP who receives corporate, funding.

Tensions can easily develop between a sponsoring union and an MP. In 1971, it was alleged that a trade union threatened to withdraw cash support from pro-European MPs. The Privileges Committee declared that it was wrong to 'take or threaten action which is ... calculated to affect a Member's course of action in Parliament'.

In the 1974-5 session of Parliament the Yorkshire Area Council of the National Union of Mineworkers seemed to be threatening to withdraw sponsorship from MPs opposed in debates to union policy. Once again, concerns were expressed about the abuse of influence. If unions are seeking extra support for their policies through sponsorship then this would appear to be a breach of the spirit of the Committee of Privileges' recommendations set out in the 1946-7 parliamentary session: 'It would certainly be improper for a Member to enter into any arrangement fettering his complete independence as a Member of Parliament, by undertaking to press some particular point of view on behalf of an outside interest whether for reward or not.' 152

However union sponsorship is a normal part of life for most Labour MPs. In 1995, the unions sponsored 165 out of 272, which is 61 per cent. 153 They would argue that, because the money is used for expenses not personal income, it is very different from commercial sponsorship. Nevertheless, since most if not all MPs are keen to be re-elected, it could be argued that they have a strong interest in- any sponsorship helping them to do just that.

So, funding of both the main parties is unsatisfactory. The Tories have massive debts and are being as secretive as ever about how they will survive in the future, unable to shrug off

unpleasant rumours about donations and honours, or illegal overseas gifts. This culture of secrecy is important because, as we will see, it has affected how many other issues have been handled. The 'way of doing things' in any political party is an influence on the kind of people drawn to it as volunteers, campaigners and candidates.

The Labour Party is still union-dominated and will continue to be so for as long as the unions continue to provide most of their income. The need for reform is obvious. State funding would be attractive to many Labour MPs and could be the salvation of the Tories, although it would not save them from bankruptcy since it could mean other income dries up, leaving them with unmanageable debts.

By August 1996 it appeared party finances had improved, with reports that the overdraft had been cleared - but only by borrowing £9 million from elsewhere. What is more, this was the situation at the start of an election campaign, when reserves needed to be highest. 136

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