

Brunswick Webinar with Jon McLeod

Understanding the new Government: Issues for 2020

Official Transcript

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JON McLEOD: Good morning and welcome to “Understanding the New Government Issues for 2020”. I am Jon McLeod, Head of Public Affairs at Brunswick Group. In the room with me is Anna Wallace, Director of Political Relations at PWC UK. She works closely with the firm’s executive board to advise on political issues, including political risk and Brexit. Anna joined the firm in 2014 and has more than a decade’s experience in public affairs and political relations. We also have John O’Connell, who joined the TaxPayers’ Alliance as an intern in 2009 and has risen to glory because he became Chief Executive in August 2016. He has turned the TPA into one of the most influential public interest pressure groups in the country, authoring influential papers including “How to save £50 billion” and producing publications on tax reform. He speaks often on radio and television and is a graduate of Nottingham University. We have Matt Kilcoyne, who is the Deputy Director of the Adam Smith Institute. Matt began life as an underwriter in the City of London before he joined the Government of Catalonia. That is a lively Government, to say the least! Maybe we will get on to the SNP later. He was a trade and investment adviser there. He was a co-director of Political City and his research interests are trade, Brexit and financial services regulation. He has authored and contributed to multiple reports for the Adam Smith Institute including “Doing our Duty” and on the neoliberal manifesto. Finally, in the room is Duncan McCourt, my colleague and a Partner at Brunswick in London. He joined us from the Treasury, where he was Chief of Staff and Special Adviser to the former Chancellor Philip Hammond, advising on issues including Brexit, financial services and healthcare. He also advised Mr. Hammond when he was at the Foreign Office. Earlier in his career Duncan was a management consultant and worked in European equity strategy at Credit Suisse and JPMorgan Chase and consulted at the World Bank and KPMG in Washington DC.

It is an exciting panel and we are going dive straight in by looking firstly at what we would take as the top five takeaways for business from the general election 2019. We have had quite a lot of talk about the political aftermath, but what are business to make of where we are now? I am going to hand over to kick off on that to Anna Wallace of PWC. Anna, what do you have for us on this?

ANNA WALLACE: Good morning. I will assume that people have read the results in the last week and, as you say, I will concentrate on what some of the business takeaways are from the election. I guess the first thing to say is that, regardless of your views of our new Prime Minister, his emphatic victory does at least provide a stable environment for business, one that, frankly, has been sorely missed by business for many years now. The scale of the majority should mean that we have certainty in Parliament. There will be none of those late-night knife-edge votes that we have all lived and breathed for the last couple of years. The field of Brexit horses has narrowed, so lots of businesses which have Brexit plans on hold will be able to execute those. Our sense in talking to business (including international investors) is that the UK becomes a far more stable investment environment again. I think we have seen some of the investment houses already adjusting their ratings for the UK to that effect since last week’s result.

As I mentioned, this was the most certain outcome from a Brexit point of view because it was the one party which had, effectively, draft legislation published, so the Prime Minister gets on with delivering Brexit, putting his Brexit oven ready deal in the oven and baking it by 31 January. That certainty comes in the near term, but in the medium term some of the uncertainty returns, so what does the future trading relationship look like when we get into negotiations beyond 31 January? More broadly, other political risks like that might move back on to the radar in the medium to longer term, in particular with independence risks up in Scotland, but also with the Nationalists in the ascendency in Northern Ireland, there will potentially be challenges as the Brexit deal is implemented in Northern Ireland, and again in the medium to longer term, potential challenges around reunification polls, border polls. Some of those political stability risks for businesses do not entirely go away.

Thirdly, I think the policy landscape has changed. I am keen to emphasise that when Boris became Prime Minister in July that was a very different Administration from the May Government that had gone before it. This is clearly another very different Administration. The policy environment has changed. The spending taps are on. The Government will be keen to demonstrate an end to austerity, with big public spending in

public services, so delivering those 20,000 police officers, 50,000 nurses and funding for education, but also big spending taps turned on in transport and infrastructure, so a boon for businesses in those areas. There is talk this morning of £100 billion for transport and infrastructure projects across the UK. I would expect that a lot of that will be concentrated in the north of the country where the Prime Minister will be seeking to hold on to and maintain trust and credibility with those voters in the “red wall” seats, but also one thing that the Conservatives historically have been very good at when it comes to infrastructure spending is small projects that make a real difference to local people’s lives. We can also expect not just the big, shiny Boris projects but also some forensic investment in things like bus services, perhaps restoring bus services to improve connectivity in local areas, investing in potholes and things like that, that really matter to people on the street and/or a cynic might say will help the Government hold on to its votes in the coming years.

The fourth thing I would say is that the policy environment has definitely changed and the spending taps are on, but if you look at the Conservative manifesto, it was not the most detailed in terms of how it actually delivers some of these ambitions. Jon is showing it to me and he has printed it out on big paper which makes it look like it is more detailed, but there is a great opportunity for organisations like James’s and Matt’s, as well as for businesses, to shape what the solutions to delivering those ambitions look like. There is a bit of a gap in the market there and so businesses which have particular views in their areas should get a good hearing in Government as they seek to roll out those ambitions.

A final point, thinking more broadly about the business regulatory environment, I am really interested in, and I think Matt is going to tell us, what kind of Boris we are going to get, because I think that really dictates what happens in the next five years. The size of his victory means that he does not have anywhere to hide. When it comes to legislation it is not like he is going to be beholden to one wing of the party or another. I have seen some articles, including an FT piece last week, suggesting this means that he can now control the ERG, for example, and we will end up with a softer Brexit and he will be able to return to the pro-enterprise, pro-business Boris that we saw when he was Mayor of London. That may be true, but I am also looking for the evidence to tell me that the opposite would not be true. How do we know that he will be a one-nation Conservative rather than a populist Prime Minister? Some of the things that we have started to see come out of Number 10 in the last couple of days - for example, Ministers banned from going from Davos because this is a Government that is delivering for the people and not for “champagne billionaires”, I think was the phrase that was used in the briefing from Number 10. The front page of the Sunday Times at the weekend showed that while the water companies might have dodged a Labour nationalisation risk, Ofwat is still prepared to deliver a punitive financial settlement for that sector. I suspect that while Boris’s instincts might be generally deregulatory, if there is consumer harm, if there is a political buck to be made, I do not necessarily think that this is a Government that will be anti-state intervention. Just a slight word of warning that this is not necessarily going to be a big deregulatory Singapore-on-Thames type Government. I think it will be more nuanced on that depending on which part of the economy you operate in.

JON McLEOD: Before I turn to Matt Kilcoyne from the Adam Smith Institute, Anna, we have heard talk of a beefed-up Business Department. Maybe it could be called the “F Business Department”. What does that mean, given what you have said about a slightly more hawkish regulatory environment? How do businesses get their arms back round the political institutions of the Government and enter a strong dialogue about the value of enterprise over the next five years?

ANNA WALLACE: I think probably it will be two things, one logistical and one more strategic. First of all, there are lots of rumours around machinery of government changes, and I suspect we might see in particular from officials and perhaps to a lesser extent from Ministers, a little bit of turning inwards in the next couple of months as those machinery of government changes go through and as Brexit legislation gets through (which is obviously the number one priority). I think people will be more willing to engage in the first quarter of next year rather than immediately.

The second point is, and this has probably always been true of public affairs but I think it is especially true of this Government, businesses and organisations that are seeking to engage in that debate have to demonstrate why their ideas align with the political environment, by which I mean how will their policy ideas make a difference to the things that matter to this Government and to the people that have just elected them in. As I mentioned, are there things that you could do to fix consumer harm? Are there things that you could do to improve productivity and living standards across the country? How can you as a business or an organisation present policies which will improve fairness in those “red wall” seats in the North and the Midlands.

JON McLEOD: Great, thank you for that, Anna. Matt, as I turn to you to give us the answer to the question of which Boris are we going to get - which is often asked on “The Now Show”, where I notice they have a good Boris and a bad Boris - I am also interested, given that the Adam Smith Institute is the most inventive and creative think tank on the right of British politics, the surprising and interesting policies that might flow from this version of Boris. I know we have talked about things to do with railways and the reform of public services, but if I can give you the floor Matt, our attention will be riveted.

MATT KILCOYNE: I am sure John will disagree with the idea that we are the most inventive.

JON McLEOD: I was trying to create a scuffle.

MATT KILCOYNE: The kind of Boris that we are going to get? As ever, what the right is and what the centre is more defined by who and what the person is and does, and Boris has firmly parked his tanks on the lawn of one-nation conservatism. We have heard the phrase over and over and over again for the past six weeks. Part of the reason that he has done that is because there is no one else left calling themselves a one-nation Conservative left in the party after they were all purged at the end of the last Parliament. Dominic Grieve has gone, Anna Soubry has gone, Kenneth Clarke has gone, and so a one-nation Conservative is basically what Boris wants it to be. Thus, it is less meaningful than the title suggests. What we saw, though, in the election, and the last time I was on a panel with John just before Boris became the leader of the Conservative party, I said that they would likely go for a coalition of 1987 voters, maybe 1992 voters and maybe some voters from areas that they last won in the 1930s. They did that and what that means for policy is genuinely quite different from the Cameron era Conservative Party. There is not going to be any hugging of hoodies, I think it is fair to say, from this Conservative Party.

JON McLEOD: Or huskies.

MATT KILCOYNE: Boris’s girlfriend is a big fan of animals and so are the British people. That is a constant. We may see some love for animals, less so for hoodlums. Priti Patel in the Home Office suggests that is definitely true. One of the things that we are definitely going to see is a big reshuffle of departments in Whitehall. That will happen in February, so pay less attention to the new Baroness being made the Secretary of State for Digital, Culture, Media and Sport (replacing herself as an MP) and pay more attention to the fact that that department may not even exist in February and may be divided and the spoils delivered to who played a good part in the campaign. Michael Gove is destined to take control of DExEU, DIT, parts of the Business Department minus Energy, and maybe also Digital as he delivers some of the roll out. We may see homeland security emerge out of Defence and the security parts of the Home Office with the borders removed. There will some very big victors and some very big losers as departments are cut. Ironically, this was a Liz Truss proposal in the first set of Boris’s leadership ambitions, and she may find herself a victim of her own success in that regard, but we will see.

In terms of what kind of Boris we will get, what kind of policies we will get, now that we have a civil war on the left, a lot of the policies will be directed at the “red wall” seats but also at the south, in order to keep them from a fairly central centrist Labour Party candidate coming through or maybe even a Liberal Democrat candidate who might actually break through for a change. I think what we will see is what Boris

did in City Hall, which is fairly pro-business policies but genuinely quite willing to be interventionist, with the solid Conservative lines to appeal to the doughnut voters and the swing voters, like strong policing, the institutions that you care about, making sure that your hospital and school are up and running, making sure that you can get to work. It is the things that you care about (is what Dominic Cummings might call it) and underlying that you will have some liberal skirt. There was a reason why things were floated before the election that did not necessarily get a good play but were talked about - the amnesty for illegal migrants, something that Boris has talked about on regular occasions, the points based system, which may become more liberal than it might have been if we had ended up with a hung Parliament - because he has a bit more leeway to do so. People liked the idea of control over the immigration system without necessarily meaning you turn off the taps and the ability for people to come here and make their lives here and benefit the country as well as themselves.

I think Anna is right that the fiddly budgets are back. There will be money in the budget for potholes and for school budgets and so on. The details are not set out. You are absolutely right that outcomes are set out, but solutions are barely touched on. We are going to push for things like how to make sure that we get some building around our big cities and how we connect our big cities and our towns, because a lot of the narrative we saw was a rejection of the terminal decline of our towns and cities, just as we did in 2016, and a rejection of the terminal decline of the UK within the European super state. In the 1980s we saw a terminal decline of the economy as a whole. We will want to give people back local control over their lives by making sure that they have access to growth, access to the big cities in the north that allow those towns to regenerate and revitalise. We will be seeing how to fix the housing crisis up there, how to make sure that buses and trains link together, how to make sure that local businesses are not encumbered by multistate regulation but small businesses are freed internally within the UK single market, and also making sure we do things like abolishing what we call the factory tax, which is the tax on investment for big machinery and buildings as well so that they can cement some of the victory in the "red wall" seats by making sure that young people especially are able to grow up in those towns, have careers in those towns and make it rich in those towns. That is the way that they will end up with a majority in five or ten years' time in those seats.

JON McLEOD: Matt, thank you for that. Before I move over to John, I just wanted to ask you a supplementary, if I may, about the balance between the different forces within Conservatism. If we look within Parliament, we saw yesterday a meeting of an enlarged ERG.

MATT KILCOYNE: There were 37 members in that yesterday and that is not all of them.

JON McLEOD: You would need more than one taxi to move them around, so there are a lot of ERG aficionados. We have not heard much from the TRG, or the "softies" if you like. Outside Parliament, I am hearing your voice

MATT KILCOYNE: You are also still hearing Steve Bray, the Stop Brexit Man. He is still there.

JON McLEOD: His voice is, but I am not sure he is a factor in the policy debate. He is certainly noisy. The political equity of some of the softer right think tanks is also to be debated. Do you see that as a power struggle or are you, "Let a thousand flowers bloom and we all love each other now" because it is such a good result?

MATT KILCOYNE: Usually I say I am very friendly with my centre right think tanks. There is a competitiveness to the likes of the ones on the more centre left. Yesterday there was a piece by Will Tanner at Onward in which he decried trickle-down economics. From a personal point of view, I do not know a single economist who believes in trickle-down economics. It is an absolute nonsense and if they are pushing for a state intervention based on a strawman, I will attack it just as much as I attack the centre left when they create such things.

Internally, the Conservative Party, and I think Boris, and maybe Number 10 as well do not know the Conservative MPs they have coming down to Parliament for the first time. These are MPs from places that held the faith during the long years of Opposition. These are pretty sound Conservatives - and by sound, I mean pretty right-wing. They tend to be tax cutters, so John is going to be happy. They tend to be anti-nanny state, so Matt Hancock may have some fights on his hands if he wants to tax sugar or tax meat consumption. Also, the ERG will be boosted. It will probably not manage to overturn the 80 something seat majority Boris has, but there will be coalitions of new MPs. Blue collar Conservatives are growing. That is the working-class Conservative group. That is pretty solid now. It used to be six MPs and it is now looking more like 20 or 25. What I would say though is that when Boris came in, he set up a Cabinet that included all his enemies as well as his friends. He had Michael Gove, who had stabbed him in the back (or in the front actually) during his first leadership campaign in 2016. He had Amber Rudd from the TRG and Nicky Morgan, the blue collars, Liz Truss from the freer, more libertarian side, Jacob Rees Mogg from the more revanchist side of the Conservative Party, and he kept them all close. It does not look like he is trying to alienate one wing or another. Obviously one wing, the TRG group, mostly has been replaced by new entrants.

JON McLEOD: They have been sent away to be re-educated. I am going to demonstrate a technology feature of this event - we are able to receive questions via the miracle of the interweb and one of the participants has asked you, Matt, whether or not in terms of Number 10's formulation of policy, it will still be "The Dominic Cummings Show", to use this person's words, or is policy making going to be a little more diffused than one man's wisdom?

MATT KILCOYNE: There is a billion-dollar question. Dominic is going away for a bit. This morning he told advisers they are allowed to take holiday again; the ban is lifted, and they are allowed to go away. He himself has been on a waiting list for an operation for a while now. Nobody knows what it is. Rumours range to everything, from getting his hip replaced to various forms of more serious illnesses, but, genuinely, no one knows. The likelihood is that he will be out for four to six weeks and there is Christmas and then it is Brexit. We do not know what policy formulation looks like without him there, but modern technology probably means he will be sat in the operating theatre under local anaesthetic still defining policy.

The people in Number 10 are quite interesting. You have people like Munira Murza, who wrote the manifesto and who came from the TaxPayers' Alliance once upon a time, and who has worked in City Hall. Rob Colville, who also wrote the manifesto, is from the Centre for Policy Studies, another right wing think tank, and from the centre right or free market right, and Rachel Wolf from Public First, who is more of a free marketeer, but it was not a free market manifesto. Blair Gibb, who has joined Number 10, worked on criminal justice reform and worked at a drugs policy think tank. Are these going to be the liberal skirts that are going to come up because you now have a majority in order to pass these things and the UK has been stuck not being able to do them for ten years? It is quite possible, but they have to be let free and Boris has to be let free as well to respond to events as he sees fit, as opposed to thinking, "What is going to happen to my minus six votes in the Commons?" and the 86 majority allows him to really do that. Restraining Boris might be the bigger task for Number 10's team in the next few months.

JON McLEOD: Yes, like The Hulk as we heard before the Dissolution. Before I bring John O'Connell in, I have a searing observation from Duncan McCourt. Duncan?

DUNCAN McCOURT: I think that last point is crucial. We have got used to Parliament having an awful lot of say in Parliament and its influence, even without passing a vote, on what Government has tried to do over the last three, four, maybe even ten years. Now we have a Conservative majority of 80 and, frankly, the Executive is firmly back in control and the Civil Service and policy makers in Number 10 and other departments have a much greater degree of freedom to set policy as they wish. Back to Anna's point, that provides business with a terrific opportunity to have its voice heard in a relatively coordinated and influential way.

JON McLEOD: Thank you, Duncan. John O'Connell, Chief Executive of the TaxPayers' Alliance. Holding the North - is it going to cost a fortune? Are we into splurgonomics, boosterism? These things would make your flesh crawl presumably, John, from a TPA perspective?

JOHN O'CONNELL: It really depends on how you look at these things of course. If you look at the working-class vote over the course of the Labour Government from 1997 to 2010, it reached a peak of 55% in '97 and dropped down to 35% in 2010. That is obviously a significant drop. Holding the North is a difficult task and it was a difficult task for the Labour Government. What is going to be the difference this time? I think the difference will be that Boris and his team seem to be going for growth politics as opposed to distributional politics. I think what happened in that period between '97 and 2010, to put it crudely, is Labour let the City grow and then redistributed some of the money elsewhere, introduced tax credits and all of these things but what that meant is that towns outside of London did not really grow and prosper in the same way, except for some transfers. I think the mantra will be rather than sharing the proceeds of growth, sharing the delivery of growth, so what you are going to see is Boris looking genuinely to deliver lots of infrastructure north of London and outside of the M25.

From an economics point of view, capital spending enhances growth more than current spending. When George Osborne took over as Chancellor in 2010 and reduced spending, lots of economists said he was taking the easy option by cutting capex but letting current expenditure grow. If you cut current expenditure you get lots of headlines about people having their pensions and salaries cut and all the rest of it, so increasing capex is not necessarily something that will make my flesh crawl.

Another key thing that could be very interesting is the talk of devolving tax and spend powers. You can talk about London deciding what infrastructure is needed, where, et cetera, et cetera, but if you have a genuine devolution of tax and spend powers, you have two effects. You have regions and councils and whatever else outside of London owning the growth. They get to decide what projects, how much money to put into them and who pays for them. You also have faster growth and better productivity because decentralised tax systems perform better at those matrices than centralised ones. We have a heavily centralised tax system in the UK. Whilst spending will go up, and maybe I am naively optimistic, I am quite hopeful it will be done in the "right" way where you actually get some ownership of growth in the North. Let's assume that growth kicks in.

What can happen in terms of a tax cutting agenda? I think there is a lot of cheer among the working classes. We did some polling back in the summer with Public First, which Rachel Wolf worked for and founded, and the cohort of C2/D voters were twice as likely to back corporation tax cuts as middle-class voters. There was a link there that they understood that tax cuts for businesses were good for jobs. They realised that businesses could up sticks and move out if they were heavily taxed. There is lots to cheer there in terms of what happens when we get growth or if we get growth in the near future.

There are other things that were very popular in our polling. Moving government out of London - that polls very well. Again, it speaks to that ownership of public service delivery in the local area. Dropping the graduate requirement for joining certain elements of the Civil Service as well, having that diversified thought among the Civil Service would be a very nice thing, and council tax and business rates and all of those taxes that are applied locally but are absolutely hideously unpopular among the working classes. Quite what that looks like in the future is to be determined. Everybody always talks about a business rates review because it is quite tricky to decide what to do with business rates. In the Labour manifesto, for instance, they talked about a land value tax on commercial property. That was one bright point in the Labour manifesto among the general craziness.

You can see already that even though there is going to be this slightly larger state and slightly more interventionist state there still is a tax cutting element to what the Government is going to do. The first

Budget is likely to have an increase in the national insurance threshold. There is an indication that over time it is going to seek to align it with income tax, which is a very, very good move, not only in cutting taxes but simplifying taxes in the long run. Hopefully, 15 to 20 years hence we can look to merge those two taxes, because National Insurance is just another income tax anyway.

Then you think about who is in the Cabinet and what kind of agenda that would mean on a tax cutting front. You look at people like Dominic Rabb, whose leadership pitch was championing the little guy, whether that be business or personal taxes. His key headline pledge was to cut the basic rate of income tax from 20p to 15p. Priti Patel, who Matt already mentioned, again is always talking about championing small business and the little guy. In terms of a tax cutting Cabinet the personnel are there.

Will mass tax cuts happen straightaway? Probably not but I think when - if - this growth agenda is delivered as opposed to a distributional one and you start to see the results of having regions' own growth and regions delivering growth themselves rather than just getting given handouts, when that happens you will start to see a shift to some fairly radical tax cuts over the course of the next three to five years, maybe into the next Parliament, maybe it will not be so soon. One thing that needs to happen if they are going to build all this infrastructure in the north, is spades need to go into the ground fairly quickly so that people actually start to see that it is happening, because the benefits of that infrastructure will have quite a long lead time, so in terms of holding the north at the next election and then into the one after that, they certainly need to move quite quickly on this agenda.

JON McLEOD: And if one thing could be done it would be the removal of the notorious Sprinter trains from Northern Rail, which for those of you who have not experienced them, they do not sprint and are like a bus on rails. We have received questions about what the budget might be like and before I move on to Duncan, I might put that in his porridge pot to come back to us on. John, you mentioned reform of council tax and business rates. I dare not ask Matt Kilcoyne to answer that point because of course last time that happened the Adam Smith Institute brought us the community charge or poll tax, which, in the words of Michael Heseltine, "The public have not been persuaded that it was fair".

MATT KILCOYNE: It was really well-received.

JON McLEOD: It was well-received certainly by those who were practicing insurrection at the time. I am disappointed, John, that you did not mention the proposal in Labour's manifesto to review the Allotments Act because more room for Jeremy's marrow was certainly something we were looking forward to. Can I press you on this point, which is - you talked about Corporation Tax cuts, but a bit more nuance on business taxation, because one of the things the Conservatives did was start to tax directors' dividends for smaller businesses, which is an unholy and anti-entrepreneurship move. I am just wondering whether your whiskers are starting to prick up about how a Boris Johnson Administration might actually address the needs of entrepreneurs and smaller businesses versus the mega-corporations which can tax organisations globally with the greatest of ease.

JOHN O'CONNELL: You are dead right on that, and the headline rate of Corporation Tax, while notionally a good thing in terms of attracting inward investment, is not always the full picture. You also have areas like reinvestment allowances, and I know the Adam Smith Institute has talked a lot about that in terms of capital machinery and writing that kind of stuff off. These kinds of things are probably going to be more helpful than the headline rate of Corporation Tax but as a signal certainly working class voters definitely understand (and should not be patronised that they would not understand) that cutting taxes on businesses is good for their jobs and good for their local economies. But you are dead right, there are lots of granular issues to tackle on small business. Given that everybody always likes to talk about "small is beautiful" and small businesses are the "engine of growth", it would be good to see them tackle some of those more granular issues without question.

MATT KILCOYNE: The biggest signal that you will see on tax is who is Chancellor in February. Sajid Javid had a pretty quiet campaign whereas the likes of Rishi Sunak and Rob Jenrick did not. Both are potentially Chancellors, if not this time then later down the line. Both are far more likely to be open to quite sweeping changes on tax reform whereas Sajid Javid appears to be more “softly, softly as you go”.

JON McLEOD: Yes, steady as she goes. What a perfect segue way into Duncan McCourt, partner at Brunswick and former Chief of Staff and Special Advisor to the Chancellor of the Exchequer Philip Hammond. Duncan, a big question, the macroeconomic outlook, our trading future and what this means for the UK - I do not expect you to have all the answers but your reflections will certainly be of great interest.

DUNCAN McCOURT: On the macroeconomic outlook, the forecasts for economic growth remain somewhat sclerotic: OBR at 1.2% and moving along at middle 1%. That seems to be the consensus of most of the forecasts over the next three to five years. That is largely, I think, as a result of relatively slow business investment and there is an argument that that might pick up over the next few years. Balancing that, employment is still very strong, and the wage growth figures that were out yesterday are also very, very strong, so the jobs miracle continues but economic growth and productivity remain a problem in the UK.

Into next year and beyond I think there are some things that will provide a stimulus or a tailwind to economic growth and some things that will provide a drag and a set of headwinds.

On the stimulus side, I think we will see for the first time in a long-time fiscal policy providing a stimulus. The Government has set out a range of plans and we can come on later to what the Budget might hold, but there is a range of plans in spending in Boris's time in Government. I suspect that over the campaign, the great officials of HM Treasury were preparing a detailed slide pack for the new Chancellor to arrive back that says, “This is what you have promised and this is what it adds up to and this is why it will break your three month old fiscal rules. So which of these do you not wish to do, Chancellor?” He will have a tricky choice to make. The current spending rules will bite and will constrain spending. On the capital side I think there is still some room, so I would agree that there is a great deal of capital spending to come. The difficulty is there is almost always a bit of a lag in capital spending, so it is difficult to get spades in the ground. Philip Hammond when he was Chancellor significantly increased capital spending so that will be flowing through and there is still room, but there is a time lag in getting that investment out.

Another tail wind is the Corbyn relief. I think business in the UK was desperately worried about Corbyn. There was an understandable reluctance to invest. That has gone, but the long-term trade tensions remain, and I will come on to those in a second. Finally, the UK economy I think will be most influenced by what happens in the global economy and US/China would be the biggest influence on that. That appears to be calming down, at least in the short term. Personally, I expect it to resurface again after the election. The fundamental tension between the US and China remains and, frankly, whoever is in the White House will face that.

On the headwind side, the question about what our trading relationship with the EU will be absolutely remains. The Government appears to be pursuing a relatively barebones FTA. Some of the briefing is, “We will accept no alignment at all”, so there is a big question about what can be agreed with the EU on that basis. The EU's position will be, “If you want zero tariffs and zero quotas there must be a significant degree of alignment in order to protect the Single Market”. I think that will be difficult for the UK Government to accept. I still do not rule out no deal, but I think the political desire of Boris and the Government to agree a deal is pretty strong.

Having said that, there is a trade-off to be made about alignment versus economic benefit of trade. Even zero tariffs and zero quotas are likely to result in significantly lower economic growth than otherwise would have been the case.

That is just trade in goods. There will be a significant amount of friction possibly at the border. In my view that is really a decision that is in the EU's hands. It can turn up or down the dial on trade friction as it wishes. Then there is the whole piece about services, which I suspect will not be dealt with at all in this stage of the negotiation. Then there is a question about how you build up from a barebones FTA into services, which I think is relatively difficult given that the UK will have given away most of its levers in this first stage of negotiation.

I would expect a significant degree of economic restructuring to go on over the next three to five years. The Government has set out its proposals, or at least its ambition, to significantly remodel the economy and it has the opportunity to do so given its majority. I think Anna touched on it at the start so I will not go into it in great detail. There is, in my view, a degree of political turbulence to come over the next few years, both with the EU and the Union. Delivering for the new Conservative voters of the North will be increasingly challenging in a world where the UK economy is slow and growth is slow, and I think that might pose some further political turmoil.

But perhaps all of that does not matter if the Government is able to reshape the nation and to spread growth across the land. I think, broadly, we will see a picture of the Government favouring the consumer over the corporate. I think that will be one of the great themes of this Government.

And then on to the Budget and what might happen in the Budget, I think you will see the start of the tax cutting agenda on NICs balanced by the freezing of CT. I think you will see the business rates review launched, but, as John said, it is easier said than done to come up with a suitable policy for that. I think you will see the spending that has been promised confirmed, if you like, so spending on the NHS, on education, on the police and on infrastructure, as I mentioned earlier.

I think you will see a big science and R&D push, so there will be a lot of spending on that and possibly you may see something on the tax side on that. I think you will probably start to see some market intervention on audit, governance and company reporting and possibly on strengthening of CMA. I will be looking out closely for the digital services tax, so what the Government plans to do on that in the light of the American judgment on the French version.

JON McLEOD: Which was?

JOHN O'CONNELL: Which was, "We think it is discriminatory and we are going to whack a load of tariffs on cheese and champagne."

MATT KILCOYNE: From a broad point of view, the American point of view is that the digital service tax is a tariff in itself against four specific American companies and the French law was called the "Big Four" tax and that ---

JON McLEOD: --- slightly gave the game away.

MATT KILCOYNE: It did; and on top of that it specifically names the one French firm that it would affect and then gave them a carve out, so they really have no leg to stand on there. The UK has to be a bit cleverer about it.

JON McLEOD: Vive la France! We have received another question in the ether, which I think is a yes/no question and I will go around the table. We have heard that the legislation on the negotiation of the deal with the EU 27 will put a guillotine at the end of next year with no extension permitted by law. Will there be a U-turn on that if there is no deal achieved? Duncan, yes or no?

DUNCAN McCOURT: No.

ANNA WALLACE: No.

JOHN O'CONNELL: No.

MATT KILCOYNE: No.

JON McLEOD: So - he really means it?

ANNA WALLACE: That is our consensus.

DUNCAN McCOURT: May I add just a little more texture to that answer.

JON McLEOD: By all means.

JOHN O'CONNELL: For me it is pure political signalling. If the Government wishes to extend it can introduce a one-line bill and change this law, but it does show a very clear intention and direction of travel.

ANNA WALLACE: What we might get to there, from a political point of view it probably makes sense, both in terms of your domestic audience and in terms of your negotiating leverage in Europe. From a business point of view, it is very challenging, because then a no deal risks just moving back from 31 January to 31 December. I suspect what we will get is a bit of Boris fudge and we will be told we have left on 31 December but, actually, conversations will continue for another three/four years after that.

JON McLEOD: A little bit of Brino?

ANNA WALLACE: A little bit of Brino.

JON McLEOD: A little bit of Brino never hurt anyone. Can we do a very quick tour de table on the two key milestones ahead, thinking about the Queen's Speech tomorrow and the exciting things that we should look out for in that, and then the Budget in February. We have already had a little bit of chat about the Budget. Why do we not start with the Queen's Speech, and I will start with you in a second, John, just to think about we had a people's priorities Queen's Speech in the short Parliament just before the Dissolution which kind of let us know what the direction of travel would be, but, presumably, there will be more baubles on this Christmas tree tomorrow, if I can use that obtuse analogy.

JOHN O'CONNELL: I think therefore, as I was mentioning in my remarks, they will be talking a lot about growth. Quite specifically what that will mean in the Queen's Speech I am not sure, but I think what they will be looking to do is demonstrate to the people who just voted them in that they are serious about what they are going to be delivering over the next five years rather than just, "Thanks for that and we will get on with business as usual". I think there are going to be some quite specific things in there that Duncan was mentioning on research and development and science. That will have Dom Cummings written all over it as well in terms of inserting that straight in as part of the agenda, so I would look out for R&D and science as the top priorities.

JON McLEOD: The key notes and of course it does not have to be legislation. It can be the purpose and intent of the Government.

JOHN O'CONNELL: Quite.

JON McLEOD: Matt, you are brimming with ideas. What would you like to slip in were you just editing it today before handing it over to Her Maj?

MATT KILCOYNE: It would be very different from what they actually deliver.

JON McLEOD: More is the pity.

MATT KILCOYNE: She will start it by saying, "My Government will get Brexit done", which will be the headline, I think, for most of the papers, but I think you are right in terms of the R&D. If you read Dominic Cummings' blogs (if you can read Dominic Cummings' blogs because they are quite hard going) he loves the scientist visa, he loves R&D tax credits. They will be in there. I think what we will see is that we will get that national insurance threshold within it. It will be relatively short because the fiscal event, that is the Budget, will happen immediately after Brexit and they will want to make sure that they give enough leeway on that. There will be a whole bunch of fiddly bills about banning sales of animal trophies and all this kind of stuff so that they do not end up with viral stories happening online that undermine their vote share next year, because what they want to show is they are continuing to deliver small things as well as the big picture, which is Brexit and will take up most of the civil servants' time, and continues to be the great suck of energy from within Whitehall.

JON McLEOD: Thank you. John, do come in.

JOHN O'CONNELL: Two points before you ask Matt what he would like in there. What I specifically would like to hear would be the ditching of HS2 and reallocating the money, as Anna mentioned earlier in her comments, to smaller, less glamorous, less sexy projects.

MATT KILCOYNE: I will second that.

JON McLEOD: I am for the less sexy Midland Mainline, which I travel on in a very unsexy way, and it is definitely diesel at the moment. Speaking of definitely diesel, Duncan, the re-creation of DECC is anticipated. A new Secretary of State will be needed, maybe Kwasi Kwarteng, and then there is COP26 in Glasgow in December - but it would be quite good if we could do something to save the planet. Any of that to look out for in the Queen's Speech or some signals about a really substantive policy on climate change and carbon reduction?

DUNCAN McCOURT: It is definitely going to be one of the major issues in the UK, in politics and in business over the next ten, 15 or 20 years, but most acutely next year with the UK hosting COP. I would not be at all surprised if there were some energy transition measures in the Queen's Speech, but I am not entirely sure of what shape that might take. It will be a huge feature of UK politics.

I would also expect to see something on employment. I think they have the ability to do quite a lot of the Taylor stuff now, should they wish to, and I would expect to see something on renters, so a Rental Reform Bill, or something along those lines. There is the thorny question of social care which again is a massive structural issue for the UK to address and again easier to say, "We will do a review of it" than to come up with an actual workable policy

JON McLEOD: A cross party Commission is sought but we already have an excellent report from Andrew Dilnot from Gordon Brown's Government, which is probably worth dusting off. In terms of legislating for the environment, there needs to be a regulated market for carbon to incentivise its sequestration in carbon capture and storage schemes if we are going to have any sort of move to net zero. No politician seems to have established a carbon market.

MATT KILCOYNE: Again, the problem that Theresa May had and Cameron had and also, in some respects, the Labour Party had was they had a consistency issue when it comes to climate change and industrial strategy and the voting areas that they have built up. You might win Lincolnshire and parts that you have never won before that are still quite highly industrialised, that have high carbon-intensive industries - steelworks and so on - and you cannot go gung ho on making those businesses unprofitable and also say that you do not necessarily want to subsidise their existence and also say that you want to keep those votes. Boris will have a problem, and every party has a problem with squaring that circle, effectively. I do not have an answer for how they are going to do that. What they saw in the last Government was that they completely fudged it. They just kept saying that they wanted to solve climate change and bunging these companies hundreds of millions of pounds.

JOHN O'CONNELL: I do not know. Trying to strike that balance, if there is a change in the tax regime, I think it needs to deliver almost on being tax-neutral in a way. If you are going to increase taxes on those kinds of firms, you probably need to look at reducing the green taxes that affect those on low incomes and their household bills. You might need to look at the tax profile of how we address this issue just as much as what kind of new taxes can we bring in, can we reduce taxes elsewhere and that kind of thing and who pays the tax as well.

JON McLEOD: Yes, because at the moment carbon is taxed, i.e. carbon emitted. What you want is a lower price for carbon captured and stored so that the economic driver is towards the latter.

MATT KILCOYNE: It is an issue for the European negotiations as well because at the moment there is a carbon market internally within the EU. If the UK does not create exactly the same system, or an equivalent system, the EU could decide that that is a protectionist measure and what we have seen in both the US and in the EU negotiations with other third party countries is this has become a new front, that if you are not doing certain environmental measures you are treated as undermining competitiveness and, therefore, you are open to sanction. The UK might be forced into creating a new system that it does not necessarily want.

DUNCAN McCOURT: I think the EU will, if need be, pursue a carbon border tax, effectively. On the Budget I would be surprised if there is not big investment in carbon capture. The other huge issue in this area that we have not spoken about is fuel duty which has been frozen basically since the Conservatives came to power. There is an environmental angle to unfreezing. It is an enormous cost to freeze every year. It is massively political difficult to improve.

JON McLEOD: We could have our own gilet jaunes in this country.

DUNCAN McCOURT: Very courageous.

JON McLEOD: I am going to be bringing Anna in in a second for the last word, as it were. Duncan, a very quick question for you. We have heard that DfID could be rolled into the FCO to bend foreign aid policy more to our interests rather than to our altruism. What does that mean for the future direction of travel in foreign aid? Are we stepping away from 0.7%, et cetera?

DUNCAN McCOURT: I would expect them to stick to it notionally but spend it on things that might not qualify as OECD ODA. Personally, I think it is a difficult step. The UK has taken a great deal of credit in the international world on doing its 2% NATO contribution and its 0.7% on ODA, but I think this is a little bit of red meat to the Conservatives and you can understand why they might want to do it, because there is quite a lot of money in it and it has the ability to use ODA as more of a tool of UK foreign policy.

JON McLEOD: Anna, in 15 to 20 seconds, what are you looking out for in the Queen's Speech tomorrow?

ANNA WALLACE: May I step back from the Queen's Speech slightly because I think that will largely be a rehash of the October Queen's Speech? It is worth reflecting that we are nine years into some form of Conservative rule, and I think that we are at least in for another four or five years and there is a question about potentially another ten years of Conservative rule. If we reflect that we are only halfway through what was the Thatcher/Major period of Conservative rule, potentially, we have another nine years of this Government. I think people perhaps felt that a Labour victory would mean a wholesale recasting of British society and economy. Actually, I think that is potentially true even of this Government. Dominic Cummings is not the type of man who is going to do things as they were always done, and I think he has big ambitions for recasting the state. When we look at the UK, this is potentially quite a big period of change in the same way that Thatcher was for the UK in the 1980s.

JON McLEOD: Thank you very much. May I say thank you to Matt Kilcoyne, Deputy Director of the Adam Smith Institute, John O'Connell, Chief Executive of the TaxPayers' Alliance, Anna Wallace, Head of Political Relations at PWC UK and Duncan McCourt, partner in Brunswick Group. John mentioned proposals to move government out of London - may I remind you that in the groovy 1960s the New Statesman and Society proposed that government was moved out of London to the Vale of York and a new city called Elizabetha be established. It would probably be under water now if it had been established, but that is one for us to think about for next time. Until then, goodbye.