



# UK GENERAL ELECTION

## RESULTS 2017

### Introduction

*This report was written over the weekend of 10<sup>th</sup>/11<sup>th</sup> June and revised early on Monday 12<sup>th</sup> June. Readers will hopefully appreciate that events were moving very quickly – and continue to do so. For example, on Saturday morning there was pressure to remove Theresa May’s advisers, Nick Timothy and Fiona Hill: by lunchtime, they were gone. The current political situation remains volatile and we will continue to update you on further significant events which happen after the publication of this document.*

Theresa May’s entire political career has been characterised by caution. She kept such a low profile during the Referendum campaign that she was nicknamed ‘submarine’ by less charitable colleagues. How ironic, therefore, that the country’s political landscape has been thrown into turmoil by a gamble she didn’t need to take – and which may yet mean she loses her job.

...But as the UK voted on Thursday 8<sup>th</sup> June, the pollsters were almost as one. The Conservatives held roughly a seven point lead, enough to see Theresa May back in Downing Street with a comfortable majority, ready to push through Brexit and govern for another five years.

The polls closed at 10pm and as Big Ben finished chiming, David Dimbleby announced the result of the BBC’s exit poll. “We are predicting the Conservatives will be the largest party in a hung parliament.”

“What?” gasped pundits, politicians and pollsters (with the exception of Survation, the one polling organisation that had predicted a hung parliament).



## The Result

The initial exit poll gave the Tories 315 seats. In the event – with Kensington and Chelsea, the final seat to declare, going to Labour after a third recount – they ended up with 318. A resurgent Labour had 262, the SNP crashed to 35, the Liberal Democrats were up to 12, ‘Others’ had 13 and the Northern Ireland’s DUP had 10 seats.

The first editions of Friday morning’s papers were quick to give their verdicts. On one side, it was *Mayhem* and *Theresa Dismay*, on the other *Stormin’ Corbyn* and *Cor Blimey!* It was left to the ‘Financial Times’ to avoid the puns and sum it up: *May’s gamble backfires as voters reject bid for a stronger mandate.*

Undeterred, Theresa May went off to take morning coffee with the Queen and came back to announce that she would be forming a government. Perhaps no longer ‘strong and stable’, but she did intend to govern for five years. So where would her majority in parliament come from? Step forward the Democratic Unionist Party, whose ten MPs stumbled into the limelight on Friday afternoon, prepared to lend their support on a ‘confidence and supply’ arrangement, rather than any formal coalition.

## The Arithmetic

There are 650 seats in the House of Commons, but Sinn Fein have once again confirmed that their MPs will not take their seats. Effectively, that means there are 642 seats after another one has been deducted for the Speaker. Therefore, 322 MPs are needed for a majority. Taken together, the Conservatives and the DUP have 328, giving a working majority of 14. That’s not far short of the majority Theresa May had before the election: perhaps that explains how she waltzed back into Downing Street as if nothing had happened.

But that majority of 14 is only notional. All of this report could have been devoted to combinations of MPs, opinions and interests that would remove the majority: hard Brexit/soft Brexit, more austerity/more government spending, the disagreements between the Scottish Conservatives and the DUP – and we still wouldn’t have scratched the surface. What was it the Prime Minister repeatedly warned us against during the election campaign? Ah yes, a ‘coalition of chaos...’



## The Personalities

When we started to prepare this report it seemed likely that there would be a need to concentrate on Chancellor Philip Hammond. There were stories that he had become increasingly distant from Mrs May: that she hadn't forgiven him for the national insurance shambles in his first Budget. Secure in Downing Street with her majority of between 50 and 100, would she keep him on or – as was rumoured – replace him with Amber Rudd? Hammond had no doubts: he told friends he expected to be sacked.

On Friday, dreadfully insecure and now reliant on the DUP, May wasted no time in confirming him as Chancellor. Amber Rudd, Boris Johnson and David Davis were equally swiftly confirmed. There was some necessary re-shuffling further down the pecking order, with one appointment seeing the return of Michael Gove as Environment Minister.

Over the weekend, it was rumoured that Boris Johnson might seek to replace the PM – or that she might be persuaded to stand down in Johnson's favour. He has quickly rubbished those rumours and given Theresa May his support – at least for the time being...

One key player it may pay to keep an eye on is Ruth Davidson, the leader of the Scottish Conservatives. As May's star has fallen so Davidson's has risen. She's 38, the MSP for Edinburgh Central and her father played for Partick Thistle. She studied English Literature at Edinburgh University, worked at the BBC for seven years, was a signaller in the TA between 2003 and 2006 and became leader of the Scottish Conservative party in November 2011. She supports Dunfermline Athletic and her hobbies are dog walking, hill walking and – perhaps Mrs May should take note – kickboxing.

How the relationship between these two women plays out over the coming weeks and months will be fascinating. Ruth Davidson certainly does not see eye-to-eye with the DUP, and she favours a Brexit which prioritises business and trade over immigration and border controls.

## Who are the DUP?

The Democratic Unionist Party is the largest political party in Northern Ireland. It was founded by the late Ian Paisley in 1971, at the height of the Northern Ireland troubles. It is now led by Arlene Foster and has ten MPs, among them Ian Paisley Jr. and Jim Shannon – who has the distinction of being voted 'the least sexy MP in the House of Commons' (a remarkable achievement, given the competition...).

The DUP is socially conservative, anti-abortion, opposes same-sex marriage, is Eurosceptic and supports the UK's withdrawal from the EU.



Economically (based on their 2017 manifesto), they favour a reduction in corporation tax to 12.5%, low tax, deregulated freeports (areas where imported goods may be stored duty free) in economically undeveloped parts of the UK, the abolition of air passenger duty and reduced VAT for tourism businesses.

They now find themselves in the position of 'kingmaker', with their chief whip, Jeffrey Donaldson, saying: "This is perfect territory for the DUP. It puts us in a very strong position. Certainly, this is [an opportunity] we would take up with relish."

## What is a 'confidence and supply' deal?

At the moment, the plan is for the DUP to have a 'confidence and supply' arrangement with the Conservatives. This is a far looser arrangement than a formal coalition – such as the Conservative/Lib Dem coalition of 2010 – or a 'pact', for which we have to go back to Labour/Liberal pact of 1977. It would mean the DUP backing the Government on 'supply' – that is, backing the Budget – and also preventing the Government being brought down on a vote of no confidence. But it would leave other issues to be decided on a vote-by-vote basis.

## Could Labour form a government?

By Saturday lunchtime, it was being reported that Jeremy Corbyn was preparing his own Queen's speech and was 'ready to serve' should Theresa May be unable to form a government. How likely is this? One way of answering that question is to suggest that nothing will concentrate DUP minds like the possibility of power and nothing will concentrate Conservative minds like the prospect of Mr Corbyn walking into 10 Downing Street. The suggestion of a 'Labour speech' appears, at this stage, to be more of an exercise in being seen as a credible government should there be another election in the near future, rather than a document Mr Corbyn expects Her Majesty to be reading out in a fortnight's time.



## What does all this mean for Brexit?

“Brexit means Brexit.” “No deal is better than a bad deal.” All those previous soundbites can be consigned to history. Right now, no one has any idea what the UK wants from the negotiations. ‘The best deal for Britain’ is a given, but everyone seems to have their own idea about what the ‘best deal’ is.

There are however, some simple facts:

- The UK gave notification of its intention to leave the EU on 29<sup>th</sup> March. Unless all the other 27 member states agree to an extension, the negotiations – theoretically due to start on 19<sup>th</sup> June – must be concluded so Britain can leave the EU on 29<sup>th</sup> March 2019.
- Politicians in the EU have not been slow to express their pleasure at Theresa May’s discomfort. Gianni Pitella, socialist leader of the European Parliament’s second biggest party, said, “Her gamble has backfired spectacularly. She has no credibility in the UK or in Europe. She should resign. It’s a disaster.” Has Thursday’s result weakened the UK’s negotiating position? It is impossible to think anything else.
- A ‘hard Brexit’ – the UK simply exiting the EU without a deal and operating under World Trade Organisation rules – now looks unlikely. The impetus, from influential figures within the Conservative party and from business, is to prioritise trade over immigration control. Although David Davis has stressed again (on Monday morning) that the UK will be leaving the single market, that is far more likely to be an opening negotiating position than a commitment to a hard Brexit.



## What does this mean for the pound, shares and my investments?

The pound initially fell on the election result, but only slightly. At time of review for this summary, it stood at \$1.2743 having started the month at \$1.2892 and had been relatively stable on the Asian markets overnight. The FTSE-100 index of leading shares started the month at 7,520, closed at 7,527 on Friday and as of Monday, is down fractionally at 7,497. At the moment, the markets seem to think that the Conservative/DUP arrangement will work.

Generally, the markets would prefer a 'soft Brexit' and – as we have noted above – the election result suggests that is now more likely than leaving the EU with no trade agreement in place.

However, what markets do *not* like is uncertainty. If a deal with the DUP is concluded swiftly, if Theresa May's position is clarified one way or the other, then it may well be business as usual. If the Conservative/DUP agreement sees the Queen's Speech successfully through the Commons, everyone will breathe a huge sigh of relief. However, if Jeremy Corbyn walks into 10 Downing Street and John McDonnell takes up residence next door, all bets are off.

Assuming that last option doesn't happen, Philip Hammond is likely to remain in place as Chancellor whether Mrs May stays or is replaced. We are therefore likely to see more government investment in the economy and further moves to make the tax system fairer.

There will unquestionably be further crackdowns on 'middle class tax perks' and tax avoidance schemes: Philip Hammond seems to have an obsession with 'playing by the rules.'

We could possibly see an end to the cap on public sector pay: that was one of the many promises made by Labour during the campaign and arguably the election result was a clear sign that the population of the UK is fed up with austerity. The commitment to wiping out the deficit may be pushed even further into the future as the Government addresses other priorities.

## What about business confidence?

The Institute of Directors has carried out a snap poll of 700 members following the Election. The news was not good, with the IoD reporting that business confidence has sunk 'through the floor.' They report a dramatic drop in confidence, with the IoD members seeing 'no clear way' to resolve the situation. However, there was 'no desire' to have another election this year, which the IoD believes would have a further negative impact on the UK economy.



## Final thoughts

A week before the election, Nigel Farage wrote in the Telegraph: “Theresa May is a vote loser. The more people see of her, the less they like her.” By polling day, it proved an all-too-accurate prediction.

If Theresa May is to remain as Prime Minister then she will need to change her approach and radically change her style of government. Speaking when he thought his microphone was turned off, former Cabinet minister Kenneth Clarke famously remarked that, “Theresa can be a bloody difficult woman.” But you suspect that she may also turn out to be very stubborn in her choice of direction.

Negotiations to leave the EU will start on Monday 19<sup>th</sup> June. For the sake of those negotiations – and for the sake of business confidence, the pound and the stock market – there needs to be clarity and stability over the Prime Minister’s position.

As we said in the introduction, events are moving quickly and, for now, will continue to do so. Whatever happens, though, we will always be here to answer your questions. Don’t hesitate to pick up the phone or send us an email and we will do our very best to answer your queries.