

SRI Post-Brexit

UKSIF member policy update

Introduction

Following the *Leave* vote in the EU referendum there has been huge uncertainty for the future direction of SRI in the UK. Much of what we can expect to happen will depend on who becomes our next Prime Minister.

This policy update will shed some light on the current state of the two main parties, their leadership crises and what potential candidates have said about responsible investment, climate change and pensions.

NB: Political events in the UK are moving extremely quickly. All information including odds are accurate as of 5th July 2016.

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The Conservative Party



To say it was a “turbulent” past 10 days for those seeking to be the next Conservative leader and thus Prime Minister of the UK would be an enormous understatement. Brexit triggered David Cameron’s resignation after he campaigned for the losing side, dashed the hopes of his preferred successor, George Osborne, from becoming our next Premier, while Boris Johnson snatched defeat from the jaws of victory following his triumphant Brexit campaign.

The outcome is a field consisting of the following candidates which will be whittled down to two by Conservative MPs before a postal ballot of the party’s entire membership.

Theresa May	1/3
Andrea Leadsom	5/2
Michael Gove	16/1
Stephen Crabb	50/1
Liam Fox	100/1

*Accurate at 5/7/16

Theresa May is the bookies’ favourite and considered to be a safe pair of hands given her relative mastery of the Home Affairs brief since 2010. Her seniority going into the last election means she may be the candidate who can most legitimately lead the country without a need for a fresh mandate and therefore the most attractive option for Conservative MPs who have no appetite for a second election in 18 months. Despite campaigning to *Remain*, she was relatively quiet and since the result has been shielded by more prominent campaigners who have taken the brunt of the Brexit-backlash. She has promised to set up a ‘Department for Brexit’.

As the longest serving Home Secretary ever, May’s views on policy issues since 2010 outside her home affairs remit have rarely been aired in public. She has served as Shadow Secretary for Work and Pensions Shadow Secretary for Environment and Transport as well as a stint as Minister for Women and Equalities.

Andrea Leadsom, the current number two at the Department for Energy and Climate Change, finds herself as a surprise second-favourite with the bookies. The ex-City high flier has served on the Treasury Select Committee, as City Minister and now Minister of State for Energy. She is the only official candidate not to have held a cabinet post, although Johnson is now publicly supporting her campaign.

Leadsom was a prominent *Leave* campaigner and the strategy of her leadership bid so far seems to be the continuation of a full-throttle campaign against the EU. She has made clear that the EU was stifling Britain, that free movement of people must end and that there will be no going back following the referendum. She will appeal to the right of the Tory membership, although she and May have already begun to outflank each other to appeal to the different wings of the party.

Michael Gove has recently been described as a “political serial killer” by Andrew Marr. There is no doubt he has been damaged by the perception he ended the political careers of Cameron and Johnson and this is reflected in the slow-but-steady lengthening of his odds since he announced his candidacy.

The current Justice Secretary and the most prominent *Leaver* in the running to be Tory leader, Gove has recently positioned himself as a champion for the dispossessed and has promised to tackle the “scandal of the undeserving rich”.

As the top three candidates for the next Conservative leader, this brief focuses on May, Leadsom and Gove. However [Stephen Crabb](#), currently Secretary for Work and Pensions is running (on a joint ticket with Business Secretary, Sajid Javid, so expect a renewed deregulatory push if he wins and a change to economic policy) and ex-Defence Secretary [Liam Fox](#) is also running, calling for the UK to have left the EU by January 1st 2019.

The Labour Party



For Labour the past 10 days have been more chaotic than turbulent. Last week over 20 members of Labour’s shadow cabinet resigned and about the same number of junior shadow ministers quit their posts following questions over his performance as part of the *Remain* campaign (NB contrast this with Theresa May whose low profile has definitely benefitted her) and his ability to win a snap general election. This comes despite being elected by an overwhelming 60% of the party’s membership just 9 months ago. Even so, the bookies see his departure by the autumn as the most likely scenario.

Q3 2016	8/11
Q4 2016	11/4
Q1 2017	16/1

*Time of Corbyn’s departure as Labour leader and next Labour Leader both accurate at 5/7/16

Owen Smith	5/2
Angela Eagle	3/1
David Miliband	8/1
Dan Jarvis	12/1
Clive Lewis	14/1

Jeremy Corbyn remains the leader of the Labour party, despite his colleagues’ attempts to unseat him. Last week he lost a vote of no confidence 172-40, although the motion was not binding and he has very quickly appointed a new shadow cabinet.

Despite the above odds there will only be a new Labour leader if Corbyn steps down or if there is a formal leadership challenge. On the face of it, it appears as though the

referendum result is the catalyst for this crisis for the Labour party hierarchy. More likely however is that it has been used as an excuse and an opportunity by many in the Parliamentary Labour Party to attempt to oust their leader. Resignation letters

have referred to Corbyn ‘losing the support of colleagues’, although it is not clear he had it in the first place.

Angela Eagle was, until today, the odds-on favourite to succeed Corbyn should a leadership challenge take place and has recently announced her intention to formally challenge him if he does not stand down. She has ministerial experience in a host of departments including Environment and Transport, Social Security, the Home Office, the Treasury, DWP and most recently served as Shadow Secretary for Business. She was also prominent in the referendum campaign for the *Remain* side, appearing in the TV debate against Johnson and Leadsom and has stood in for Jeremy Corbyn during Prime Minister’s Questions.

Owen Smith entered the House in 2010 and in comparison to Eagle has far less experience. Yet he is the favourite to succeed Corbyn and some have stated he now has more backers in the PLP than Eagle. He has served as Shadow Secretary for Wales and more recently Shadow Secretary for Work and Pensions but made his leadership ambitions known as far back as January.

Labour MPs know that Corbyn still has significant support within the grassroots of the party, so ideally they want him to resign and for a new leadership election to take place which could include Eagle, Smith and other candidates. Corbyn, however, has stated on several occasions that he will not stand down, and would therefore be included in any leadership contest. Given the strength of his grassroots support (there has been suggestions in recent days that 60,000 people have joined the Labour party to support him) and the potential for a split in the anti-Corbyn vote, it would be ill-advised for Eagle and Smith both to stand.

Should a formal challenge take place, Corbyn’s position may be weaker than it seems given certain ambiguities in the Labour party’s constitution. If a leadership challenge does take place then the candidate(s) must secure 20% of the party’s MPs and MEPs- or 50 backers. The result of the vote of no confidence puts Corbyn’s ability to achieve such support in doubt. His team has sought legal advice on the issue which has been that he will not require 50 backers. Unsurprisingly the Labour party itself has also received advice showing the opposite to be true.

Responsible Investment

The effect of Brexit on all policy areas, but particularly on responsible investment, significantly depends on our future relationship with the EU. It seems probable that if we want to continue in the single market we will be forced to accept EU rules, including on things like the Shareholder Rights Directive and IORPS2. If we decide against remaining in the single market it is very likely we will see an increased deregulatory drive from the Government to boost competitiveness including on climate change, employment rights and further reductions to corporation tax rates.

Theresa May

Prior to her career in politics, May worked for the Bank of England and the Association for Payment Clearing Services. Despite this her recent speech on the relationship between immigration and economics at Tory party conference received poor reviews, and her grasp of economics was questioned. It was her Department that pushed the Modern Slavery Act through Parliament which requires businesses to report annually on the steps that they have taken to ensure slavery and human trafficking are not taking place within their business or in their supply chains.

Andrea Leadsom

Similarly to May, prior to working in politics Leadsom had a career in the City working for Barclays and De Putron before becoming Head of Corporate Governance and SIO at Invesco Perpetual. As Energy Minister she has repeatedly denied abrupt policy changes by her department have led to reduced investor confidence, and most recently denied Brexit would lead to concerns about investing in the UK renewables sector. In 2011 she voted against a tax on bankers' bonuses, but has claimed workers' rights protections under the EU will remain.

Michael Gove

As with Theresa May, being in Government (more or less) since 2010, Gove's views on RI are more opaque. In 2014 he highlighted the benefits of solar panels for

schools including their financial benefits and their ability to engage pupils with climate related issues. On investment more generally, Gove criticised Goldman Sachs and Morgan Stanley during the referendum campaign as having been responsible at least in part for the financial crash and the amount of money donated to the *Remain* campaign and lobbying the EU.

Jeremy Corbyn

Since becoming leader of the Labour party, Corbyn has spoken about a “new economics”, the need for government to encourage “long-term, patient investment” and a “mixed economy of public and social enterprise”. During his leadership campaign in 2015 he spoke of the need for a renewable energy revolution and a “modern, green, resource-efficient economy with the creation of a million new climate jobs” and the establishment of a UK Energy Commission to fundamentally shift energy thinking.

Angela Eagle

While she generally votes with the party leadership, Eagle has been considered a potential brake on more radical ideas from the current regime. This included criticising a speech given by Jeremy Corbyn in which he suggested companies be banned from paying dividends unless they paid the minimum wage. She has generally voted in favour of financial incentives for low-carbon electricity generation, against cuts to renewables subsidies and against reducing corporation tax.

Owen Smith

The little-known leadership hopeful, elected in 2010, has been Shadow Minister then Shadow Secretary for Wales, before taking the Work and Pensions brief in September. He has highlighted the benefits of renewables, particularly in Wales, noting the technological advances in wind power and calling for further investment in the sector.

Climate Change

There is a very serious fear among green groups and climate change campaigners that the Brexit vote will lead a “bonfire of environmental regulation”. This is predicated on two key facts. First, that the EU has provided many environmental regulations geared towards tackling climate change and curbing water and air pollution. The second is that it seems highly unlikely that the environment will be a priority for the new Conservative leadership. This may represent an opportunity for Labour to seek to engage with climate-concerned *Remainers* (and indeed *Leavers*) through a renewed push on environmental policies.

Theresa May

Again, due to collective cabinet responsibility, May’s attitude to climate change is unclear. She questioned the Labour Government’s progress on emission reductions in 2008 as Shadow Leader of the House, although this is likely to have been more about political point scoring than any deep commitment to the environment. In opposition she voted for the Climate Change Act, while in Government has voted for the GIB and for the climate change levy to be applied to renewables.

Andrea Leadsom

Leadsom has consistently referred to the UK’s energy trilemma: Keeping the bills down, the lights on and reducing emissions. It is the last of these that has most often been sacrificed, using the others to justify renewable subsidy cuts and the cancellation of the CCS competition. Even so, her Department recently announced the 5th carbon budget would be in-line with the Committee on Climate Change’s recommendations, affirming the UK’s commitment to tackling climate change.

Michael Gove

His most famous intervention with regards to climate change since was his attempt to remove it from the school geography syllabus whilst Education Secretary. The official reason was to “slim down the syllabus”, this was also likely to have been a nod to the right of his party to try to score points by providing opposition to the

Conservatives’ climate-focussed coalition partners. Gove is not a climate-change denier, but it is likely to come low on his list of priorities should he become the next Prime Minister.

Jeremy Corbyn

During the leadership campaign Corbyn was very outspoken on tackling climate change, arguing that corporate greed needed to be overcome to build a sustainable future. Despite some suggestion to the contrary, he has confirmed he is not in favour of reopening the coal mines in South Wales, instead calling for “sustainable energy development policies” and “green development in all aspects of energy generation”.

Angela Eagle

In August while standing to be deputy-leader, Eagle wrote that Labour had treated the environment as an afterthought, noting that votes were lost to the Greens and Lib Dems. She has advocated delegating policy decisions downwards and outwards, allowing grassroots supporters more power over policy making.

She was a strong critic of the end to renewable energy subsidies and energy efficiency measures, saying the end to support for solar and wind, and ending the Green Deal made “absolutely no sense”.

Owen Smith

Owen Smith’s views on climate change are less clear than his Labour counterparts, having only asked five written questions to the Department since 2010. Nonetheless he has voted against removing the exemption for renewables from the Climate Change Levy, for a strategy for CCS and energy storage and for UK decarbonisation targets.

Pensions

There are clear risks for pensions following Brexit many of which are linked to investment performance. Volatile markets are a significant risk for many in DC schemes and poor performance will be a bitter pill to swallow for savers that have traded away DB guarantees for new freedoms. Clearly this could also potentially have ramifications for financial advisers who recommended such moves. Other risks include the prospect of reform to pensions tax relief, something which was mooted then cancelled (put off until the referendum) at the last budget. A flat rate of tax relief and the possibility of a Pension ISA could be back on the table.

Theresa May

May was heavily involved in negotiating with the Police union on [changes to the Police force's pension scheme in 2012](#) (which came into effect April 2015). The scheme was changed from final salary to average earnings and average member contributions were raised to 13.7%. While not core UKSIF territory, the experience of this reform may mean a general understanding of some of the problems faced by DB pensions.

Andrea Leadsom

Tipped by some to be the next Pensions Minister after the 2015 general election, Andrea Leadsom understands many of the issues facing the sector given her City career and experience as City Minister. In that role she was involved with the pension freedoms, particularly with the creation of the soon-to-be-defunct [Pension Wise](#), and worked with the FCA to tackle pension fraud.

Michael Gove

Gove's limited exposure to pensions policy has come as Secretary of State for Education which involved [moving the teaching profession towards DC schemes](#) and addressing DB scheme deficits. Similar to May, while this isn't core UKSIF territory it at least shows he has some idea of the challenges faced in the UK pensions system.

Jeremy Corbyn

Corbyn has spoken about [our ageing society](#) and the need for a more flexible retirement age, particularly for physically demanding jobs. He has also talked about the need to increase the state pension and for an Older People's Commission to examine the issue in detail ahead of the 2020 election. He has suggested this would be paid for by increases to income and corporation tax.

In January he targeted the private pensions system, arguing fundamental reform was needed to meet the needs of the "real middle Britain" including [rip-off private pensions](#).

Angela Eagle

Eagle was Pensions Minister going into the 2010 general election and has also served as Exchequer Secretary so she has hands-on experience of the UK pensions system and economic policy. She has recently been very vocal over British steel pensions and the [BHS pension scheme](#).

Owen Smith

Smith took over the Work and Pensions brief in September, having very little experience of pension policy prior to that. He backed Jeremy Corbyn's initial calls for reform to guard against rip-off pensions and also to protect against fraud in the sector.

He immediately backed automatic enrolment as a key policy to ensure workers have adequate savings for retirement with the caveat that regulation on small business is minimised as far as possible.