Introduction

One month on, the aftermath of Brexit has been not just a new Prime Minister, but a new look government and a complete shake-up of Whitehall. The reorganisation of the machinery of government will affect all sectors, including RI.

This brief outlines the recent changes including key departments, personnel and where available their views on responsible investment.

NB: All information is accurate as of 27th July. Only key departments and ministers are included in this brief.

Contents

Introduction 1
Theresa May and Number 10 2
HM Treasury 3
Department for Business, Energy and Industrial Strategy 4
Department for Work and Pensions 5
Department for Communities and Local Government 6
Department for Culture, Media and Sport 6
Department for Exiting the European Union 6
Department for International Trade 6
As head of the UK government, the Prime Minister is responsible for all the policy and decisions made by government. The Prime Minister also appoints all other members of the government and oversees the operation of the Civil Service.

Theresa May will have many policy objectives for her new government, and their success will to a large extent be determined by the current political landscape. Our relationship with both Europe and the constituent parts of the UK will likely dominate her premiership – at least in the short to medium term – and she will rely on her inner circle of advisers to help steer the country through uncharted waters. These are:

Fiona Hill – Joint Chief of Staff
Nick Timothy – Joint Chief of Staff
Katie Perrior – Director of Communications
John Godfrey – Director of Policy
Lizzie Loudon – Press Secretary
Liz Sanderson – Head of Features

Prime Minister – Rt Hon Theresa May MP

Following her win in the surprisingly brief Conservative leadership contest, Theresa May became Prime Minister on the 13th July. In her first speech following her appointment she was clear that “Brexit means Brexit” but also vowed to “build a better Britain not just for the privileged few”, a clear indication of her intent to plant a Conservative flag in the political centre ground.

Part of this vision includes a raft of measures to reform the UK’s corporate governance regime which she initially outlined during the leadership contest. This included taking steps to ensure both a company’s workforce and consumers were represented on boards. The section of her speech, entitled ‘Getting tough on corporate irresponsibility’ referenced an unhealthy gap growing between the pay packets of workers and bosses of big business. She has argued that part of the solution is to make shareholder votes on corporate pay binding, to boost transparency in relation to bonus targets and on pay ratios and to better align incentives with the long-term interests of the company and its shareholder.

Before becoming Prime Minister May had been the longest-serving Home Secretary since the 19th Century. During this time she was responsible for passing the Modern Slavery Act which requires businesses to report annually on the steps they take to ensure slavery and human trafficking do not take place in their business or supply chains. She has also held posts as Shadow Secretary for Work and Pensions, Shadow Secretary for the Environment and Transport as well as Minister for Women and equalities. Before entering politics May worked for the Bank of England and for the Association of Payment clearing services.

During the referendum campaign May campaigned for remain, although she was less outspoken on the issue than some of her colleagues. Despite this, her Brexit-facing ministers, Johnson, Fox and Davis all campaigned for Leave.
HM Treasury

HM Treasury is the UK’s finance and economics ministry, responsible for putting policy into effect and working to achieve strong and sustainable economic growth. Its responsibilities include public spending, financial services policy, strategic oversight of the UK tax system, the delivery of infrastructure projects including by facilitating private sector investment into UK infrastructure and ensuring the economy is growing sustainably.

The Treasury faces a challenging time ahead following the Brexit vote having already scrapped its ambitions to have a budget surplus by 2020. Despite previous comments, the Treasury has also confirmed it does not intend to present an emergency budget to Parliament. The next presentation of the government’s economic forecast and policy will therefore be the Autumn Statement and the Chancellor has indicated he will continue to follow current spending plans. The Prime Minister has spoken about more Treasury-backed project bonds for infrastructure investment, a significant contrast to the economic policy of the Cameron administration, and it is likely any major announcements will be published at this stage. Because of its central role in public spending it is almost certain the Treasury will be a significant player in negotiations to leave the EU and the UK’s future relationships outside. It was no accident that the Chancellor’s first overseas visit was to Beijing where discussions on a possible future trade deal are underway.

Chancellor of the Exchequer – Rt Hon Philip Hammond MP

Philip Hammond replaced George Osborne as Chancellor following one of the more brutal sackings of the reshuffle. Generally considered a safe pair of hands, he has held several other cabinet posts including Secretary of State for Transport, Defence and had been Foreign Secretary since 2014. He delivered a speech entitled ‘A conservative response to climate change’ to the American Enterprise Institute in November in which he made clear economic growth and emission reductions are not mutually exclusive. He also explicitly recognised climate as a risk to financial stability and the opportunities inherent in the transition to a low-carbon economy. At this stage is it unclear how much power will be vested in Hammond as Chancellor, although it is unlikely to equal that of George Osborne.

Chief Secretary to the Treasury – Rt Hon David Gauke MP

David Gauke replaced Greg Hands as Chief Secretary having previously served as Exchequer Secretary. His brief includes public expenditure into a range of areas including spending reviews and strategic planning, procurement and capital investment. He is seen as favouring the Pensions ISA model, which would signal pension policy moving further towards the Treasury.

Economic Secretary to the Treasury – Simon Kirby MP

Simon Kirby replaces Harriet Baldwin as Economic Secretary whose brief is focussed on the City of London. In particular his responsibilities will involve financial services reform and regulation, insurance, asset management, retail financial services and financial advice. During the last government he spoke of the need for low-carbon investment including green transport to help tackle emissions output. One of his first priorities will be to oversee the work of the new Financial Advice Working Group which has been established to take forward the recommendations of FAMR.
Theresa May’s Whitehall remodelling resulted in the abolition of both DECC and BIS and the creation of the enormous Department for Business, Energy and Industrial Strategy. It will be one of the biggest government departments with six ministers, although it has lost policy responsibility for higher education, apprenticeships and skills which now form part of the Department for Education’s remit. While there remains some concern over the extent to which climate change will be a priority at BEIS, a recent policy note makes clear the department will seek to marry lower emissions with a growing economy and support the UK’s climate change ambitions through a ‘whole economy approach’. The note also made clear that BEIS will have joint-responsibility with the Department for International Development for delivery of the International Climate Fund and that it will seek to work with Brexit-facing departments on market access, including in overseas energy markets and attracting overseas investors.

Hopes that the new department will genuinely prioritise tackling climate change and the green economy were given a boost in the appointment of several ‘green Tories’ in prominent ministerial positions, with three key positions outlined opposite. The department has also received the backing of the Chair of the Committee on Climate Change, Lord Deben. One of the first decisions to be taken by DBEIS will be setting the rules for green energy auctions to boost confidence for offshore wind investors that the UK can meet its 10GW in offshore by 2020 target.

Secretary of State for Business, Energy and Industrial Strategy – Rt Hon Greg Clark MP

Greg Clark moves from Communities and Local Government Secretary to fill the new role, with Sajid Javid moving from the defunct BIS to replace Clark. Amber Rudd, previously Energy and Climate Change Secretary has become the new Home Secretary. Before becoming BEIS Secretary, Clark held a range of other positions in government, including at DCLG, and as a Minister at the Cabinet Office, BIS and the Treasury. He has also served as Director of Policy for the Conservative party, and later Shadow Energy and Climate Change Secretary where he was responsible for two policy papers on the transition to a low-carbon economy. Despite the amalgamation of the two Departments, Clark has confirmed that tackling climate change remains a priority for the government and is essential in ensuring economic prosperity and security for the UK.

Minister of State for Climate Change – Nick Hurd MP

Nick Hurd takes on the climate change brief and will be the UK’s representative on climate change issues to the UN. He won the 2016 “Green MP of the Year” award following his chairmanship of the APPG on the Environment, his membership of the Environmental Audit Committee and his role as a minister at the Department for International Development. He is also listed as an official supporter of the Conservative Environment Network.

Minister of State for Energy – Baroness Neville-Rolfe

Baroness Neville-Rolfe takes the position previously held by Tory-leadership-hopeful, Andrea Leadsom. She will represent BEIS in the House of Lords and has recently emphasised the government’s commitment to the Climate Change Act and achieving 80% emission reductions by 2050. She has previously served as a minister at Department for Culture, Media and Sport and BIS.
DWP is responsible for welfare and pensions policy and is the largest government department in the UK in terms of public spending. Much of this money goes towards pensions and welfare, but DWP is also responsible for funding The Pensions Regulator, the Health and Safety Executive and the Pensions Advisory Service (among other agencies).

The department will need to make some significant decisions over the next few years, although with the downgrading of the pensions brief (from Minister of State to the more junior Under-Secretary of State) the shift of pensions policy towards the Treasury that began under Osborne looks set to continue. Nonetheless, the government continues to roll out auto-enrolment with the focus now on small and micro-businesses. Master trusts will be an attractive option for these employers and the government will need to address the relatively lax regulatory regime in the sector which has no recourse for losses like the FSCS or PPF for contract-based or defined-benefit schemes. It is likely that the Pensions Bill announced at the Queen’s speech to try to address these failings and the department will publish more details in the autumn.

Other policy decisions will likely include whether to introduce a flat-rate of pensions tax relief and, linked to this, how much appetite there is for the introduction of the Lifetime ISA, particularly given other priorities, and whether this will lead to a pensions-ISA system in the UK. DWP will also need to decide when to increase contribution rate under auto-enrolment to 8%.

Secretary of State for Work and Pensions – Rt Hon Damian Green MP

Damian Green becomes the third Work and Pensions Secretary of the year, moving into the role held briefly by Tory leadership hopeful Stephen Crabb before his resignation earlier this month. He picks up the Shadow Work and Pensions brief only a year after being elected although his ministerial experience has been restricted to the Home Office.

Given the sheer size of the department and range of issues Green will need to contend with it is unclear how involved in pensions policy he will be. It is more likely his focus will be on continuing reforms to Universal Credit, employment policy and support for disabled people. Depending on how much decision making power is assumed by HMT, pensions policy will be led by Richard Harrington.

Parliamentary Under-Secretary of State (Pensions Minister) – Richard Harrington MP

Richard Harrington replaces Baroness Ros Altmann as Pensions Minister in what appears to be a downgrading of the role. Harrington will take the brief as an Under-Secretary of State – the lowest rung on the ministerial ladder – in contrast to Altmann, who served as a Minister of State. Prior to his new position he served as Under-Secretary of State at the Home Office, DCLG and the Department for International Development and was a member of the International Development Committee.

As Pensions Minister, Harrington will lead on the Pensions Bill which was announced at the Queen’s Speech. We expect to see tighter controls for master trust regulation, something Altmann described as one of her biggest successes. Also on Harrington’s ‘to do’ list will be continued roll out of automatic enrolment, wrestling with the Treasury over the future of the Lifetime ISA and overseeing a review into contract-based pension scheme governance.
Sajid Javid has been appointed Secretary of State for Communities and Local Government following Greg Clarke’s move in the opposite direction to DBEIS. Javid stood on a joint-ticket with Stephen Crabb during the leadership contest and has served as Secretary of State for Business and Culture, Media and Sport as well as Economic and Financial Secretary to the Treasury. DCLG are currently reviewing new rules for local government pension scheme funds, as part of the merger into six ‘British wealth funds’. One of the stated objectives of these funds, announced last year by George Osborne, is to invest in UK infrastructure projects, presumably something which Javid will back given his support for investment in ‘business friendly’ infrastructure during the leadership contest. The new rules for the LGPS pooled funds also require them each to have policies on environmental, social and governance issues and on voting rights, however there has been some controversy surrounding the new ‘power of intervention’ which would allow the Secretary of State to amend a fund’s investment strategy statement or direct investment into specific assets. DCLG will likely be torn over the extent to which Whitehall is the default destination for the repatriation of powers or local government.

In a move that has caused some concern in the sector, Rob Wilson, the Minister for Civil Society has been moved from the Cabinet Office to the Department for Culture, Media and Sport- but kept his role. Switching the Office for Civil Society to DCMS has generally been negatively received and seen as a backwards step for civil society policy, which includes policies relating to charity and social investment. Apart from the fact it will be harder for civil society issues to be taken up across the whole government agenda, the move suggests the government isn’t entirely sure where to place the OCS. While some have called for a new unit for social enterprise, social investment and mutuals to be set up, potentially in DBEIS, there are comparisons between the work DCMS is already doing with charities and the Big Lottery Fund that make it a workable fit.

David Davis finds himself back in government for the first time since 1997 as Secretary of State for Exiting the European Union. Davis has previously served as a minister in the Foreign and Commonwealth Office. DEEU is a new department set up by Theresa May following her appointment as Prime Minister with responsibility for overseeing negotiations to leave the EU and establishing our future relationship which will determine the extent to which new iterations of European legislation such as the Shareholders Rights Directive and IORPS apply to the UK. A key role is to co-ordinate cross-government work to ensure a smooth process of exit on the best possible terms. That means Davis and his team will need to work effectively with all other government departments on the process of withdrawal, as well as devolved administrations. The DEEU may well raid Whitehall experts from other departments, most likely the FCO, which could well cause tensions with Boris Johnson and others. While there remains a House of Lords European Union Committee, there will almost certainly be a new Exiting the European Union select committee set up for MPs to hold ministers to account, as well as time given in the Commons following recess for regular debates and questions to ministers.

Liam Fox will be the Secretary of State for International Trade at the other brand new department set-up by Theresa May. He was Defence Secretary during the coalition government and has also served as a minister in the Foreign and Commonwealth Office and as a government whip. DIT is responsible for promoting British trade across the world. Fox is the third of the Brexit-facing trio, including Johnson and Davis who will need to work together to secure a positive Brexit. Fox, an ardent campaigner for a third runway at Heathrow, has already spoken of the need to act early and decisively on the issue to show Britain is ‘open for business’. He will be heavily involved in any trade deals. The decision of whether and when to pull out of the EU customs union to facilitate those deals could be the first real source of tension for the post-Brexit Government.