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Global Advisory

# CONSERVATIVE PARTY CONFERENCE ROUND-UP

## TRUSS'S FIRST CONFERENCE AS PM

Conservative Party Conference ends with the Conservative Party in turmoil, with the fallout from the 'mini-Budget' continuing to reverberate both in the Party and in the polls.

As a recently elected Party Leader and Prime Minister, Liz Truss would have expected to arrive at Conference on a high, taking in the adulation from the Conservative membership and MPs. However instead, she leaves deeply damaged, with many of her own MPs and Cabinet in open revolt.

Conference was overshadowed by the eventual U-turn over abolishing the 45p tax rate. Whilst not actually costing that much more than £2bn to the Exchequer, the optics and reputational hit of cutting taxes for the highest earners whilst proposing to slash public spending proved too much for Truss's critics.

The response to this change in policy highlighted the fragility of the Conservative Parliamentary Party, with Home Secretary Suella Braverman stating that those who were opposed to the policy were guilty of a 'coup', and key Truss ally, Levelling Up Secretary Simon Clarke, voicing his agreement.

Michael Gove and Grant Shapps, both former Cabinet Ministers sacked or shunned by Truss, were the main agitators at Conference. Gove appeared on the Laura Kuenssberg Show on the BBC before Truss, and undertook nine separate fringe events, at which he sharply criticised her economic plans as a 'display of wrong values'. Many people observed that Gove may be 'on manoeuvres', and it was notable that he had his former Special Adviser accompanying him around Conference.

Shapps, who had been sacked from Cabinet after backing Rishi Sunak, darkly indicated that Truss had 10 days to save her leadership.

Criticism was not simply confined to the MPs who have been sacked by Truss. Penny Mordaunt went on the record criticising the mooted plan to scrap the rise in benefit payments with inflation. That a Cabinet Minister and former leadership contender felt able to openly criticise potential Government policy, shows how deep the fissures within the Party

are, and that Truss needs to pull a rabbit out of the hat to bring her MPs behind her.

Truss appeared to be haemorrhaging support from both those who were supportive of her agenda from the start and don't want it weakened, as well as those concerned at her policy approach from the beginning. A potent political cocktail.

With the Party trailing in the polls and criticism coming thick and fast, Truss has a vanishing window of opportunity to change the narrative on her premiership and arrest the feeling that the next election is Labour's to lose. This Conference, instead of helping Truss regain the narrative, set the party significantly backwards. Despite only being in office for a matter of weeks, Truss's position already looks fragile with MPs and journalists speaking fatalistically about her future.

Truss's speech was solid, despite being interrupted by environmental protestors, and restated her unflinching desire for growth. She attempted to differentiate herself from the previous Government, saying she wanted to arrest the process of decline, lower the tax burden and roll back state intervention.

For good measure there was also mention of traditional Tory red meat policies, with criticism of the BBC and talk of controlling illegal immigration through the Rwanda deportation scheme.

However, it did not inspire confidence or excite, and is unlikely to materially shift the dial ahead of the next election. Focusing on nebulous concepts such as the 'anti-growth coalition' are not the issues that voters will feel are central to their concerns and convince them to vote Conservative.

Whilst the performance was reasonable enough to grant her some respite, the fundamental problems remain.

When MPs return to Westminster next week, Truss will need to assert authority over her Cabinet and assure her MPs that she has a plan that can gain public support and take the party forwards. Otherwise, the Prime Minister is in trouble.



## THE ECONOMIC OUTLOOK

Truss has had a rough first month with financial markets reacting negatively to Kwarteng's 'mini-budget' - prompting a political backlash from within her own ranks and forcing a humiliating U-turn on the scrapping of the 45p tax rate. As a result, there was a lot riding on her conference speech with the Prime Minister needing to restore market confidence and fiscal credibility.

Following her speech, the pound fell further back against the dollar and government borrowing costs rose. The changes were relatively minor, but Truss and her supporters will have been hoping for movement in the opposite direction. The general market sentiment remains sceptical of her approach, in particular given the continued lack of detail around debt sustainability, with little information actually given on how Truss would seek to balance the books.

Truss stuck to familiar terrain in her speech, pledging to 'back business to the hilt' and create the conditions to unleash entrepreneurship and deliver growth. She painted the opposition (both in parliament and beyond it) as an 'anti-growth coalition', but with a majority of 71, the key question is whether she will be able to get her own MPs on board for controversial policies such as reforming the planning system and introducing fracking. As other Prime Ministers have found, it is easier to promise to cut 'red tape' than it is to actually cut it.

Moreover, any supply-side reforms will take time to generate growth. Businesses are having to deal with strong headwinds already, as highlighted by Tesco's warning that consumers are 'watching every penny' as they announced that operating profits in its retail division fell by 10% in the six months to the end of August.

Truss is in a difficult position - she will be hoping that her forthcoming fiscal sustainability plan, vetted by the independent Office for Budget Responsibility, will finally calm the markets and that she will be able to unite her fractious party behind some painful and unpopular measures contained within it. She will also be hoping that her enormous energy support package and the other tax cuts set out in the mini-budget will address squeezed living standards and kick-start the economy.

## OUTLOOK FOR BUSINESS

There has been a marked shift in tone between the Johnson and Truss administrations on attitudes to business.

Truss and her Chancellor Kwasi Kwarteng are at pains to paint themselves as 'pro-business', with the reversal of Rishi Sunak's corporation tax rise, and the removing of the cap on bankers' bonuses seen as emblematic of that approach.

In her speech, Truss declared emphatically that Britain was 'open for business', and that she 'loves' business and enterprise, as they 'power our success'.

However, in spite of this, the fall out from the mini-budget and the subsequent market turmoil has damaged that push with business. Economies that are unstable, and Governments that are weak, tend not to improve performance on business investment.

At Conference there was the usual day dedicated to Business, with the Government reiterating that it wanted to deregulate and get out of the way of business as much as possible. While the Prime Minister, the Chancellor and senior Ministers did the rounds at various dinners and events, the febrile atmosphere of Conference infected attitudes of business throughout.

The reversal of the 45p tax band abolition, as well as the open fighting on the issue amongst Cabinet Ministers, meant that business relations did not take centre stage, with worries instead about the state of the economy more generally.

The Chancellor being deeply damaged by this furore leads to more uncertainty, which again, hardly helps business address critical problems in the short term.

However, despite this, the Government was at pains to stress that the UK is still open for business and wanted to engage on business investment plans and critical issues that contribute towards or indeed may be seen as barriers to the Truss and Kwarteng 'Plan for Growth'. They want to focus on delivery, particularly delivery in the next two years. This means that there are opportunities for business to engage and get a hearing - something that was more difficult under the Boris Johnson Government.

## THE NEXT ELECTION

Prior to Liz Truss winning the Conservative Leadership election and becoming Prime Minister, the Conservatives were not far behind Labour in the polls, with the received wisdom that the next election was all to play for despite the Conservative Party seeking a historic fifth term.

However, only a month into her premiership and after a disastrous 'mini-budget', the Party's prospects at the next General Election have dramatically and remarkably shifted against her. On the eve of Conference, YouGov published a poll which gave the Labour Party a 33 point lead, something that would wipe the Conservative Party out in vast swathes of the country and undoubtedly lead to a landslide election victory for Labour, akin to 1997. Such a poll slide after such a short time in office is unprecedented.

This poll, and several others, which have indicated an average Labour lead around the 20 point mark, set the narrative for much of the Conference, with many delegates resigned to at least a term in opposition, despite the widespread perception in advance that Keir Starmer was beatable.

It seems inconceivable that some MPs in the Party won't make a move to topple the Prime Minister, should the poll ratings stay the same. When the polls were against John Major in 1995, he suffered a leadership challenge from John Redwood, and Truss does not have a General Election victory to point to, to see off any rebels.

Without significant change, there is a growing sense that Keir Starmer is very likely to be taking the keys to No.10 Downing Street, and the country will have to look ahead to a new era under Labour.

# KEY POLICIES AT A GLANCE

New announcements were hard to come by at Conference, with many Cabinet Ministers simply restating already announced policy.

However, there were a few announcements of interest:

- The Prime Minister signalled that she wanted to overhaul planning rules, however little information was given as to how it would be done.
- The Culture Secretary announced that the Government will replace GDPR with a British data protection regime. The intention is to ‘discard...burdensome elements’ of GDPR.
- The Department for Environment, Food and Rural Affairs will now consult on increasing the Environment Agency’s fines on water companies for breaching environmental regulations.
- The Transport Secretary restated that new legislation will be brought in to implement minimum service levels in public services. This will include transport networks, education system and health services.
- The Justice Secretary announced that Ministers will be given the power to consider, and potentially reject, every transfer of a biologically male offender to a female prison.

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