

# SUNAK TAKES CHARGE

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## SUNAK IN NO.10

Rishi Sunak entered No.10 Downing Street yesterday with an in-tray that few Prime Ministers would envy. With the economy on the rocks, and the Conservative poll rating in the doldrums, Sunak will need to demonstrate action straight away to turn the page on a chaotic six months in politics.

Sunak's speech on the steps of Downing Street, as expected, was serious, polished, impressive, and demonstrated the differences between himself and his predecessor.

He paid tribute to Liz Truss but was clear that she had made mistakes and he would be drawing a line under her reign. Sunak has the credibility to criticise the mistakes of the previous Prime Minister and easily dissociate himself from them, given his stark warnings about the threat of inflation and unfunded tax cuts to the economy, during the summer leadership election.

As a result, Sunak was clear that 'economic stability and confidence' would be at the heart of his agenda, with limits to public spending but compassion demonstrated at the same time. To reiterate this, he pointed back to his record as Chancellor during the pandemic which saw huge levels of government intervention and public spending. But with an estimated £40bn black hole in the public finances that needs to be addressed and the Prime Minister having spoken about needing to take difficult decisions on public spending, his transition from pandemic Chancellor to Prime Minister in a challenging time will be heavily scrutinised.

Along with this, he was also keen to stress that 'integrity, professionalism and accountability' would be at the heart of his government - a clear swipe at Boris Johnson.

Moreover, Sunak sought to head off calls for an early general election from opposition parties, claiming that the mandate from the 2019 election was for the Conservative Party more broadly, rather than vested in an individual. If Sunak wants to have the best chance of winning the next election he will be best served by going 'long' and waiting until 2024. The calculation will be that inflation will be under control and growth returned to the economy by this point.

It's also clear from Sunak's first comments, that getting stability in the economy is key for both the country and Conservative Party's electoral prospects. He has shown that he wants to stamp his mark on the economic strategy by delaying the Medium Term Fiscal Plan until the 17th November. As a former Chancellor, Sunak is likely to ensure he has significant oversight of Treasury decisions.

Sunak has a chance to move away from Conservative in-fighting and deliver for the country, however, whether he can survive the strong political headwinds, remains to be seen.

# THE SUNAK IN-TRAY

## ECONOMY

Sunak enters No.10 with significant economic challenges to deal with. Inflation is high, the cost of borrowing has rocketed and the markets have been spooked by Liz Truss's 'mini budget'. Sunak spoke candidly about the need to rectify the errors of Truss, and place economic stability and confidence at the heart of his agenda.

Sunak has already taken his first big decision, delaying the publication of the Medium Term Fiscal Plan from the 31st October to the 17th November, rebranding it as an Autumn Statement. The plan will take difficult decisions on public spending in order to deal with the black hole at the heart of the public finances. It is unsurprising that Sunak wanted to stamp his authority on its contents, given its political and economic significance.

The decisions that Sunak takes, along with his new Chancellor Jeremy Hunt, will be critical. He will have to cut spending or put up taxes, or both. These choices might be anathema to his backbenchers and he may struggle to get unpopular measures through the House of Commons. He also will need to take action which doesn't further erode the Conservative Party poll rating and place victory in the next election further out of reach.

Measures that have been mooted include: freezing income tax thresholds, junking the commitment to spend 2.5% of GDP on defence by 2026 and introducing a wide ranging windfall tax on energy companies.

Sunak's economic experience, as a former Chancellor, was key to his getting the job as Prime Minister. He will need to use every ounce of his experience and nous to manage the economy effectively going forward.

## BREXIT/NI PROTOCOL

In a reflection of how topsy-turvy UK politics has become, Sunak, a committed though pragmatic Brexiteer, offers better prospects for a reset of UK-EU relations than Truss, a born-again Brexiteer. Sunak is aware that a wider trade conflict with the EU sparked by the dispute over the design and implementation of the Northern Ireland Protocol (NIP) will further worry financial markets and not help to bring the economic situation under control, his core mission in the immediate term.

That said, Sunak still has to operate within the political realities of the current Conservative Party which is strongly antagonistic to the EU and the NIP. Although the NIP Bill, which gives the UK unilateral powers to amend or scrap the UK-EU Withdrawal Agreement, was pushed through by Liz Truss, it enjoys the backing of the hard-Brexiteer faction which Sunak will need to keep onside.

As such he will face a difficult balancing act of appearing committed to the NIP Bill while maintaining negotiations with the EU to try to resolve the issue consensually. The challenge of finding a compromise that the ERG, the Northern Irish political parties, and the EU can all live with means this issue is unlikely to be definitively sorted this side of a general election.

Aside from the Protocol, Sunak will also stick with the Truss government's commitment to review all Retained EU Law by the end of 2023 so that it can be more easily amended, repealed or replaced in order to better suit the UK's economic needs. This is a huge undertaking, especially in the context of the wider economic challenges and one which is a double-edged sword for business. On the one hand, it offers genuine opportunities to ease the regulatory burden on business, but on the other it risks tearing up other rules which work well for ideological reasons under an arbitrary timetable. The replacement of Jacob Rees-Mogg as Business Secretary with Grant Shapps does suggest that the government will be less focused on deregulation as the destination and more willing to involve business meaningfully in this process.

## CLIMATE

When it comes to the environment and climate change, Sunak is somewhere between his two immediate predecessors – not as instinctively green as Johnson, but less gung-ho about watering down the UK's commitments in order to focus on economic growth than Truss. This may be less a case of personal conviction, and more an awareness that he can only fight so many battles at any one time, especially when many voters are environmentally conscious.

As such, Sunak is likely to broadly stick to the 2019 manifesto as much as possible, highlighted by his decision to keep the ban on fracking today. During the summer leadership campaign, he backed a state-funded programme of improving the energy efficiency of British homes to bring them closer to European standards, but it remains to be seen whether he will be able to find the money for such a programme.

One area where Sunak could be more proactive is in finding ways that businesses and markets can reduce carbon emissions without the need for state intervention, building on his work as Chancellor when he supported efforts to make London a 'hub for green finance'.

## FOREIGN AFFAIRS & TRADE

On Foreign Affairs, the key issues that Sunak will be presented with will be handling the war in Ukraine and managing the strategic threats from China.

On Ukraine, Sunak will continue the approach of his predecessors Boris Johnson and Liz Truss, providing support and arms to the Ukrainian government to see off Putin. Sunak will likely see it as a political imperative to show that Britain remains a steadfast ally to Ukraine. The interesting strategic question will come for Sunak further down the line, of how to end the war, if it shows no sign of slowing. There is a clear risk of 'Ukraine fatigue' due to the conflicts impact on the cost of living.

China also represents one of the biggest geopolitical challenges to Sunak, with pressure from Conservative MPs to toughen up the UK's approach. While Truss was a renowned 'hawk', Sunak takes a more pragmatic view mostly informed by his economic experience in the Treasury. However, against the backdrop of the Conservative Party leadership contest, he has been more hawkish - calling for the UK to ban Confucius Institutes and to require Higher Education institutions to declare all foreign funding. He will need to navigate this sensitive political area domestically, whilst also dealing with the risks of a conflict in Taiwan and China's increasing assertiveness on the international stage.

On Trade – Sunak is an instinctive free trader, however coming from a rural constituency in Yorkshire, he has a strong relationship with the agricultural industry. He notably criticised the UK's FTAs with Australia and New Zealand for insufficiently protecting farmers. These views make trade deals with India, CPTPP and the US less likely unless concessions on agriculture are made.

## NEW CABINET APPOINTMENTS



**JEREMY HUNT**  
Chancellor of the Exchequer



**DOMINIC RAAB**  
Deputy Prime Minister, Lord  
Chancellor and Justice Secretary



**JAMES CLEVERLY**  
Foreign Secretary



**SUELLA BRAVERMAN**  
Home Secretary



**BEN WALLACE**  
Defense Secretary



**STEPHEN BARCLAY**  
Health Secretary



**GRANT SHAPPS**  
Business Secretary



**OLIVER DOWDEN**  
Chancellor of the Duchy of Lancaster



**MICHAEL GOVE**  
Levelling Up Secretary



**MARK HARPER**  
Transport Secretary



**MEL STRIDE**  
Work and Pensions Secretary



**THERESE COFFEY**  
Environment Secretary



**SIMON HART**  
Chief Whip



**PENNY MORDAUNT**  
Leader of the House of Commons



**KEMI BADENOCH**  
Trade Secretary



**GILLIAN KEEGAN**  
Education Secretary



**MICHELLE DONELAN**  
Culture Secretary



**ALISTER JACK**  
Secretary of State for Scotland



**DAVID T C DAVIES**  
Secretary of State for Wales



**NADHIM ZAHAWI**  
Chairman of the Conservative Party



**VICTORIA PRENTIS**  
Attorney General



**GAVIN WILLIAMSON**  
Minister without Portfolio



**JEREMY QUIN**  
Paymaster General



**ROBERT JENRICK**  
Minister for Immigration

## THE NEW CABINET

The Prime Minister's allies point to experience and unity as golden threads for this reshuffle. It was a political imperative for the Prime Minister to put together a Cabinet which represented the diversity of views amongst the Conservative Party. Part of the thinking here was about binding the different factions of the Party into the difficult decisions to come, rather than having a large 'awkward squad' of MPs sniping from the backbenches. MPs have been critical at what they perceive to be a preference for loyalty over competence when both Boris Johnson and Liz Truss selected their Cabinets.

In order to address this, Sunak appointed several figures from across the left and right of the Conservative Party, including MPs who did not support him. This has meant a return for Dominic Raab, Michael Gove and Grant Shapps, as well as installing his own allies such as Mel Stride, John Glen and Oliver Dowden.

In the Great Offices of State, Sunak has opted for continuity, keeping Jeremy Hunt as Chancellor and James Cleverly as Foreign Secretary.

Notable appointments include Suella Braverman, the darling of the Right of the Conservative Party as Home Secretary, merely days after having to resign for breaching the ministerial code. The Prime Minister is already coming under some pressure to explain how this appointment fits with his championing integrity and accountability as measures of his premiership. Penny Mordaunt, who came second in the leadership contest will feel aggrieved after being kept as Leader of the House, when expecting a significant promotion to Foreign Secretary.



**JOHN GLEN**  
Chief Secretary to the Treasury



**CHRIS HEATON-HARRIS**  
Northern Ireland Secretary



**JOHNNY MERCER**  
Minister for Veterans' Affairs



**TOM TUGENDHAT**  
Minister for Security



**ANDREW MITCHELL**  
Minister for Development



**LORD TRUE**  
Leader of the House of Lords



**Edelman**  
Global Advisory



**Mohammed Hussein**  
President, UK

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## WHAT SUNAK MEANS FOR BUSINESS

The bitter leadership contest over the summer, during which Sunak was accused by Truss and her allies of being 'anti-growth' – and even by Jacob Rees-Mogg of being a 'socialist' – obscured the fact that on many business-related issues there is likely to be a degree of continuity. Sunak and Truss had radically differing views on fiscal strategy, but ultimately, he is also instinctively a small-state conservative who wants to cut taxes and rebalance the economy in favour of the private sector. However, he has also demonstrated political fluidity and a willingness to temper these instincts in light of changing circumstances and political pressures, as evidenced by his multi-billion support schemes for individuals and businesses during the pandemic and then his windfall tax on energy companies.

In his speech yesterday, Sunak promised to 'build an economy that embraces the opportunities of Brexit, where businesses invest, innovate, and create jobs' and he will be acutely aware that the Conservatives' electoral prospects will hinge on the extent to which the cost-of-living crisis has been tamed. He will also be mindful that the political and economic turbulence of recent months has undermined confidence in the government and the Conservative Party more broadly among business, and that Labour has moved to exploit this by reaching out to business and attempting to portray itself as a credible government in waiting.

As such the government will be looking to restore its credibility and this ought to put business in a strong position when engaging. Sunak's government will be just as keen to identify growth opportunities as well as barriers to growth – just like the Truss government. Given they will not be able to pull the tax-cutting lever, they should be even more open to alternatives such as regulatory reform.

## THE NEXT ELECTION

Rishi Sunak takes the reins of the Conservative Party with their poll rating at rock bottom. On current projections the Labour Party are on course to a landslide win, reversing the gains the Conservatives made at the 2019 General election.

As a result, Sunak has a mountain to climb to win the next election, or even save the Conservative Party from a damning defeat. This is made more difficult given the tough decisions on public spending and tax that have to be made over the next 18 months, which may impact negatively on his popularity. Sunak needs to bank that his economic credentials and competency start to improve the poll rating quickly, to give the Conservative Party a shot at electoral redemption. Given the dire straits the Party has been in under Truss, it's likely that Sunak will at least benefit from a minor poll bounce on taking office given his reputation for competence. However, that is not guaranteed, with the possibility of recession looming in the new year.

On the timings of the next election – Sunak's speech yesterday tackled Labour's criticism over his lack of electoral mandate, making much of the 2019 General election result and claiming it was a mandate for the Conservative Party, 'not the sole property of any one individual'. Nevertheless, the Opposition were quick to reiterate their calls for a General election, an argument that will be heard in every Labour media appearance in the months to come. Yet another new Leader of the Conservative Party will see Labour need to refresh their attacks on the Government. Of note in Labour's immediate response to Sunak's appointment was their efforts to paint him as at the heart of previous Conservative Governments and tie him to the economic record of the past 12 years. Sir Keir Starmer's first statement following Sunak's appointment argued that 'the Tories have crashed the economy, with low wages, high prices and a cost-of-living crisis'. Focusing on Sunak's record as Chancellor will be key for Labour and we can expect to hear much more of this, alongside their ongoing calls for a General election, as the Sunak premiership progresses.

The next few months in politics will certainly continue to be interesting.