



12 May 2010: A new political dawn?

First day of a coalition government

Today Clegg and Cameron took the first press conference of the new coalition government, heralding a new era in politics where national interest would be put before party politics. The comprehensive nature of the coalition between the Conservatives and the Liberal Democrats reflects the hopes that Cameron and Clegg have for its longevity. With Nick Clegg as Deputy Prime Minister, plus four of his colleagues in the Cabinet, this is 'a full and proper coalition' with 363 seats and a fixed term Parliament with an election scheduled for May 2015.

The seven page document outlining the agreements between the Parties shows the breadth of issues that the coalition has had to negotiate on and ground given by both parties. The Conservatives did not give away any sacred ground in negotiations on Europe, immigration and Trident, and remain fundamentally in charge of the Treasury, Home Office and Foreign Office. Funding for the NHS and for the Department for International Development remains ring-fenced.

On economic policy, the Liberal Democrats have given the Conservatives political cover by agreeing acceleration in tackling the deficit and supporting £6 billion of cuts this year. In return, Conservatives have agreed to a fairer tax system with gradual implementation of the Liberal Democrats flagship policy to take the poorest out of tax. This will take priority over other tax cuts, including inheritance tax. The City will take some reassurance that David Laws, an ex-investment banker, is in the Treasury with Vincent Cable in the less immediately dangerous Department for Business.

Political reform will be a priority and Nick Clegg will be overseeing the process from the Cabinet Office; this will give Liberal Democrats confidence that there will be quick action on fixed term parliaments and a Bill to legislate for a referendum on the voting system. On education, the 'free schools' policy has been clipped but by no means fatally – the argument on higher education funding awaits the publication of Lord Browne's review.

Although the two parties showed a united front, the coalition accepted that there will be areas where agreement will not be possible. In areas where the Lib Dems would not be able to support the Conservatives, such as nuclear power, Trident and tax allowances for married couples, the agreement establishes room for the Liberal Democrats to abstain when the two party's views cannot be reconciled. A similar arrangement was reached on voting reform, in which the Conservatives were free to campaign against reform.

In a joint press conference, the Prime Minister emphasised the new consensual style of Government that the partnership will bring and contrasted it with the 'uninspiring' nature of a minority government. The message the new Government wants to communicate was clear; don't think of the coalition as a mistake, thrust upon Westminster by an indecisive electorate, think of it as a mission.

Key facts and figures

Parliamentary Election

No overall majority
65% turnout
5% swing from Lab to Conservatives

Parliamentary seats

Conservatives: 306 (+97)
Labour: 258 (-91)
Liberal Democrats: 57 (-5)
Democratic Unionist Party: 8 (-1)
Scottish National Party: 6 (-)
Others: 14 (-)

Con/Lib Coalition: 363 seats

Liberal Democrats claim five cabinet positions
Conservative take the remaining 15
Liberal Democrats to have a junior minister in all departments

Councils

Conservatives: 66 (-8)
Labour: 37 (+15)
Liberal Democrats: 14 (-3)
NOC: 45 (-4)

Key upcoming dates

13 to 14 May

Appointment of Junior Ministers

18 May

Parliament sits for new session

19 May

Expected date of finalised coalition agreement

25 May

Queen's Speech

25 May – 1 June

Queen's Speech debates (expected)

Late June/July

Emergency budget (expected*)

*To be held 50 days after finalised coalition



Local government elections

Very much overshadowed by the hung Parliament and coalition negotiations ongoing, the local government elections resulted in surprises and disappointments. Labour made significant gains against the Liberal Democrats, winning back control of a number of Councils from the Liberal Democrats including Brent and Camden, and gaining net control of 14 more Councils. Despite losing eight Councils, the Conservatives remain the dominant force in local government, controlling 66 councils compared to Labour's 37 and the Lib Dem's 14.

The Conservative-Lib Dem coalition agreement confirmed that both parties are keen to promote a radical devolution of power and greater autonomy for local government, including a review of finances. This is something the two parties had already been in agreement on and is likely to increase the importance of local authority engagement in key areas such as education and care over the next five years.

What have we learned today about key sectors?

Healthcare

Andrew Lansley has been appointed Health Secretary although the rest of the ministerial health team is yet to be announced. We wait to see whether the Lib Dem health spokesperson Norman Lamb will join this team. Interestingly Lansley has not taken the title that he and David Cameron often promised of Secretary of State for Public Health.

Health policy was not at the forefront of coalition negotiations and was "not a deal breaker", according to senior Conservatives and Lib Dems. As such there is no confirmed detail on the coalition's health policy other than a funding commitment that NHS funding will increase in real terms in each year of the Parliament.

There is much in common between the two parties' health policies. Both are committed to making savings on management and bureaucracy costs while safeguarding frontline services. They both plan reduce the number of quangos. They are also in agreement on scrapping national politically motivated targets and moving to a more locally driven NHS responsive to patients' needs.

Differences will occur in the details of these objectives. For example, the Lib Dems manifesto seeks significant structural reform with the scrapping of SHAs for savings and the integration of Primary Care Trusts commissioning function into elected Local Health Boards for local responsiveness; meanwhile the Conservatives have pledged to find £200 million extra for a new cancer drugs fund and want to put local commissioning in the hands of GPs rather than elected boards.

Financial services

The Lib Dems have secured particularly strong influence over economic policy with the appointments of Vince Cable as Business Secretary and David Laws as Chief Executive to the Treasury. Earlier speculation that Cable may also have some oversight of banking policy, do not appear to have come to fruition. As was widely expected, there is consensus on the introduction of a new bank levy although there is no further detail on exactly how the levy would be raised and whether this would be dependent on international action; neither party had

Cabinet at a glance

Prime Minister

The Rt Hon David Cameron MP

Deputy Prime Minister

The Rt Hon Nick Clegg MP

Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon William Hague MP

Chancellor of the Exchequer

George Osborne MP

Secretary of State for Defence

Dr Liam Fox MP

Lord Chancellor and Secretary of State for Justice

Rt Hon Kenneth Clarke MP

Chief Whip

The Rt Hon Patrick McLoughlin MP

Secretary of State for the Home Department and Minister for Women and Equality

Theresa May MP

Secretary of State for Health

Andrew Lansley CBE MP

Chief Secretary to the Treasury

David Laws MP

Secretary of State for Business, Innovation and Skills

Dr Vince Cable MP

Secretary of State for Education

Michael Gove MP

Secretary of State for Culture, Media and Sport

Jeremy Hunt MP

Secretary of State for Transport:

Philip Hammond MP

Attorney General: Dominic Grieve MP

Secretary of State for Communities and Local Government:

Eric Pickles MP



ruled out unilateral action in the run up to the election. Strikingly, the agreement makes some concession to the Lib Dems' call for a separation of retail and wholesale banking operations. Announced in the document is a new independent commission to investigate a potential separation; it will be given a year to produce a report. The appointment of the head of the Commission will be hotly anticipated, and is likely to be handed to an ex-industry grandee.

There are also positive noises on boosting the mutual sector and creating a more competitive banking industry, although there is no mention of the Conservatives' previous proposal to hold a formal inquiry into high street banking competition. There is some ambiguity as to whether the Conservatives' proposed tri-partite reform will remain in place. The agreement notes that the Bank of England will have oversight of micro prudential regulation but not necessarily direct control; this could mean that the FSA may remain in place, as per speculation earlier in the day.

The document also sets out an agreement on taxing non-business capital gains at a rate similar to income, meaning the current 18% limit could rise to around 40%. While changes to personal taxation in the budget usually come into effect at the start of the next tax year, there is speculation that this increase could be implemented with immediate effect. With Laws' appointment, there is considerable speculation as to who from the Conservatives' shadow Treasury team will make it into a ministerial post. Industry will be hopeful that Mark Hoban, the former shadow Economic Secretary, will retain a role in Osborne's team, given the strong links he has forged with industry over the past two years.

A surprise appointment was that of former leader Iain Duncan Smith as Secretary of State for Work and Pensions. Given his previous work at the Centre for Social Justice, his new Department could increasingly focus on welfare reform, passing pensions policy to the Treasury. The agreement on pensions and welfare makes no commitment to personal accounts, focussing instead on reform to the benefit system, welfare to work programmes and a review of the age at which one can access full state pension.

Education

The coalition agreement contained few surprises on schools policy. Both parties were able to agree to implement their manifesto proposal to fund a "significant premium" for disadvantaged pupils. This pupil premium will be paid for from outside the schools budget by reductions in spending elsewhere including reductions made to Child Trust Fund and tax credits for higher earners.

After a rumour filled morning it was also announced that Michael Gove will remain as Secretary of State for Children, Schools and Families to shepherd his long-cherished free schools policy. The coalition agreement does include provisions to ensure that new providers can enter the state school system and to give all schools greater freedom over their curriculum. One possible concession to Liberal Democrat reservations on free schools is a slightly vague guarantee that "all schools are held properly accountable." It seems likely that this provision will mean a continued oversight role for local authorities in practice.

Tuition fees, in reality, presages the only major ominous black cloud on the horizon. Ever since their introduction by Labour, the Liberal Democrats have campaigned for the outright abolition of student fees in England. This is a policy area that has already excited considerable passion from Liberal Democrat members, and Nick Clegg has already tried and failed to get his party to drop the commitment to abolition at their 2009 conference. The Conservatives will be hoping that they can get their coalition partners to buy into whatever the



independent Browne Review recommends when it reports in July or August. But the most likely outcome of Lord Browne's inquiry is either higher fees or a real rate of interest on student loans. Arrangements have already been made in today's coalition document to allow the two parties to hold different views.

Defence

Liam Fox has been appointed as the new Secretary of State for Defence although junior ministers in the Department have yet to be announced. Previously some had suggested that Liam was not popular with the Cameron team but clearly both his appointment and the relatively high profile role he played during the election campaign demonstrate that is not the case.

As promised by both the Conservatives and Liberal Democrats the new government has committed to hold a full Strategic Defence Review although details on exact timings have not yet been made clear. The Review will have "strong involvement with the Treasury". On the more divisive issue of the UK's independent nuclear deterrent, the Government has agreed that the UK will retain its deterrent and that renewal of the Trident system should be scrutinised to ensure value for money. The Liberal Democrats will continue to make the case for alternative deterrent options.

The newly established National Security Council, designed to oversee all aspects of Britain's security, will meet for the first time this afternoon chaired by David Cameron. Ahead of the meeting William Hague confirmed that the focus of the first meeting would be the ongoing situation in Afghanistan. The group will be led by Sir Peter Ricketts, Permanent Under-Secretary at the Foreign and Commonwealth Office, who has been appointed as the government's national security advisor.

Further detail on the new Government's defence policy will be announced as part of the final coalition agreement.

Environment

Green policy was arguably at risk of being largely sidelined had Labour or the Conservatives won an outright majority. Undoubtedly, David Cameron would have had more of a fight on his hands within his Party to push the radical energy and climate change policy required to decarbonise the economy and meet Britain's ambitious carbon reductions targets. In a coalition Government however, and with a Liberal Democrat at the helm of DECC, there is a strong possibility that the step change in energy policy UK so urgently needs may now become a reality. In many areas Conservative and Liberal Democrat policy is broadly aligned, for example on the establishment of smart grid, electric vehicles and high speed rail, the feed in tariff and a floor price for carbon. Energy efficiency is similarly an area where much progress may be made, with both parties advocating what may come to be the largest retrofit of housing stock ever seen in this country. The Liberal Democrats had significantly more stretching targets for renewables than the other two parties, but have agreed to seek advice from the Climate Change Committee on these. In terms of big generation, CCS will go ahead and the Liberal Democrats have spectacularly 'agreed to disagree' on nuclear, meaning in practice that they will be whipped on the vote but free to campaign outside Parliament against a new generation of nuclear stations.