

# THE POLITICAL YEAR AHEAD

10 JANUARY 2014

A WESTMINSTER ADVISERS REPORT ON THE KEY POLITICAL  
ISSUES OF 2014



# INTRODUCTION

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**Dominic Church,**  
**Managing Director**

Happy New Year to you all.

This month has seen the launch of a long and gruelling fight towards 7 May 2015 and for all intents and purposes the general election campaign has already started.

This year is the year of political risk. The May European and local elections, September's Scottish Independence Referendum, key questions about the economy and living standards and the possibility of another hung parliament next year will mean politics in 2014 is volatile and unpredictable.

Election battle lines and manifesto policies will be drawn up, which will impact voters, business and investors now and right into the next parliament.

This report summarises what we see as the dozen big political issues in 2014 and makes predictions about what we can expect from the polls this year.

We hope that by reading our analysis, you'll be able to plan your public affairs strategy around the most important events and debates of the year.

Give us a call on 020 7222 9500 if you'd like to discuss any issues covered here, and how we can help you get the most out of your public affairs in 2014.

**"2014 is the year of political risk. Election battle lines and manifesto policies will be drawn up"**

## THE ECONOMY



Conservative strategists believe they'll have next year's election in the bag if the economy continues to improve this year.

However, weaknesses have been highlighted by the OBR. GDP growth this year is expected to be slower than in the last, productivity growth remained almost non-existent in 2013, and private consumption has been driven by lower saving not higher incomes. Crucially, while employment is up, real earnings growth has remained weak.

Osborne's central political challenge in 2014 will be to stimulate earnings growth, given Labour will relentlessly attack the government on the cost of living issue.

The key question is whether Osborne uses Budget 2014 to offer significant pre-election 'giveaways' or to stick to the script on deficit reduction. If the latter, he'll be gambling that voters see economic growth as a higher priority than immediate improvements in the cost of living.

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## COST OF LIVING



The increased cost of living debate shaped the political landscape in the latter half of 2013, driven in particular by Labour's proposal to freeze energy prices.

It would be a mistake however to think that the coalition government is oblivious to cost of living pressures. The Conservatives in particular have been keen to ease the pressure on the 'squeezed middle' where possible. Fuel duty has been frozen since January 2011. Local authorities have been given grants from central government to enable them to freeze council taxes. The Help to Buy scheme is assisting first time buyers to get onto the property ladder.

Expect to see the government raise the minimum wage this year, depriving Labour of an issue for the general election. Labour will continue to frame political debate through the prism of living standards – hedging its bets on an economic recovery and deflecting attention from the lack of trust that voters have in the party's ability to manage the economy.

If the Conservative Party can win over voters on living standards in addition to economic growth and deficit reduction the party will be in a strong position hitting the campaign trail for the general election.

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## EUROPE



Cameron's Europe strategy of renegotiating Britain's relationship with the EU and holding an in-out referendum in 2017 looks to be in danger. Without Lib Dem support, he's at the mercy of a Private Members' Bill to legislate for a referendum, which may not receive adequate time in the Lords to enable it to become law.

Scepticism about the PM's ability to deliver change will grow. This in turn may give UKIP an additional boost in the European elections in May, in which UKIP will almost certainly beat the Conservatives and may well win outright.

Failure of the Referendum Bill and embarrassment at the hands of UKIP in May would damage Cameron's authority and fuel calls from the Tory-right for further tough action on Europe. The evolving nature of Cameron's renegotiation demands could prove to be one of the political stories of the year.

In the meantime, if the Lib Dems end up in fourth or even fifth place in May's elections, Nick Clegg will be seriously disadvantaged in the run up to the general election.

"David Cameron is at the mercy of a Private Members' Bill to legislate for a referendum."

## SCOTTISH INDEPENDENCE REFERENDUM



There is arguably no greater political risk this year than the Scottish independence referendum.

The chances of a 'yes' vote may be relatively low, but the implications could be huge. At present, a vote for independence seems unlikely. YouGov polling indicates that just 33% would vote to leave the UK, with 52% wanting to stay. Past experience, never a fully reliable indicator of future voting, suggests that as referendums on major constitutional decisions approach, support for the status quo tends to harden.

However, Alex Salmond's SNP should not be written off. Polling in March 2011 found the SNP 15 points behind Labour. But by the time of the Scottish Parliament elections in May that year the party had risen to take a stunning victory and was forming the first ever majority government at Holyrood.

**"Alex Salmond's SNP should not be written off."**

The consequences of the vote are significant either way. Even in the event of a 'no', it is likely that further powers flow north of the border, in addition to more responsibility for taxation on its way under the terms of the 2012 Scotland Act.

## THE COALITION RELATIONSHIP



The Conservatives and Liberal Democrats kicked off the year with a serious intent to differentiate their offerings to the electorate. This will become more obvious as the year progresses, not least during May's elections.

The Conservatives will be vying with Labour for an outright win in 2015. Meanwhile Clegg and Co. will be aware they need to hold on to as many seats as possible in order to increase chances of another hung parliament, in which they'll be kingmakers.

Flash points this year between coalition partners will almost inevitably include the UK's position in Europe, welfare spending, tax reform, immigration, and inter-party fighting about who takes the credit – and blame – for coalition policies.

The smart money is still on the coalition formally staying in place until election day. However, a big consideration this year is whether we'll see effective government if the two parties descend too far into recriminations and mud-slinging.

“Clegg and Co. will be aware they need to hold on to as many seats as possible to increase chances of another hung parliament, in which they'll be kingmakers.”



## MILIBAND'S LEADERSHIP



All eyes will be on Labour leader Ed Miliband this year. He continues to suffer from poor approval ratings; the latest Ipsos Mori poll shows that 54% of voters think he's doing a poor job as Labour Party leader.

Despite this, Miliband's position as Labour leader is more secure than it was this time last year. Labour did not slip behind the Conservatives in the opinion polls during 2013, helping Labour MPs to hold their nerve. Miliband also struck a chord with the electorate with his living standards agenda, dictating the political agenda for the latter part of last year.

A major worry for Miliband, however, is if Labour falls behind the Conservatives in the polls or if it fails to make significant gains in May's elections. Miliband will need to navigate his party's annual conference in September, but also a special conference in March to tackle the thorny issue of union relationships. Perhaps even more significantly, the Labour leader and his shadow Chancellor Ed Balls badly need to establish their economic management credentials with voters.

"Miliband's position as Labour leader is more secure than it was this time last year."



## UKIP



The May European Parliament elections will provide UKIP with an invaluable political platform in their attempt to get an MP into Parliament next year. Crucially, if UKIP are buoyed by the European elections, they will further eat into the Conservative vote in the run up to 2015, making an outright Conservative victory elusive.

Polling suggests that UKIP and the Conservatives will be fighting it out for second place. However Labour, with a seven point lead in the most recent poll, has nothing to be complacent about.

Euroscepticism and concerns about immigration are the two drivers of UKIP support. Both issues will be prominent in the European election campaign and the Conservatives in particular will need to adopt a tougher line on them.

UKIP will be keen to avoid controversies surrounding their election candidates. Some of their local election candidates have previously been accused of BNP links and UKIP's 2013 conference was overshadowed by Godfrey Bloom MEP's antics.

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## IMMIGRATION



Polling shows immigration is the second most important issue for voters after the economy, and the British Social Attitudes Survey this month reveals 60% of people want big reductions in immigration.

Reflecting this, the Conservative leadership will toughen its line on immigration. It has already made announcements on capping net migration and restricting immigrant access to benefits and NHS care, which will be implemented through the long-awaited Immigration Bill. The objective will be to shore up its core vote, stem the draining of support to UKIP, keep restless backbenchers at bay by showing differentiation with the Lib Dems and portray Labour as lax on immigration when in office.

Labour has a balancing act to play on immigration given it needs to maintain support with the white working class in its heartlands as well as its ethnic minority support. Labour's position will therefore be more nuanced, focusing on protecting low skilled workers from the effects of economic immigration.

“The Conservative leadership will toughen its line on immigration but Labour has a balancing act to play.”

## WELFARE



Welfare will be a bigger issue than ever before in 2014.

The Conservatives are alive to greater public scepticism towards welfare. They expect to make political gain through their pledges to reduce overall spend on welfare and increase fairness by restricting access to benefits for certain groups. Young housing benefit claimants will be targeted, and there has been talk on the fringes of the party about further restrictions on child benefit.

The objective will be to portray Labour and the Liberal Democrats as soft on welfare and Labour, in particular, as profligate.

Labour's position so far has been to avoid being drawn into a big debate on welfare, preferring to focus on the delivery of Iain Duncan Smith's Universal Credit. It has been helped by Conservative infighting, with George Osborne and Cabinet Office Minister Francis Maude apparently concerned about programme implementation and overall costs of welfare and briefing against their colleague. Whether Labour can maintain distance on welfare in the face of a continuous assault by Conservatives on the issue, however, remains to be seen.

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## HEALTH AND SOCIAL CARE



The coalition will want to neutralise health as a political issue in 2014 after the backlash against its NHS reforms earlier this parliament. But the NHS is rarely away from the headlines. And polling shows it remains the top public services issue with voters.

Labour is unlikely to let the subject drop. Being more trusted on the NHS, the opposition senses it can exploit the coalition's stewardship. They may be helped by winter pressure threatening to take A&E to bursting point in some parts of England, despite the coalition's preparations to avert a wider crisis.

That's one of many tasks for Simon Stevens, who becomes NHS England's chief executive in April. Anticipate lots of noise around innovation, new processes and better use of patient data to improve treatment and prevention for long term conditions. That is key as the NHS's financial challenge intensifies, as is the need to shift more care out of hospitals. Coalition MPs will, however, want to avoid controversy on local ward closures in a pre-election year.

“Anticipate lots of noise around innovation, new processes and better use of patient data.”

Watch for more detail on Labour's policies. The party's commission on 'whole person care', chaired by Sir John Oldham, is expected to report midway through the year. Their plans for bringing health and social care services together without another top-down shake up are keenly awaited.

## ENERGY



Public anger about price rises, political concerns around market competition and transparency, and Conservative antipathy towards supposed 'green levies' all contributed to an atmosphere last year in which energy became subject to significantly increased political risk.

This is likely to continue, perhaps even increase, in 2014. The Government's announcement of a £50 cut to energy bills in December is unlikely to take the sting out of the issue when bills have been rising significantly above inflation. Trust in the industry is no greater now, and Conservatives hoping for cuts to subsidies for renewables have been disappointed.

As the government's electricity market reform package to subsidise low carbon power and back-up capacity is implemented, a renewed focus on the costs of energy will continue. A likely row over the 4th Carbon Budget will test coalition cohesion on decarbonisation. Labour will continue to develop its policy thinking, with potentially far reaching consequences for those in the supply sector and for fossil fuel producers and generators.

At a time when the sector – and the country – badly needs stability to deliver investment, there are no signs of political risk abating.

“A likely row over the 4th Carbon Budget will test coalition cohesion.”

## HOUSING



Housing will be a bigger concern than ever in 2014. Delivering greater and more equitable access to housing will be a big part of the major parties' visions as they woo 'hardworking families' and the 'squeezed middle'.

For Labour, affordability and quality of housing resonate with the party's narrative on improving living standards, whilst developers perceived to be 'landbanking' will provide an easy target for Ed Miliband.

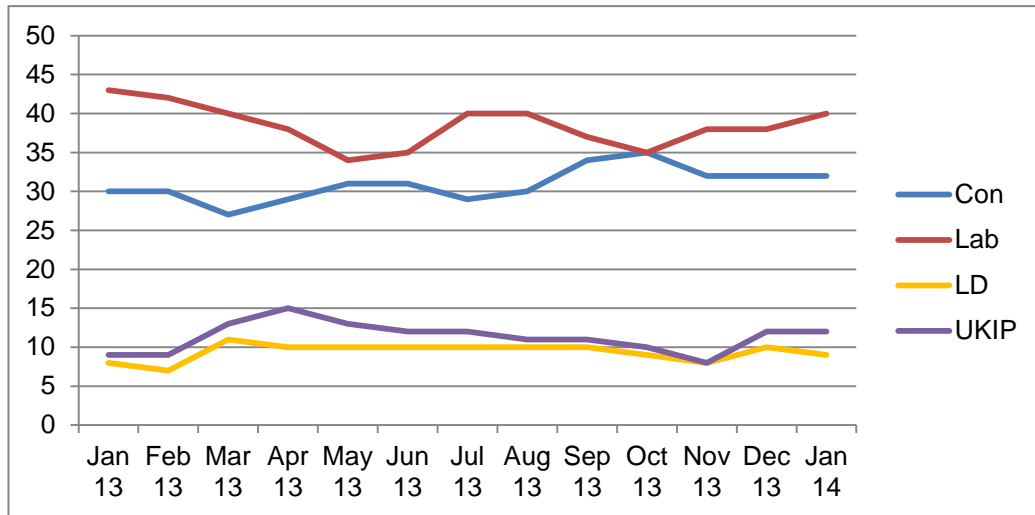
Increasing supply has proved a thorny issue for the government. Pro-development initiatives have been tempered by a need to placate the Tory grassroots. Limited success through attempts to liberalise planning law has seen the Coalition fall-back on demand-side policies such as Help to Buy.

Regaining the initiative on housing is a pressing priority for the coalition. The latest announcement of a Right to Contest, potentially transforming surplus government land into housing, provides an indication that the government will come out fighting on housing in 2014.

“Delivering greater and more equitable access to housing will be a big part of the major parties' visions as they woo 'hardworking families.'”



## WHAT CAN WE EXPECT FROM THE OPINION POLLS IN 2014?



Source: YouGov

The polls have consistently shown Labour to be ahead of the Conservatives since March 2012, and current projections based on recent numbers suggest Labour would win a significant majority if an election was held tomorrow. However the size of Labour's lead has fluctuated significantly and expectations are that it will narrow as the election approaches.

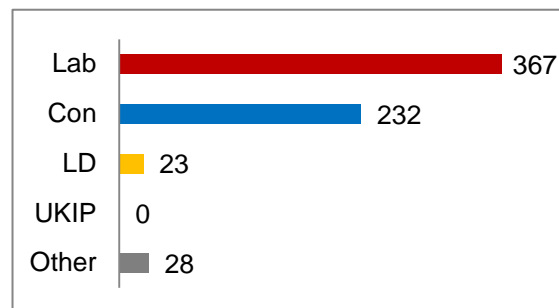
Clearly the parties have everything to play for in 2014. Voters traditionally punish incumbent governments in local and European elections. Party conference season in the autumn could prove to be a significant turning point. Unless Labour can burnish its economic management credentials, a Conservative fight-back could well be on the cards.

There is little doubt that the opinion polls in 2014 will prove volatile. The coalition parties have become increasingly keen to emphasise their identities from within government. The three main parties will begin to develop their policy platforms ahead of the general election – 2014 has already seen the Conservatives put some of their cards on the table and challenging Labour to do likewise. The European Parliament elections in May will bring issues to the fore that neither the Conservatives nor Labour necessarily want to focus on – mainly Britain and the European Union.

A YouGov poll commissioned on 5 January showed that Labour is more trusted among voters on the NHS and education. The Conservatives lead Labour on immigration, law and order and – crucially – the economy. The parties are tied on taxation and unemployment.

### Current polling seat predictions:

#### Labour majority of 78



Source: Electoral Calculus, based on polling between 6<sup>th</sup> and 20<sup>th</sup> December 2013





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