IoD POLICY PAPER

Annual Policy Outlook

Trends, risks and opportunities for business in 2025

January 2025

Contents

Taking stock of 2024

2024 was a year of two halves for UK business. After a promising first half, when green shoots of recovery gradually began to emerge, business sentiment took a sharp turn for the worse in the latter months of the year, as business leaders digested the full implications of the new government's early policy decisions.

After experiencing a technical recession at the end of 2023, UK economic growth appeared unexpectedly buoyant in the first two quarters of 2024. Although Chancellor Jeremy Hunt's Budget on 6 March was unremarkable from a business perspective, the calling of an unexpectedly early general election by Prime Minister Rishi Sunak raised business hopes of a new political administration that would improve political stability and focus on growth.

This more optimistic economic backdrop was reflected in rising levels of business confidence. By July, the IoD's Directors' Economic Confidence Index, which measures the confidence of business leaders in the UK economy, had recorded a positive outcome for the first time in almost three years.

However, following a decisive Labour victory at the ballot box on the 4 of July, and the installation of Sir Keir Starmer in Number 10 Downing Street, the honeymoon period rapidly dissipated. In the space of a few months, business confidence evaporated in the wake of major tax and regulatory changes that primarily targeted business. Economic growth also fizzled out, with the economy largely moving sideways in the second half of the year. The overall GDP growth rate for the year is likely to be around 1% - better than the flat-lining performance of 2023, but hardly a stellar outcome.

More positively, inflation continued its downward course during 2024, to within touching distance of the Bank of England's target of 2%. This enabled the Monetary Policy Committee to cut interest rates for the first time in four years, with quarter point cuts being implemented in August and November. However, the pace of the reductions was slower than expected due to the persistence of inflationary pressures in the labour market and the service sector. Bank Rate ended the year at 4.75%, well above pre-pandemic levels and still relatively high in real terms.

In its first King's Speech, on 17 July, the incoming Labour government laid out its priorities for the coming parliamentary session. It committed itself to being 'mission-driven', focusing on five key areas: growth, the NHS, clean energy, safer streets and opportunity. Of particular importance to business was the declaration by the incoming Chancellor, Rachel Reeves, that "growth was now our national mission".

The government decided to carry over several bills from the previous administration, including the Football Governance Bill. The King's Speech also signalled plans to establish a number of new public bodies: the National Wealth Fund (aimed at mobilising private investment), Great British Energy (to encourage the generation of clean energy), Great British Railways (to manage passenger rail transportation) and Skills England (to coordinate skills development).

"King's Speech Debate, 17 July 2024", ©House of Commons, CC BY 3.0, via Wikimedia Commons.

Proposed reforms to the planning system and ambitious targets for housebuilding were seen as positive for growth. However, a centrepiece of the Labour Party's election manifesto, the Employment Rights Bill, was received with some concern by business, given the extent of the changes being proposed. Business was particularly concerned that their aggregate impact had not been properly assessed, and that the government's desire to act quickly would result in insufficient consultation with business.

The biggest policy event of the year took place on the 30 October, with the delivery of the Autumn Budget by the Chancellor. Business welcomed the announcement of a corporate tax roadmap (which committed the government to existing corporation tax rates) and the adoption of more flexible fiscal rules (to facilitate greater public sector investment). However, these announcements were more than overshadowed by a swingeing increase in employers' national insurance contributions.

From the perspective of many businesses, a higher NI burden was particularly unhelpful, given that it imposed significant increases in business costs regardless of the profitability of an enterprise (although smaller companies were protected to some degree by an increase in the Employment Allowance). Hikes in capital gains tax, carried interest taxation and less generous inheritance tax reliefs also confounded business owners, farmers and private equity executives, whilst the retail, hospitality and leisure sectors were adversely affected by reductions in business rates support.

Overall, more than two thirds of IoD members felt that the Budget was bad for business. In the eyes of many, the government had sought to plug gaps in its public spending priorities at the expense of business – although the government was at pains to stress that this was a one-off measure aimed at fixing the fiscal foundations, and would not be repeated.

However, this assurance did not placate most business leaders. The response was a precipitous decline in business confidence. In November, the Directors' Economic Confidence Index fell to its lowest level since April 2020. Businesses indicated that they would reign in their investment and hiring plans, raising doubts about the government's ability to deliver on its economic growth objectives, at least in the short term.

On a more positive note, the government moved forward with plans to define an industrial strategy, publishing a green paper in October and establishing the Industrial Strategy Advisory Council under the chairmanship of Clare Barclay. In the same month, the UK hosted a Global Investment Summit, which secured £63 billion of private investment into the UK from international investors.

In December, Prime Minister Sir Keir Starmer sought to reset the deteriorating political narrative by announcing the government's Plan for Change. This defined six 'milestones' against which the government should be judged at the next election. However, only one of them related directly to business: the achievement of 95% clean power by 2030 (scaled back from an earlier commitment to 100%). Consequently, the initiative did little to improve the overall tenor of business sentiment.

Alongside its domestic agenda, the new government began the process of rebuilding the UK's diplomatic relationship with the EU, a strategy supported by many business leaders. Although no new agreements were concluded, discussions took place on a youth mobility scheme, with further discussions on a wider range of issues due to take place in Spring 2025. In the wake of Donald Trump's election as US president in November, Sir Keir Starmer affirmed that the UK needed to work closely with both the EU and the US in order to secure its economic and security interests.

The UK government ended 2024 in a difficult place, with 60% of Britons disapproving of its record to date and only 20% approving.[1] However, with a parliamentary majority of more than 170, it remains in a strong position to effect decisive change. The government's key challenge in 2025 will be to communicate a more compelling business case for UK Plc, which ensures end-of-year pessimism does not become a self-fulling prophecy. In this crucial respect, government policy fell short of what was required in 2024.

[1] YouGov survey, 14-18 December 2024. yougov.co.uk/topics/overview/survey-results

IoD policy wins in 2024

One of the key missions of the IoD is to provide a voice to its members vis-à-vis policy makers. In 2024, we sought to influence government on a range of issues, and achieved some notable successes (although government also pursued policies which we received less favourably). Although we cannot claim that the IoD was the sole (or even the most important) voice driving the below policy outcomes (which are often the result of shared advocacy from multiple stakeholders and political actors), they do represent policy decisions over which the IoD can claim some influence.

Policy makers adopt proposals being advocated by the IoD:

1. Significant adjustments to Labour's New Deal for Working People proposals and a commitment to meaningfully consult with business (May 2024)
2. Creation of Skills England (July 2024)
3. Government announces intention to publish a draft Bill on audit and corporate governance reform (July 2024)
4. Announcement of industrial strategy (October 2024)
5. Announcement of corporate tax roadmap (Autumn Budget 2024)
6. Reform of fiscal rules (Autumn Budget 2024)
7. Government support for IoD Code of Conduct (October 2024)
8. Government plans to introduce ethnicity and disability pay gap reporting (October 2024)
9. Introduction of new Fair Payment Code and package of measures to tackle late payments (December 2024)
10. Major new funding package from the Scottish government to develop business/entrepreneurship skills in the school curriculum (December 2024)

11

Meetings with Cabinet Ministers

28

Meetings with other ministers and high-level policy makers

30

Parliamentary mentions

105

Meetings with government officials

132

Speeches and presentations

+69%

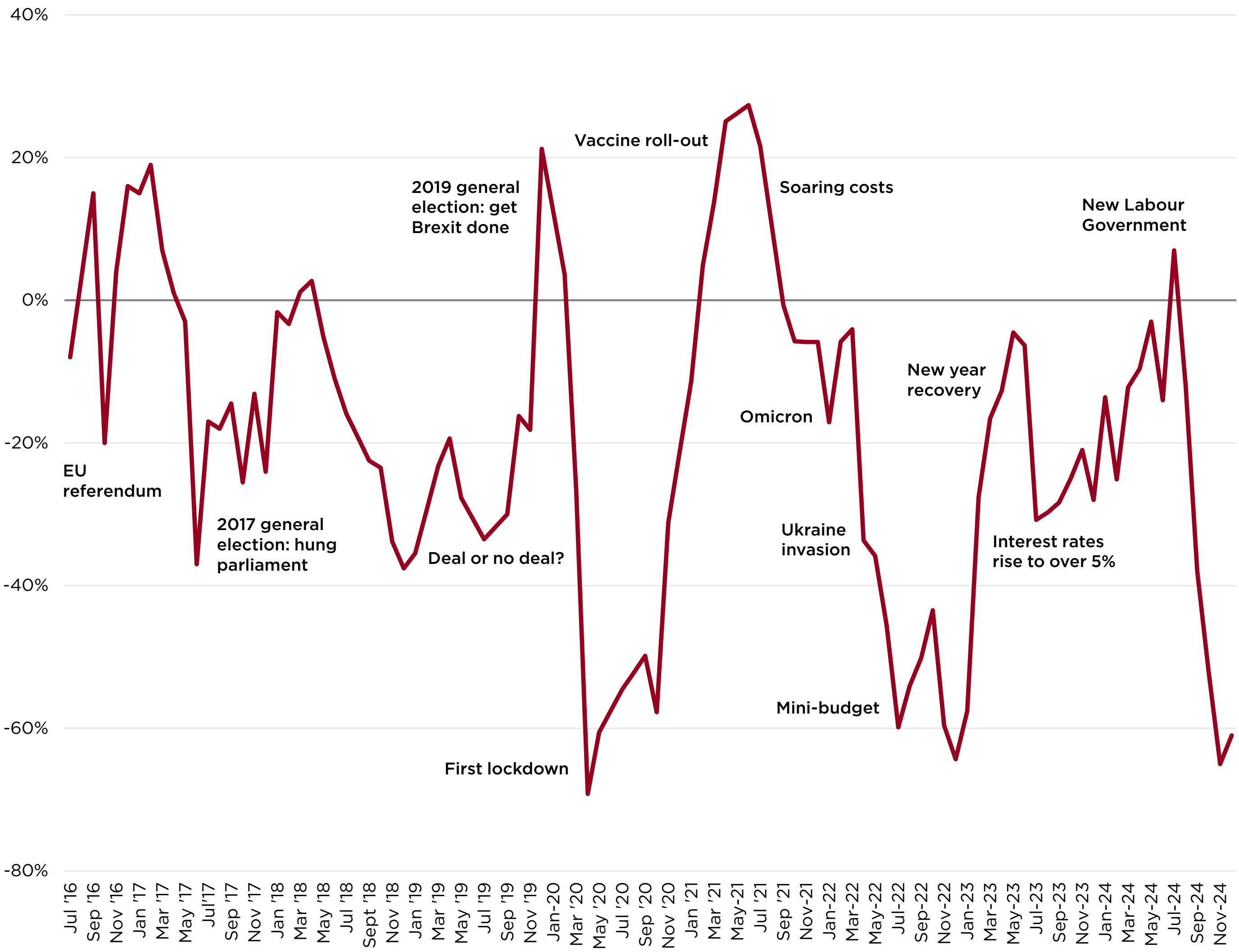
IoD coverage in mainstream media (compared to 2023)

Image: "Jonathan Geldart, IoD's Director General meets the Chancellor Rachel Reeves".

Why business confidence matters

On a monthly basis, the IoD gathers the perspectives of its members through its Policy Voice survey tool. This poll seeks to understand if business leaders are optimistic or pessimistic about the prospects for the UK economy and their own businesses. The headline result from this process is either a positive or negative number depending on whether business leaders are, on balance, optimistic or pessimistic.

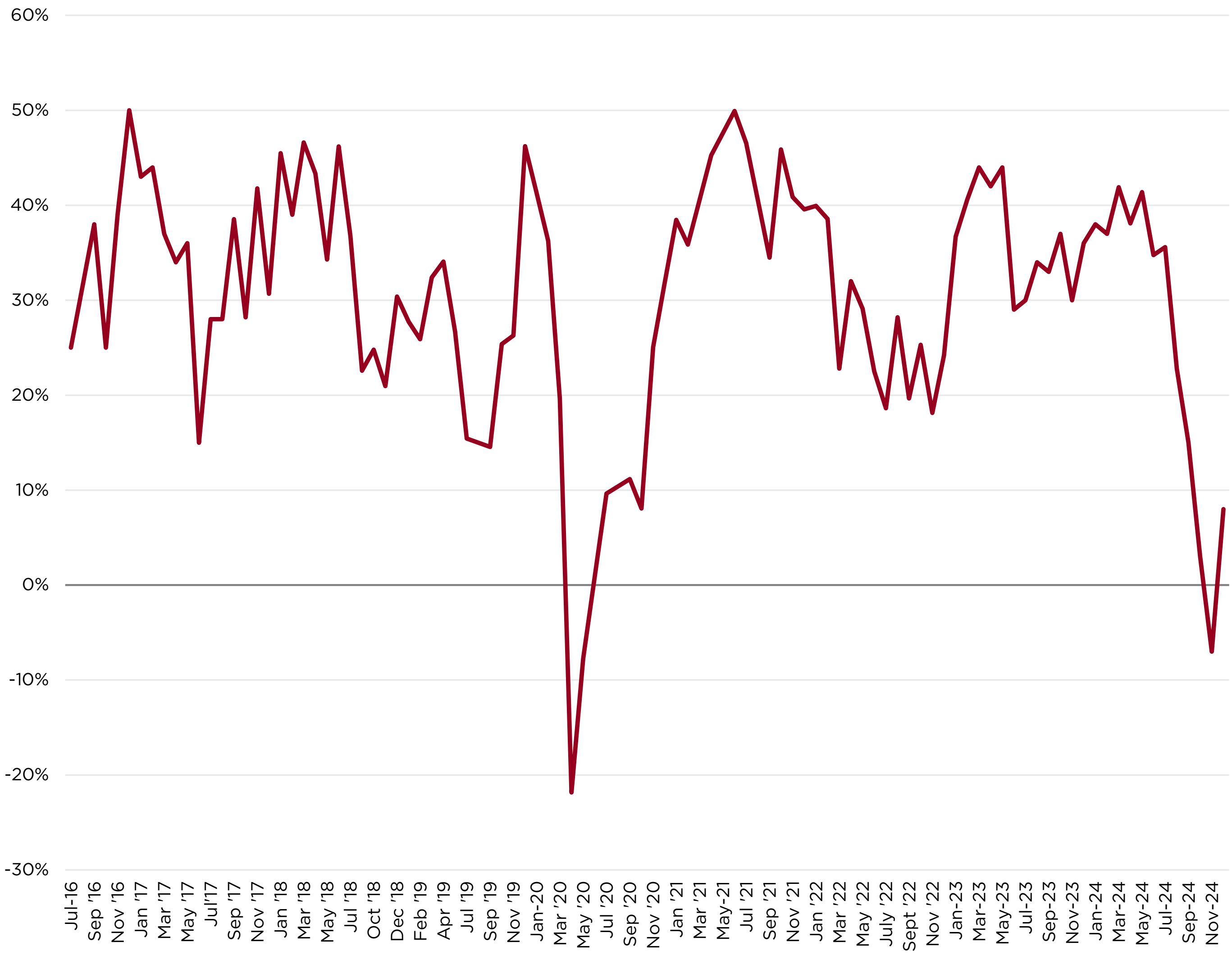
Confidence of IoD members in the UK economy over the next 12 months

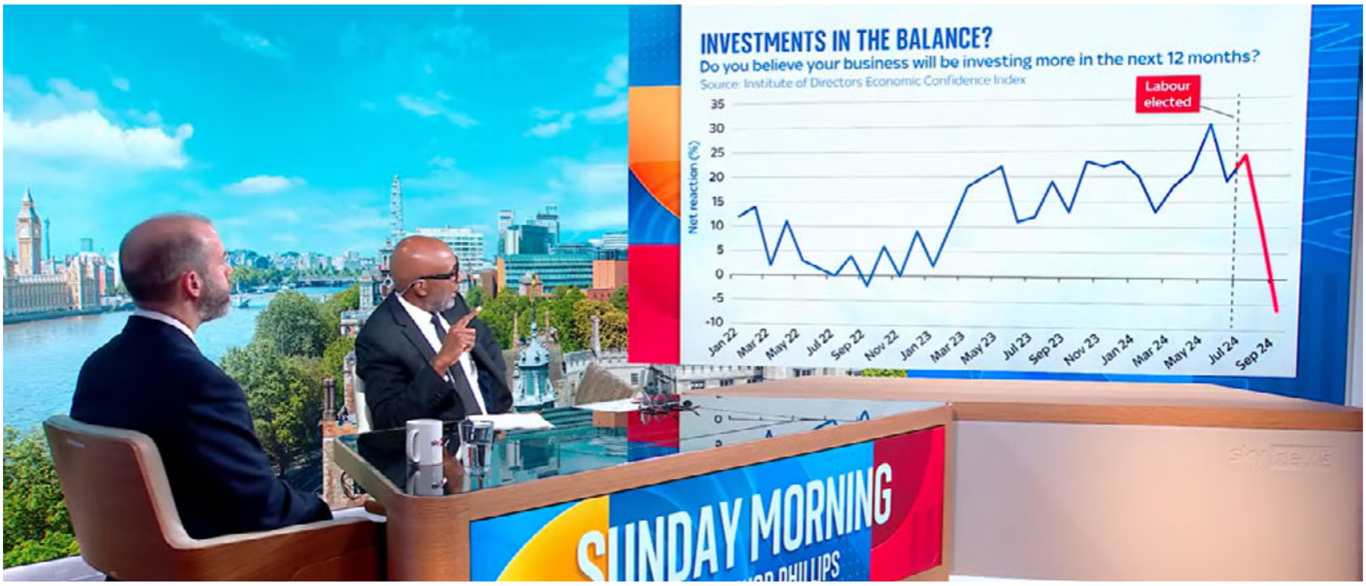


The IoD's business confidence indicators are closely watched by the UK government and are widely reported in the media. Our survey results are particularly insightful for government as IoD membership is spread across all sectors of the economy, and is represented in organisations of all sizes, from the largest listed companies to SMEs and micro-entities.

Hence, the views of IoD members provide a snapshot of sentiment across the entire UK business sector, not just in particular company, industry or sub-category of business.

Confidence of IoD members in their own business prospects over the next 12 months





Sky News, 2024. Sunday Morning with Trevor Phillips [screenshot featuring the Business Secretary questioned about IoD confidence data]. Available at YouTube.

At the end of 2024, the IoD's measures of business confidence stood at historically low levels. Although this is concerning for IoD members, does it actually matter for growth and economic performance?

According to one perspective, what matters most to an economy is the actual impact of policies. Even if a policy is not popular with business, it might still exert a positive effect if it is designed correctly. Business confidence might therefore not be that important.

However, in a recent article in the Financial Times, Martin Wolf provides a convincing rebuttal of that view.[2] He notes that the economy is not a simple machine in which levers can be pulled and outcomes generated. Sentiment is crucial: "As Nobel laureates George Akerlof and Robert Shiller pointed out in their 2009 book Animal Spirits, people are not rational calculating machines. We are intensely emotional."

Business confidence becomes particularly important in circumstances of uncertainty. According to Wolf, "A crucial variable is what John Maynard Keynes called the "propensity to invest". Investment is where "animal spirits" have to come in. After all, any decision to invest is a bet on an uncertain long-term future. The past two decades have demonstrated just how unpredictable that future can be. It hardly looks less unpredictable today."

"Yet now, above all in the UK, where net investment is exceptionally low, depressed animal spirits threaten the investment on which future economic growth depends. Unfortunately, data suggests that confidence is rather low.

A noteworthy example is an "economic confidence indicator" published by the Institute of Directors early this month, which shows business confidence at levels close to those of 2020, at the height of the Covid pandemic, or immediately after Russia's full-scale invasion of Ukraine in 2022."

Wolf goes on to articulate the perspective which has formed the basis of the IoD's message to government over the last six months:

"The danger, then, is that measures taken by the government to raise taxes and tighten regulation, notably of the labour market, will not merely increase uncertainty about the future, but, worse, actually increase the certainty that the economy will go on stagnating. Both of these effects must undermine trust in the future. That then risks launching a vicious downward spiral, in which poor confidence undermines animal spirits, weakens investment, slows demand, undermines innovation, and so shrinks the growth of productive capacity."

In short, government should be concerned when IoD members express a lack of confidence in economic prospects. It is their efforts – and those of their business peers – that determine what happens to the economy – in terms of growth, innovation and long-term competitiveness. We will closely monitor their perspectives in the year ahead.

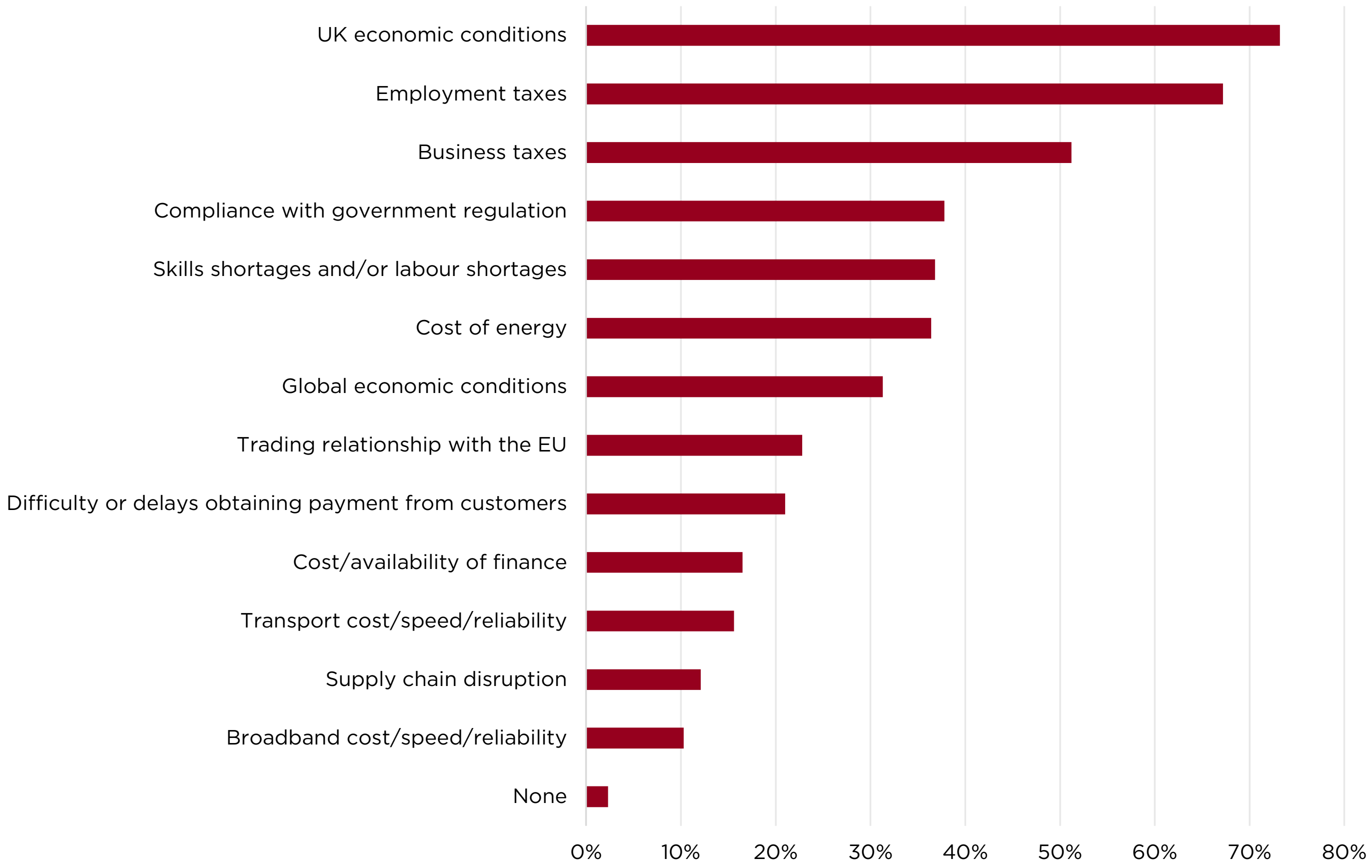
[2] Financial Times, 'The UK government must make sure it isn't a confidence killer'. 23 December 2024.

The big issues in 2025

Dr. Roger Barker | roger.barker@iod.com

At the end of November 2024, IoD members were asked to assess the main challenges facing their businesses. Unsurprisingly, domestic concerns ranked high on the list, especially the future outlook for the UK economy and the impact of recent government policy decisions, such as the hike in employers' national insurance and proposed changes to UK employment law.

Which of the following, if any, are having a negative impact on your organisation?



However, UK businesses must also navigate a bigger picture, consisting of global economic trends, geopolitical tensions and technological transformations. In this section, Dr. Roger Barker considers eight of the big issues for business in 2025, whilst also remaining mindful of the words of physicist Niels Bohr: "Prediction is difficult, especially about the future."

Trump 2.0: the year of maximum Trump

Donald Trump commences his second term as President in a much stronger position than in 2017. As well as winning the White House, Republicans also control the House of Representatives and the Senate (although their majority in the former is wafer thin). Three of the nine members of the Supreme Court are Trump nominees, and this may grow further during Trump's term of office. Less constrained by the checks and balances of the legislative and judicial arms of government, Trump 2.0 is positioned to make a significant impact on US domestic policy and international relations in 2025.

How will Trump use this power? Many of his campaign pledges appear at odds with one another. For example, Trump's intention to impose tariffs on imported goods, especially those from China, Mexico and Canada, would work against his aim of keeping US inflation under control. Tough new restrictions on legal and illegal immigration would push up labour costs and reduce the ability of US tech companies to source the best international talent. Nonetheless, US investors and the business community appear excited about Trump's deregulatory and low tax agenda, and are backing him to deliver a business-friendly outcome.

According to conventional fiscal wisdom, Trump's plans for substantial reductions in corporate taxation face a significant obstacle: the US budget deficit and national debt. Elon Musk and Vivek Ramaswamy, heads of the newly created Department for Government Efficiency (DOGE), have been empowered to deliver swingeing reductions in federal government expenditure. Radical reform of the machinery of government is also seen by Trump as essential in itself – to prevent the US political 'establishment' from undermining his agenda. The enduring legacy of Trump will, therefore, depend crucially on the ability of two of Silicon Valley's leading lights to deliver in government as they have in business.

Trumponomics may give rise to a complex patchwork of business winners and losers. The finance, healthcare, crypto and traditional energy sectors are hoping for a significant package of deregulation. The tech sector is anticipating a light regulatory touch which sustains its global dominance. Domestically oriented sectors could benefit from a shift to protectionism, although US multinationals with global supply chains will be hit by higher import costs. Industrial strategy will shift its focus, with the Trump administration favouring the defence, technology and old-style energy sectors rather than the Biden era tilt towards renewable energy and green technology.

"President Joe Biden walks to the Oval Office with President-elect Donald Trump, November 13, 2024." The White House, Public domain, via Wikimedia Commons.

"Secretary Antony J. Blinken meets with Israeli Prime Minister Benyamin Netanyahu in Jerusalem, Israel, Tuesday, October 22, 2024", U.S. Department of State from United States, Public domain, via Wikimedia Commons.

Geopolitics: another year of living dangerously

In some respects, the main geopolitical risks facing the world at the start of 2025 are similar to those of a year ago: uncertainty about the outcome of the Russia-Ukraine war; instability in the Middle East; and concern about China's intentions with regard to Taiwan and the South China Sea. However, the nature of these risks has fundamentally changed over the last year, and the world is now an even more dangerous place.

Despite access to more advanced weaponry, Ukraine is in a weaker position than a year earlier. Following the failure of its Summer 2024 counter-offensive, Ukraine is struggling to succeed in an attritional war against a much larger opponent. Russia is also paying a high price for the conflict in terms of human casualties (which may exceed 700,000) and a defence budget that absorbs 40% of government spending. President Trump has voiced his desire to end the conflict in short order, and may push for a ceasefire with Vladimir Putin. However, any form of more permanent settlement, based on a partition of Ukraine, is unlikely to be palatable to either side.

Trump's main geopolitical challenge will be how to deal with China. His desire to slow Chinese economic and military expansion may well conflict with his platform of avoiding US enmeshment in foreign conflicts. Potential flashpoints could include a blockade of Taiwan and incursions into various disputed territories in the South China Sea. Whether such actions would evoke a robust response from Trump is hard to predict.

Stability in the Middle East remains elusive. Israel starts the year in a stronger position – following the collapse of the Assad regime in Syria and the weakening of Iran and its allies in the region. A peace deal in Gaza seems likely. Prime Minister Benjamin Netanyahu may now be tempted to exert a decisive blow against Iranian nuclear and oil facilities. This would have global implications, not least in terms of its impact on energy markets. More positively, a continuation of Trump's earlier efforts to foster a normalisation of relations between Israel and Arab countries (the Abraham Accords) could enhance stability in the region.

Trump's rhetoric has cast doubt on the future of the NATO alliance – although his choice of the pro-NATO Marco Rubio as Secretary of State may alleviate some concerns. In the face of a reduced US willingness to provide an unconditional security blanket, Europe will begin the costly process of building up its own defence capabilities. A more hostile and polarised world also places the UK in a difficult strategic position, given its post-Brexit detachment from Europe and a less predictable future for the transatlantic relationship.

Although 2024 was an historic year for elections, 2025 will also see voters go to the polls in crucial jurisdictions. A German election is scheduled for February, and major elections will take place in Canada, Australia and Poland. The wave of political instability that arose in many G7 countries at the end of 2024 suggests that anti-incumbent parties may make significant electoral gains. In France, President Macron finds himself in a weakened position following the collapse of his government – although he does not face a presidential election until 2027. The rising tide of populist sentiment could exert a growing influence on government policy, even in countries where populist politicians fall short of outright political power.

Global economy: debt and tariffs cast a shadow

According to the IMF, the global economy is expected to grow by around 3% in 2025, similar to that of 2024, with most of that growth being generated by the United States and the BRICS nations.[3] Despite ongoing problems in its property market and weak consumer confidence, China will still deliver solid growth (of at least 4%). India is now the world's most populous country, and its 2025 growth will exceed 6%. In contrast, Europe is expected to stagnate, with export-oriented manufacturing countries such as Germany being particularly impacted by a trade war.

The emergence of tariffs on a level not seen since the 1930s is a significant risk. According to the IMF, an intensifying trade war could reduce global growth by 0.8% points in 2025 and 1.3% points in 2026, although the impact on the relatively open economies of Europe and Asia could be significantly greater. The US will be less affected as it is energy independent and a relatively closed economy.

In 2025, cuts in interest rates made in 2024 will start to exert an effect. This could go some way to alleviate the global impact of tariffs. The recent decline of major currencies against the dollar may also help. However, tariffs will exert upward pressure on inflation, and this may mean that, going forward, interest rates decline less rapidly than would otherwise have been the case.

In the US, the Federal Reserve has a dual mandate: to both stabilise prices and maximise employment, and the Trump administration will push it to emphasise the latter. This will test the independence of the Federal Reserve and its Chairman, Jay Powell, who has been heavily criticised by Donald Trump for his cautious approach to monetary policy.

Government borrowing is a major global concern for 2025. According to the IMF, global government debt is expected to reach 100% of GDP by the end of the decade – a level that has historically been seen as an upper limit. The US, China and UK already have debt levels at or above that level. Many other countries (such as France, Brazil, South Africa and Italy) have yet to tell a convincing story about how they will place government borrowing on a stable or declining path.

In 2025, US debt interest payments will amount to 20% of government revenues and the budget deficit could reach 8% of GDP – a fiscal position that would be unsustainable in most other countries. Despite the US's unique position on the world stage, the Trump administration could conceivably face its own Liz Truss moment at some point, as global suppliers of capital balk at the demands being made of them by the US Treasury.

The BRICS nations will rise to greater prominence as drivers of economic growth in 2025. They now represent one third of the global economy and consist of nine nations (Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and the United Arab Emirates). Membership may expand further in 2025, encompassing countries like Indonesia, Turkey, Thailand and Malaysia. Although BRICS are a disparate grouping, the fragmentation of global trade will encourage their further cooperation. However, plans to establish a new BRICS reserve currency to rival the dollar would be vigorously opposed by the US.

"Chair Powell answers reporters' questions at the FOMC press conference on September 18, 2024.", Federal Reserve, Public domain, via Wikimedia Commons.

[3] https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024

Climate change: China steps up and America steps back

2024 was a lacklustre year in terms of addressing climate change and mitigating environmental risks. Global emissions continued to climb, and world average temperatures have now breached the 1.5-degree target set by the Paris Agreement (although temperatures in 2025 may be moderated by the arrival of the La Niña weather phenomenon). A major international report at the end of 2024 found that biodiversity decline was accelerating, shrinking at a rate of between 2 and 6% per decade.[4] More extreme weather events – such as tropical storms, heat waves and flooding – seem unavoidable.

From an environmental policy perspective, 2025 also offers a bleak prospect. President Trump is likely to withdraw the US from the Paris agreement. He is hostile to the green subsidies provided by President Biden's Inflation Reduction Act and plans to further grow US oil and gas production. Opposition parties in Canada, Australia and Germany are advocating a watering down of recent green initiatives if they are successful in forthcoming elections. And the new EU Commission, increasingly concerned by Europe's flagging competitiveness, intends to revisit directives relating to sustainability reporting and supply chain due diligence, albeit under the guise of 'simplification' rather than watering down.

However, it is not all doom and gloom. Polls suggest that most voters remain supportive of climate action. Global companies continue to pay greater regard to ESG considerations than they did five years ago. Although China remains the world's largest emitter of greenhouse gases in absolute terms, and continues to build coal-fired power stations, the meteoric rise of its renewable energy and green manufacturing capabilities has been nothing short of remarkable. Even in the US, the Trump administration may be reticent about endangering thousands of manufacturing jobs (mainly in Republican districts) that are crucially dependent on Biden-era subsidies. Most importantly, global emissions and those of China could finally peak in 2025, offering some hope that a decarbonised future is possible.

"Devastating floods in Southeast Asia: The impact of La Niña", image source: Getty Images.

[4] ipbes.net/transformative-change/media-release

Trade wars: is there a deal to be done?

A key element of Trump's election campaign was his promise to impose tariffs of at least 10-20% on all imports, with a 60% minimum tariff on Chinese goods. He has also threatened tariffs of 100% on BRICS countries if they seek to undermine the dollar. Trump could rapidly impose a special tariff on Chinese goods under existing executive authority to address unfair trade competition. Universal tariffs would require congressional approval, although this is likely to be forthcoming as tariff increases are supported on both sides of the party divide.

Many countries will choose to retaliate with tariffs of their own or through other responses. A particularly worrying (albeit unlikely) scenario would involve China withdrawing from the US government bond market or even selling off its existing sovereign holdings. This would affect the ability of the US to finance its burgeoning government deficit and throw financial markets into chaos. A more likely response is that China could seek to target the activities of Tesla and other US companies in China and restrict the sale of rare earth minerals which are critical to a wide range of US products.

UK government ministers have suggested that the UK would not be significantly affected by US tariffs. UK-US trade flows are relatively balanced, and this might reduce the risk that UK products would be targeted. Even if they were subject to trade barriers, ministers have argued that it would not be in the UK's interest to retaliate. However, if the EU feels driven to apply retaliatory tariffs, then the absence of an equivalent UK response could significantly undermine UK efforts at rapprochement with the EU. In such a scenario, the UK's ability to navigate between the conflicting demands of its two main partners would be severely tested.

Although Trump has described "tariffs" as the most beautiful word in the dictionary, they may ultimately turn out to be a tool of geopolitical negotiation. Affected countries may be able to do a deal with the Trump administration if they commit to buying more goods from the US. The EU is already discussing the feasibility of procuring more US energy, military and agricultural products. At the company level, boards will seek to build resilience in their supply chains, possibly by relocating more of their operations to the US or less targeted jurisdictions, or by building up inventory of crucial components. A capacity to withstand shocks and respond flexibly to unforeseen developments will be crucial in 2025.

"Aerial view of Tesla Gigafactory Shanghai in Lingang, Shanghai, China", 中国新闻社, licensed under CC BY 3.0 via Wikimedia Commons.

Artificial intelligence: still the hottest ticket in town

AI technology continued its relentless advance in 2024. OpenAI was valued at US$150 billion and claimed it was well on the way to developing an advanced AI system more capable than humans. However, despite the advance of frontier technologies, there remain concerns about whether AI hype is running ahead of commercial reality. Mainstream companies have yet to profitably integrate AI into their business operations. In 2025, this could pose a risk to the valuation of the entire US stockmarket, which has already priced-in optimistic assumptions about the earnings prospects of major AI companies.

A number of key AI trends are likely to accelerate in the coming year. Multimodal AI will integrate diverse data sources like images, video, and audio. So-called AI agents offer the possibility of autonomously handling complex tasks and workflows in the workplace. Organisations will increasingly train AI models with their own proprietary data, and use AI to make themselves more secure – to detect counterfeit documents, keep data safe and combat deepfakes and misinformation.

The US and China remain the leaders in AI, with Europe some way behind. Europe is currently struggling to navigate the delicate balance between AI innovation and safety; many aspects of the EU's AI Act will come into force in 2025, and the jury remains out on whether the Act's more prescriptive approach to AI regulation will help or hinder European efforts to catch up with the leaders.

The AI industry is vulnerable to geopolitical disruption. It depends on a network of global commercial partners, especially Taiwan's semiconductor fabrication plants. As the US and China increasingly compete for AI dominance, they are both making concerted efforts to disconnect their AI sectors from one another. The trend towards tech-nationalism will accelerate in 2025.

A growing concern for AI is its use of energy. One study suggests that AI data centres could consume 9% of total US power generation by 2030.[5] This will place additional demands on electricity generation in a world which is already transitioning to much greater electricity use. The case for nuclear power may grow in 2025, as a means of fulfilling this demand. Quantum computing offers a new way to ramp up computational power, but the technology is still some years away from operational deployment.

Cybersecurity: the problem is the people

Cyber risk will continue to be a major concern for business leaders in 2025. AI will be increasingly deployed by criminals – to disseminate adaptive malware, phishing emails and deepfake videos. The Zero Trust model, which focuses on verifying every person and device attempting to access a system, is gaining ground as a best practice in cybersecurity.

Despite technological advancements, human behaviour continues to be a significant weak point. According to one expert, "The vast majority of cyber-attacks have everything to do with psychology and very little to do with technology", relying on the human tendency to trust others.[6] This can occur when people are manipulated into giving up entry keys, passwords or other entry data.

The continuing trend of business decentralisation and 'working from home' is also making cybersecurity processes less secure, with growing numbers of employees able to acquire or modify technology outside of the IT department's control. The supply chain remains a major cybersecurity risk. And with more businesses migrating to the cloud, securing cloud environments will be a top priority.

Ransomware attacks will continue to plague organisations. Attackers are becoming even more organised, with ransomware-as-a-service providing easy access to malicious tools. Attackers are increasingly using "living off the land" techniques, whereby hackers secretly install themselves inside infrastructure and lie low, so they can create massive future disruption if or when desired. Reporting incidents to regulators will be key, both to promote knowledge-sharing and to bolster the chances of asset recovery.

In 2025, more organisations will turn to insurance policies to mitigate the financial risks of cyber incidents. However, insurance companies are tightening their underwriting requirements. Businesses will have to demonstrate robust cybersecurity practices to qualify for coverage. Furthermore, major insurers have recently stated that cyber threats are "outpacing the ability of traditional insurance and risk management approaches to fully mitigate them".[7]

[5] epri.com/about/media-resources/press-release/q5vu86fr8tkxatfx8ihf1u48vw4r1dzf
[6] Nazo Moosa, Letter to the Financial Times, 8 November 2024.
[7] cybermagazine.com/articles/major-insurers-urge-state-support-to-secure-cyber-risk

Organisational culture: the underrated success factor

In the wake of problems at companies like Post Office and Boeing, organisations are increasingly highlighting the importance of business culture. Boards will seek to identify and embed the attitudes, values and behaviours that support the achievement of business objectives. In 2025, frameworks of governance and business ethics will be incorporated into business practices in a more explicit way. More than ever, businesses will see the value of developing and nurturing a pipeline of future leaders, and investing in their leadership skills. Employee wellbeing will be a priority.

Public scrutiny of business leaders will remain intense. Although most will never face the scrutiny of a parliamentary committee or a public inquiry, leadership conduct will continue to be dissected by social media and wider society.

Stakeholders look to leaders to live the organisation's values and define the business culture. Those who fail to demonstrate ethical conduct are exposing themselves and their organisations to risk. Organisations will need to be vigilant in monitoring their online reputation and rehearse crisis management plans – although the optimal approach is to do the right thing in the first place.

In 2025, businesses will be under pressure to build organisations that are more transparent and more authentic. Listening to consumers and stakeholders will be a priority, as companies seek to build a sense of trust and emotional connection. A business culture which engages employees, attracts customers and builds reputation will be a key success factor.

Post Office Sign, Image source: Getty Images

Spotlight on key UK policy areas

Based on the results of our regular Policy Voice surveys, we know that the IoD membership maintains a particular focus on several key areas of UK business policy: the economy; skills and training; employment law; sustainability and energy; international trade; corporate governance; and the devolved nations. In this section, Policy Team members take a closer look at recent developments in these areas and consider how things may evolve in 2025.

"Bank of England, Threadneedle Street, London, England", Public domain, via Wikimedia Commons.

UK economy

Anna Leach | anna.leach@iod.com

What happened in 2024?
The year was most definitely a year of two halves. After the UK experienced a mild recession in the second half of 2023, the first half of 2024 saw growth bounce-back, with the UK achieving the highest H1 growth rate in the G7 at 0.8%. Employment was stable and real earnings growth strengthened further as inflationary pressures continued to diminish and nominal earnings growth remained strong. Business confidence recovered too and at a swifter, if bumpier, pace than for consumers.

Economic growth was always expected to soften in the second half of the year as the post-recession bounce faded. But the extent of the deceleration took the Bank of England by surprise, causing them in December to revise their Q4 GDP expectation to zero from the 0.3% embedded in their November forecast. The apparent driver of this downside surprise was business confidence, which weakened rapidly from August. There was a brief spike in confidence in July as hopes were raised that a new government with a strong majority and a pro-business agenda would get an economy battered by covid, global conflict, impaired trade links and faltering public services back into shape. But these hopes were quickly dashed as the new government's persistently negative rhetoric, concerns over the Employment rights bill and media rumours over business-focussed tax increases drove businesses to put decisions on hold.

By December, the IoD's confidence indicator had fallen to close to the lows seen at the outset of the Covid pandemic. And growth expectations for the year as a whole had been pared back to only 0.9% according to the Treasury's comparison of independent forecasters[8], implying a marked deceleration in growth to only 0.3% over the second half of 2024.

Consumer price inflation continued to moderate over 2024, falling from 4.0% in December 2023 to a low of 1.7% in September 2024, before picking up again as energy prices ceased their fall. But there were only two reductions in interest rates over the course of 2024 as inflation proved stickier than hoped, with both wage growth and service sector inflation turning out stronger than expected, although both saw declines. Overall labour market tightness normalised over the year, with vacancies returning to pre-covid levels. But concerns over the quality of the UK's official labour market data intensified, with the Bank of England using the Mansion House speech as a further opportunity to lambast the ONS for failing to address weak survey response rates.

[8] HMT "Forecasts for the UK Economy: a comparison of independent forecasts", 18 December 2024

"Chancellor Rachel Reeves delivers the Autumn Budget 2024", Kirsty O'Connor / Treasury, OGL 3 via Wikimedia Commons.

What is likely to happen in 2025?
Growth in 2025 is likely to edge ahead at much the same pace as expected prior to the October Budget – around 1.3% according to the HMT comparison. The difference will be in the composition of growth. The profile for interest rates will be a bit higher than before because of higher government borrowing which will soften the ongoing improvement in consumer spending. Inflation will also be close to the upper end of the target range of 3% for much of the year as Budget measures (such as VAT on private school fees) directly raise inflation. Interest rates will still come down over the year by around 50 basis points, reducing borrowing costs for businesses and households.

There is a heightened risk of volatility in financial markets given the scale of government debt and borrowing globally. And the snuffing out of growth in the latter part of 2024 will leave the Chancellor with little fiscal room if any. The contrast between the private sector's expectations for growth of 1.3% and the OBR's 2.0% is substantial. There is a rising risk that the Chancellor will need to go either to markets or back to taxpayers for a top-up.

Private sector employment, wages and investment will all be impacted by the rise in employer NI, the higher-than-expected increase in the minimum wage and the further ratchet-up of employment costs from rising employment rights – government departments are of course compensated for the rise in NI – and on business investment. Firmer growth in public sector spending meanwhile will fill the gap left by the private sector, supporting overall employment, wages, and consumer spending.

Three quarters of IoD members are still planning to invest over the next year in areas such as technology and software, training and human capital and R&D. They are motivated inevitably by a need to increase efficiency as their costs push up again, but also by the development and launch of new products and opportunities for business expansion in particular.[9] But although the incentive to invest is heightened by heavy increases in employment costs, the quantum of investment will be hit by the impact on profits.

The outlook for trade is uncertain. Tariff threats loom large, and with the EU remaining the UK's biggest trade partner, if the EU economy is significantly hit by US tariffs, the UK will be caught in the cross-winds – both economically and politically. Meanwhile it's unclear how the Ukraine war and Middle Eastern conflicts will play out. This uncertainty and risk will incentivise businesses to prioritise supply chain resilience and market diversity.

Energy prices will be heading up again following the closure of the Russia-Ukraine pipeline and as production out of the North Sea continues to diminish. Much rides on the delivery of the Net Zero transition, with the big impediment to renewables joining the grid now planning obstacles. Planning reform and industrial strategy present strong opportunities for public and private funding to drive the energy transition.

December saw slight improvements across all the IoD's confidence and economic measures. The recovery in broader economic confidence has the initial appearance of a dead-cat bounce, but more deft handling by the government of its policy narrative could yet reinforce a stronger recovery in confidence in the near-term.

[9] iod.com/news/uk-economy/iod-press-release-business-leaders-remain-cautious-on-the-outlook-for-the-year-ahead/

Skills and training policy in England

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What happened in 2024?
The start of April saw the outgoing Conservative government begin covering 100% of apprenticeship training and assessment costs for young people aged 21 and under at SMEs (up from 95% previously). The government also increased the amount of unspent Apprenticeship Levy funds that Levy payers can transfer to other businesses, from 25% to 50%.

In July, the new Labour government paused the removal of funding from Level 3 qualifications that was set to take place on 31 July 2024 due to their overlap with T Levels. As a result of its subsequent 'rapid review' of Level 3 qualifications, it has since announced that it will continue funding 157 Level 3 qualifications – including some popular BTECs in engineering and computing – which had been set to be defunded. However, plans to defund 94 other qualifications will still go ahead.

In September, the government rolled out the second stage of its policy to provide 30 hours a week of free childcare for 38 weeks a year for eligible working parents of children aged nine months to three years. Eligible working parents of children aged between nine months and three years are now able to get up to 15 hours a week of free childcare for 38 weeks a year.

At the Labour Party conference in September, the Prime Minister announced changes to the apprenticeship system to 'rebalance' apprenticeships to focus more on younger people. Levy payers will no longer be able to fund most Level 7 (equivalent to master's degrees) apprenticeships via the Levy. Levy payers will, however, get the flexibility to fund shorter apprenticeships than at present. Starmer also announced the development of new foundation apprenticeships, which will offer training to young people who are not ready to start apprenticeships at Levels 2 or 3.

In October, the government introduced legislation to establish a new quango, Skills England, which aims to bring together business, training providers, and unions with national and local government to ensure that training accounts for the needs of the labour market. Skills England will be an executive agency within the Department for Education and will, among other responsibilities, decide on the non-apprenticeship courses on which Levy-paying employers will be able to spend some of their Levy funds.

Later in October, the government committed to delivering the Lifelong Learning Entitlement (LLE) but postponed its launch by one year. The LLE will launch in September 2026 for learners studying courses starting on or after January 1, 2027. The scheme will give all individuals up to the age of 60 access to student loans to cover tuition and maintenance for higher education courses and higher technical qualifications between levels 4 and 6.

In a bid to increase the number of employers offering T level placements, the government announced in December that students will now be able to complete up to 20% of their placement hours remotely, rather than having to do them from a physical workplace, with the allowance increased to 50% for Digital T Levels.

What is likely to happen in 2025?
2025 is likely to be a busy year for skills policy, with the new government seeking to implement its key manifesto policies.

From September 2025, eligible working parents with children aged between nine months and four years old will be able to get up to 30 hours of free childcare a week for 38 weeks a year.

The role of Skills England – including the part to be played by business – should become clearer. Once Skills England is in place, the government has pledged to reform the Apprenticeship Levy into a more flexible Growth and Skills Levy. Levy payers will have greater flexibility to spend some of their Levy funds on a list of approved non-apprenticeship courses, likely to be based on an analysis of areas of skills shortages in the UK.

The government is set to take forward its reform of the curriculum and assessment system, for which a call for evidence closed in November 2024.

Labour's manifesto also included a commitment to guarantee two weeks' worth of work experience for every young person, so the government is likely to begin consulting on the best way to implement this policy in 2025.

Image: "Prime Minister Keir Starmer holds his first press conference at 10 Downing Street", Simon Dawson / No 10 Downing Street, OGL 3 via Wikimedia Commons.

Employment law in England, Scotland, and Wales

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What happened in 2024?
2024 saw considerable change in employment law, with significant reforms coming into effect in April 2024. The new government began the process of implementing its Plan to Make Work Pay in the second half of the year.

In Spring 2024, various measures to reduce legal net migration to the UK came into effect, including an increase in the general salary threshold for Skilled Worker visas, from £26,200 to £38,700 (except for Health and Care visas), the removal of the 20% going rate salary discount for shortage occupations and the replacement of the Shortage Occupation List with a new Immigration Salary List, which retained a general threshold discount. The right of social care workers to bring dependents to the UK was removed.

In April 2024, the National Living wage rose from £10.42 to £11.44, and the age of eligibility was lowered from 23 to 21.

A number of employment law changes also came into effect on the 6th of April 2024:

- Employees became entitled to a week of flexible unpaid leave per year to care for a dependant with a long-term care need.
- The extension of redundancy protections relating to pregnancy, shared parental leave, and adoption leave to also include pregnant women and new parents who have recently returned from any period of maternity or adoption leave, or from a period of 6 or more weeks of shared parental leave.
- Employees gained the right to formally request flexible working arrangements from day one of employment.

A key component of Labour's manifesto was its Plan to Make Work Pay, which includes various employment law reforms which constitute the biggest shake up to workers' rights in a generation. As part of making the plan a reality, on the 10 of October the new government introduced the Employment Rights Bill into Parliament.

The Bill contains 28 different policies, including: introducing 'day one' rights to statutory sick pay, parental leave, and protection against unfair dismissal (alongside a probationary period); giving employees on zero hours contracts a right to a contract which reflect the hours they regularly work; making fire and rehire possible in only very limited circumstances; making it easier for trade unions to gain access to workplaces, secure statutory recognition, and take industrial action in the event of a dispute; and making Statutory Sick Pay available to all employees and from the first day of sickness.

The government also began the process of enacting other elements of the Plan to Make Work Pay through non-legislative means. This included expanding the remit of the Low Pay Commission to include the cost of living when setting National Living Wage rates and drafting a statutory Code of Practice on a Right to Switch Off.

As of 26 October 2024, a law passed by the previous government came into effect which places on employers a new duty to anticipate when sexual harassment may occur and take reasonable steps to prevent it. If an employee succeeds in a claim for sexual harassment, an Employment Tribunal will be required to consider whether the employer breached its duty to take reasonable steps to prevent sexual harassment and whether to uplift any award of compensation by up to 25%. As part of the new government's Plan to Make Work Pay, this duty is set to be strengthened further by requiring employers to take all reasonable steps to prevent sexual harassment.

What is likely to happen in 2025?
The Employment Rights Bill is expected to complete its passage through Parliament in 2025, although most measures in the Bill will not come into force until 2026. The government is also expected to launch a number of consultations on the finer details of implementing the Bill, such as the right to guaranteed hours and trade union reform.

Other elements of the government's Plan to Make Work Pay will be delivered through the Equality (Race and Disability) Bill, with a draft Bill to be published during this parliamentary session for pre-legislative scrutiny. The Bill will extend pay gap reporting to ethnicity and disability for employers with more than 250 staff, extend equal pay rights to protect workers suffering discrimination on the basis of race or disability, introduce measures to prevent employers outsourcing services to avoid paying equal pay, and implement a regulatory and enforcement unit for equal pay.

The government will also take further steps to implement other elements of its Plan to Make Work Pay through non-legislative mechanisms. A call for evidence on tightening the ban on unpaid internships and the draft Code of Practice on a Right to Switch Off are both expected to be published in early 2025. The government may also take steps to implement its commitments to review the parental leave system, health and safety guidance and regulations, workplace surveillance technologies, paid carers' leave, and TUPE regulations.

From 1 April 2025, the National Living Wage (21 and over) will increase by 6.7% to £12.21 per hour. The 18–20-year-old rate will increase by 16.3% to £10, and the 16-17-year-old rate will increase by 18% to £7.55. The increase in the 18–20-year-old rate narrows the gap between that and the National Living Wage, in anticipation of the adult rate being extended to 18-year-olds in future years.

Sustainability and energy

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What happened in 2024?
In July 2024, the new Labour government introduced a Bill to Parliament to set up Great British Energy, a state-owned energy company with a remit to drive investment in clean home-grown energy and help cut emissions from electricity generation to net zero by 2030. GB Energy will be backed by £8.3 billion in government funding over this Parliament. With this money, the government plans to invest in fledgling clean-energy technologies such as floating offshore wind farms or tidal power, in order to make them competitive with more mature technologies like onshore wind. It also aims to help get newer technologies such as carbon capture and hydrogen off the ground.

In October, the government confirmed that a UK Carbon Border Adjustment Mechanism (CBAM) will come into effect from 1 January 2027. The UK CBAM will place a carbon price on aluminium, cement, fertiliser, hydrogen and iron and steel products imported into the UK. The EU version of the CBAM is already in force and is currently in its transitional phase, ahead of a definitive regime being implemented from 2026.

In November, the government signed contracts for the first carbon capture, usage, and storage (CCUS) projects in the UK. The East Coast Cluster in Teesside – a project which aims to capture and store carbon emissions from industries in the region – is set to start construction in mid-2025. This follows the government's £21.7 billion funding commitment for CCUS in the UK in October.

In December, the government announced its Clean Power 2030 Plan, setting out how it intends to meet its commitment for 95% (down from 100% previously) of Britain's electricity generation to be 'clean' by 2030. Measures include reforming the system for connecting new projects to the national grid, speeding up decisions on planning permission by empowering planners to prioritise critical energy infrastructure, and expanding the renewable auction process to allow funding to be secured before planning permission.

As of the 19 December 2024, small businesses became eligible to access the Energy Ombudsman's Alternative Dispute Resolution scheme. Previously, only domestic and microbusiness consumers could access the scheme. This means that larger small businesses can now get free support to resolve disputes with their energy supplier and have another path to redress aside from lodging complaints with a court of law.

What is likely to happen in 2025?
The government consultation on whether to implement a UK green taxonomy to support investment into activities aligned with sustainability goals will close in February 2025, with the government likely to publish a response detailing its decision later in the year.

In February, the UK (along with other countries) will submit a new round of "nationally determined contributions", or climate plans for up to 2035 to the UN. In July of last year, the Climate Change Committee warned the government that the UK was off track for meeting its 2030 emissions target, and needed to develop more credible plans.

In May 2025, the final report of the Willow Review will be published. This government-backed, independent review was launched in November 2024 and aims to identify the financial case for sustainability and offer recommendations for the government, industry, and policymakers to support SMEs in adopting sustainability strategies.

Ahead of the introduction of the UK's CBAM in 2027, the government has committed to publishing draft primary and secondary legislation ahead of introducing it to Parliament; this legislation is likely to be announced and potentially even published in 2025.

"President Donald Trump and Vice President Mike Pence" (cropped), United States Federal Government, Public domain, via Wikimedia Commons.

International trade policy

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What happened in 2024?
The international trading landscape felt increasingly unstable in 2024 as a result of continuing geopolitical tensions and global economic challenges. The election of President Donald Trump renewed fears of a Sino-US trade war, and prompted more trade and supply chain diversification as UK businesses reoriented exports away from both China and the US. Meanwhile the threat of blanket tariffs on US imports added to concerns about the global economy and the prospect of reduced overall trade opportunities.

Amidst this backdrop, UK traders felt increasingly exposed. While the UK may not necessarily be a primary target for Trump's tariffs, as it does not trade at a surplus with the US, there is concern that the ripple effects of greater protectionism in the wider world will impact the UK. There is still a way to go in the push for a reset of relations with the EU. The UK's special relationship with the US might not be valued as much under a Trump presidency. And despite efforts to reignite open trade talks with China, recent UK actions could pose a barrier to a rekindled Sino-UK relationship; for example, allowing safe passage to Hong Kong citizens to settle in the UK, and signing the AUKUS pact with Australia and the US, a security mitigation agreement against China.

On 15 December 2024, the UK acceded to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), a free trading bloc of 12 nations. CPTPP might not add huge economic gains to the UK – it is projected to only increase UK GDP by 0.08%. But it's strategic position on China's periphery, and growing membership of emerging markets with significant demand for UK services could boost the value of the Brand UK.

The Labour Party's international trade agenda has not so far differed too much from that of the Conservative government. The government is still pursuing free trade agreements with new markets. Efforts are being made to boost UK exports abroad through trade promotion activities. One of the most notable changes, however, is an attempt to interweave trade policy with industrial and foreign strategy. In principle, this is a positive development. But with the government's trade strategy on course for publication in early Spring 2025, and a separate consultation underway on industrial strategy, the detail of how the plans will come together is somewhat lacking thus far.

Trade was not a prominent feature of the Chancellor's Autumn Budget. But there were a few crumbs to welcome. For instance, UK Export Finance was enabled to provide financial support to UK companies supplying critical minerals to UK exporters in high growth sectors. There were also packages of support for inward investment, trade promotion overseas and policy support for trade negotiations.

However, business was disappointed at the government's decision to pause the roll out of the Single Trade Window designed to streamline border processes through an online platform, which could have removed numerous barriers to trade facilitation.

What will happen in 2025?
The biggest disruptor to the global trading environment in 2025 will be the change of political leadership in the United States. With numerous global markets preparing for a swathe of tariffs and bracing for the impact of a trade war between the US and China, there may be a greater reorientation of trade flows to avoid restrictions and make supply chains more resilient.

The UK government will publish its trade strategy in the Spring, and will continue efforts to reset the relationship with the EU. However, the economic growth prospects and political leadership of the EU is itself under question, with its top two economies, France and Germany, facing a further year of political uncertainty.

The Prime Minister has maintained that the UK does not need to choose between its relationship with the EU and the US, and there remains a desire to build a pragmatic trading relationship with China. But it remains unclear as to whether it is realistically possible for the UK to avoid tough geopolitical choices in a world of increasing polarisation.

Corporate governance policy

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What happened in 2024?
In January, the Financial Reporting Council published a revised version of the UK Corporate Governance Code. The main changes related to audit, risk management and internal control. The Code applies to listed companies in the commercial companies or closed-ended investment funds categories on the London Stock Exchange, although many other organisations choose to benchmark themselves against it.

In March, the Football Governance Bill was introduced in the House of Commons. It reflects the findings of a fan-led review, which said a regulator was necessary for the long-term financial stability of the men's professional game. In July, the new Labour government confirmed that it would proceed with the legislation, which will relate to the top five tiers of men's football in England. The new regulator will have the ability to fine clubs up to 10 per cent of turnover for non-compliance.

The exodus from the London Stock market accelerated in 2024, with 88 companies delisting or transferring their primary listings from London, and just 18 taking their place. In an effort to turn things around, new UK Listing Rules were introduced in July. Prospectus rules were also lightened. The aim is to create a less prescriptive, more disclosure-based regime which will place London on a more competitive footing with other major listing venues. The new framework merges the premium and standard listing segments into a single category; eliminates the three-year track record requirement for an IPO; facilitates the adoption of dual classes of shares; and dispenses with the need for a shareholder vote or circular for significant or related-party transactions.

In July, the new Labour government announced that it would introduce a draft Bill to take forward the audit and corporate governance reforms that had stalled under the previous Conservative administration. The new law will likely abolish the Financial Reporting Council (FRC) and replace it with a new accounting watchdog: the Audit, Reporting and Governance Authority (ARGA). The new regulator is intended to have stronger powers to take action against directors who fail to publish accurate accounts.

In October, the IoD launched its new voluntary Code of Conduct for Directors. Developed by an expert commission under the chairmanship of Lord McNicol, the Code offers a roadmap that helps directors make better decisions for themselves and their organisations. The Code was welcomed by the UK government's Minister for Employment Rights, Competition and Markets, Justin Madders MP, at its launch event on 23 October.

"Justin Madders MP, at the IoD Code of Conduct launch", Nutkins UK, 23 October 2024.

What is likely to happen in 2025?
Although the government has affirmed its commitment to a draft Bill on corporate governance and audit reform, there remains uncertainty about the specific measures to be adopted and whether it will be a legislative priority. Early in the year, the government may launch a new consultation process aimed at gathering views on whether to proceed with the previous proposals or alternatively move in a different direction.

In 2025, Shein, the China-founded ecommerce and fast fashion group, may finally list on the London Stock Exchange. Shein's connections to China have scuppered previous plans to go public in New York. The company also attracts controversy from an ESG perspective. Although the Financial Conduct Authority has yet to say whether it would approve a listing in London, and sign-off has not yet been received from the Chinese authorities, a listing would provide a welcome boost to the UK's flagging equity market.

UK regulators are likely to offer a clearer steer on the acceptability of rising ownership of UK audit firms by private equity, as is common in the United States. In principle, professional services firms can be majority-owned by buyout firms as long as the audit business is ring-fenced and controlled by partners. Proponents argue that private equity involvement would provide audit firms with greater access to capital, enabling them to invest in technology, and facilitate the consolidation of smaller firms into more viable challengers to the Big 4. However, critics claim that the PE ownership model might have negative consequences for audit quality and the public interest. Regulators appear open to the idea of more PE involvement, although guardrails to maintain professional independence will remain essential.

Devolved nations

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What happened in 2024

A key moment for Scotland occurred in May, when John Swinney replaced Humza Yousaf as First Minister. This transfer of power also resulted in the end of the Bute House agreement, which had defined a coalition between the Scottish National Party and the Scottish Green Party. Another milestone was the announcement, in September, that Aberdeen would be the home of the new state-owned energy company, GB Energy.

In December, the Scottish budget was delivered by Finance Secretary Shona Robison. There were no big changes to income tax. UK Chancellor Rachel Reeves' record funding settlement for Scotland allowed more to be spent on higher benefit payments, the NHS and housing. The most prominent announcement concerned the SNP government's decision to scrap or mitigate the two-child benefits cap imposed by the previous UK government. Scotland has a slightly different system of "non-domestic rates" compared to England, however Robison said there would be a similar 40% relief for the vast majority of hospitality premises.

After a 24-month hiatus, the devolved power-sharing government in Northern Ireland was finally restored. In February, Michelle O'Neill (representing Sinn Féin) became First Minister and Emma Little-Pengelly (from the DUP) took over as Deputy First Minister. As in the rest of the UK, employment law reforms dominated NI policy discussions in the second half of 2024. However, employment law is a devolved matter, and the discussion in Northern Ireland took place in the context of the "Good Jobs Bill" proposed by Economy Minister Conor Murphy.

In December, Stormont voted to keep in place key parts of the Windsor framework governing post-Brexit trade for Northern Ireland. However, during the same month, unionist legislators pulled the so-called "Stormont Brake" for the first time. This is a mechanism that allows the assembly to lodge objections to the automatic application of updated EU legislation. In this case, legislators objected to new EU rules requiring new fonts and spacing on labels for chemical products, which they argued would damage the trade in chemical products between Britain and Northern Ireland.

Political instability was rife in Wales during 2024, with three people serving as First Minister. Mark Drakeford had already announced his departure in December 2023. Following a leadership contest in March, Vaughan Gething made history when he became Wales's first black leader. However, after a chaotic few months, he was forced to quit and was replaced in August by Eluned Morgan, who wrote herself into the history books as her nation's first female leader.

An issue which dominated a lot of the political discourse in Wales during 2024 was the 20mph speed limit, which was introduced for built-up areas in September 2023. Following public protests, the Welsh Transport Secretary announced in September that the government had "listened" and decided that some roads will revert to 30mph.

"Speaking at the Barclays Campus in Glasgow's financial district, First Minister John Swinney", Scottish Government, CC BY 2.0 via Wikimedia Commons.

What is likely to happen in 2025

In Scotland, 2025 will see a surge in political campaigning ahead of the 2026 Holyrood elections. Since the UK General Election, Scottish Labour support has fallen away in opinion polls and, whilst the SNP started 2024 in a difficult place, it appears to be building back momentum. A poll at the end of December found that 54% of voters supported Scottish independence, the highest level in four years.

Maintaining political stability will be at the forefront of the agenda for Northern Ireland. In five of the last eight years, devolved government has failed due to disagreements over Brexit-related trading concerns. The NI business community will be eager to ensure that a similar fate does not befall the current administration. One to watch in 2025 will be the findings of Lord Murphy who is to carry out an independent review into how the Windsor Framework is operating and will report back within six months.

An early challenge will be how the UK government responds to the recent activation of the Stormont brake. This may well be the first of many challenges to the application of EU legislation. More EU regulations will arrive in 2025, including the EU's General Product Safety Regulations, which came into effect in December 2024, and new arrangements for parcels which are due to be introduced in March. It also remains to be resolved how health and safety rules for agrifood, as well as the EU's Carbon Border Adjustment Mechanism, will be applied. Navigating a position on the application of EU regulation which satisfies both sides of the political divide, as well as the European Commission, will be a difficult balancing act.

The draft Welsh Budget for 2025/26 was published in December 2024, but has not yet been approved. Following the UK Budget settlement in October, the Welsh government has an extra £1.5 billion to spend. Most of that will go towards improving the NHS, although business rate relief at 40% for the retail, hospitality and leisure sectors will be provided for another year. Welsh Labour lacks a majority in the Senedd, and it will need support from other parties to get the Budget approved in early March.

The Senedd Election of 2026 is coming closer into focus. Electoral reform was finalised in 2024, and Wales will now send 96 politicians to the Welsh Parliament - 36 more than at present - with a new proportional voting system that will have fewer and larger constituencies. The new system could assist both Plaid Cymru and Reform UK in gaining a bigger share of legislative seats.

"Y Siambr photographed from the public viewing gallery", Mx. Granger, CC0, via Wikimedia Commons.

Important dates for 2025

January

United States: Donald Trump becomes the 47th President at a ceremony in Washington DC on 20 January.

Switzerland: Five-day gathering of global political and business leaders in Davos from 20 January. The theme of this year's event is Collaboration for the Intelligent Age.

China: The Year of the Wood Snake begins on 29 January. In Chinese culture, the snake symbolises wisdom and agility while wood stands for growth, flexibility and tolerance.

UK: Fifth anniversary of Britain leaving the EU on 31 January. Safety and security declarations for EU imports to Great Britain come into force. VAT introduced for private school fees.

February

Germany: General election on 23 February.

UK: National Apprenticeship Week: 10-16 February.

March

UK: Energy regulator Ofgem introduces a new common minimum capital requirement for domestic suppliers on 31 March to make them more resilient to any sudden changes in market conditions.

International Women's Day: 8 March.

April

UK: Increases in Employers' National Insurance and National Living Wage take effect.

May

UK: England holds local elections on 1 May.

Australia: Australian federal election must take place by 17 May.

June

UK: Sale of disposable vapes banned from 1 June.

July

UK: Train passenger services between London and Essex return to public ownership as part of the government's plan to renationalise the rail network.

August

England: 2025 Women's Rugby World Cup, 22 August-27 September.

September

UK: Defence and Security Equipment International- the world's largest biennial defence and security exhibition - runs at London's Excel Centre from 9-12 September.

October

UK: Restrictions on the advertising and marketing of junk food come into force on 1 October.

UK: Labour Party Conference, Liverpool, 28 September-1 October.

UK: Conservative Party Conference, Manchester, 5-8 October.

Canada: Federal elections must take place by 20 October.

November

South Africa: G20 Leaders' Summit, attended by heads of government from the 19 leading industrialised nations plus the EU and African Union, held in Johannesburg from 22-23 November.

Qatar: The 2025 FIFA World Cup takes place from 21 November to 18 December.

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With thanks to **Maria Doumpa**, **Sasha Trapani** and **Hugo Legh**.

For further information about the IoD Policy Team, visit us at iod.com
All information is correct as of 31 December 2024.

The Institute of Directors is a non-party political organisation, founded in 1903, with approximately 20,000 members. Membership includes directors from right across the business spectrum, from media to manufacturing, professional services to the public and voluntary sectors. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies.

The IoD was granted a Royal Charter in 1906, instructing it to "represent the interests of members and of the business community to government and in the public arena, and to encourage and foster a climate favourable to entrepreneurial activity and wealth creation." The Charter also tasks the Institute with promoting "for the public benefit high levels of skill, knowledge, professional competence and integrity on the part of directors", which the IoD seeks to achieve through itstraining courses and publications on corporate governance.

For information on how to join the IoD's thriving membership community, visit our website iod.com.

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