IoD POLICY PAPER

Annual Policy Review

Welcome to the IoD Policy Team's review of the key business policy developments of 2023… and our reflections on some of the 'high impact' risks facing UK business in 2024.

January 2024

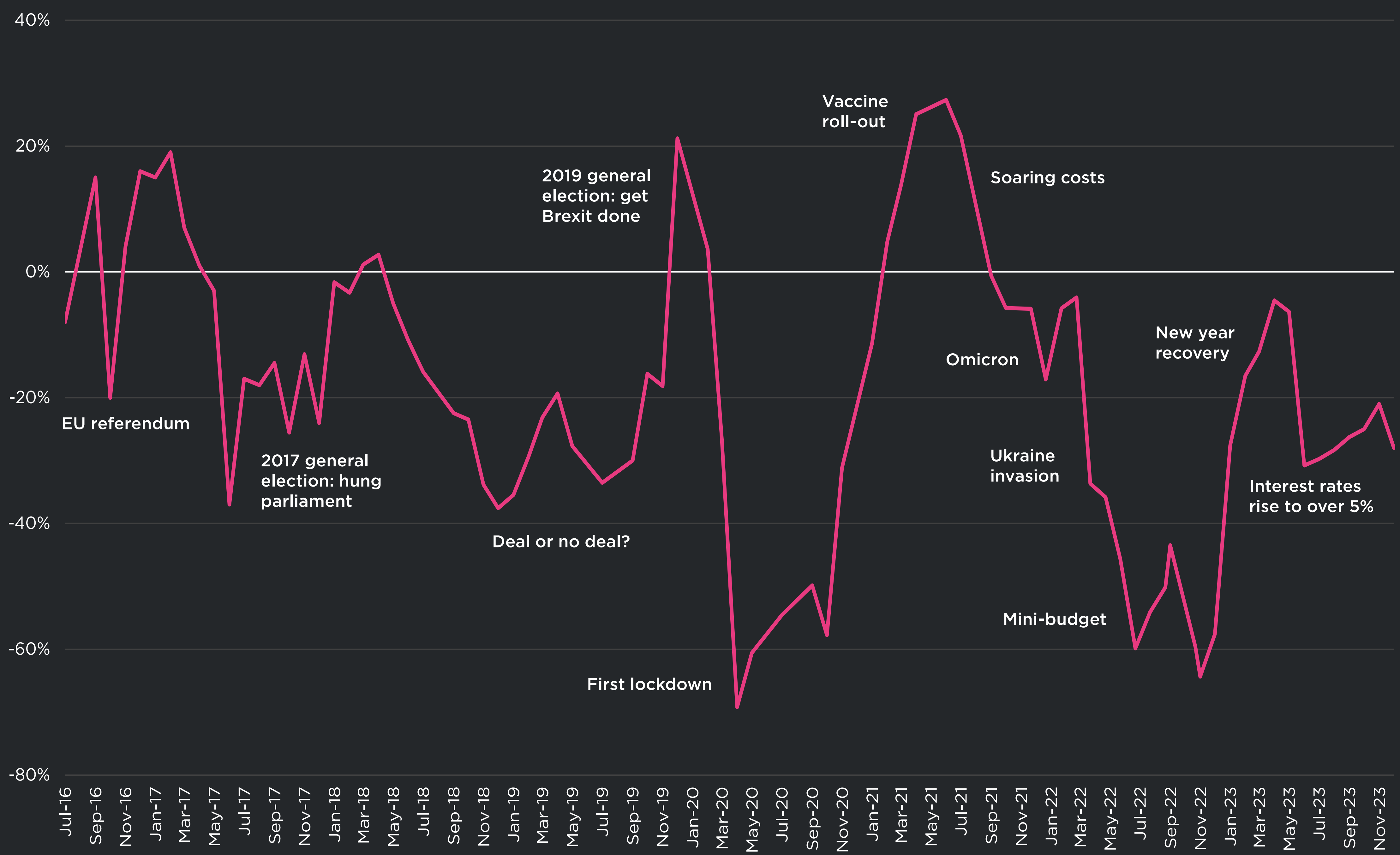
Taking stock of 2023

2023 did not feel like a good year for UK business, although it turned out better than many were expecting at the start of the year.

Business confidence, as measured by the IoD's Directors' Economic Confidence Index, started to improve in the first half of the year – albeit from low negative levels. But it fell back in June after it became clear that inflation was not declining as rapidly as hoped, and that higher interest rates would persist for longer. Over the year as a whole, the economy went sideways, although a recession was probably avoided[1].

Prime Minister Rishi Sunak restored some political stability in the first half of the year – after the tumultuous experience of Liz Truss's short-lived premiership. However, as the year progressed, political divisions in the governing Conservative Party reasserted themselves, reflecting growing pessimism about the Party's electoral prospects and long-standing political fault lines.

How optimistic are you about the wider UK economy over the next 12 months?
(5-point scale from very optimistic to very pessimistic, net positive %. Latest datapoint: December 2023)



IoD Directors Economic Confidence Index (-100 to +100)

1 In November 2023, the Office for Budget Responsibility predicted that UK GDP would increase by 0.6% in 2023, although finalised figures will only be published in mid-February 2024. However, according to PwC, Scotland and some regions of England (e.g. the Midlands and the North-East) will only experience growth of around 0.2-0.3%. The outcome for Wales and Northern Ireland is likely to be more in line with that of the UK as a whole.

From the perspective of IoD members, 2023 was marked by some positive policy developments. In February, the negotiation of the Windsor Framework improved the UK's fractious relationship with the EU. However, although the agreement reduced the frictions associated with GB-NI trade, it failed to galvanise the re-establishment of devolved government in Northern Ireland, which has now been absent for two years.

In July 2023, the UK formally agreed to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a trade bloc made up of 11 other countries in the Asia-Pacific region. The deal was seen as a long-term positive for business, although the UK already has free trade agreements with nine of the 11 countries, and therefore immediate economic benefits are likely to be small.

The Spring Budget on 15 March was described as a "Budget for Growth" by the Chancellor, Jeremy Hunt. To encourage business investment, the Treasury introduced "full expensing" into the UK's capital allowances regime. Since 1 April, businesses have been able to deduct 100% of qualifying plant and machinery investment spending immediately when calculating taxable profits. Although initially only introduced for three years, the IoD advocated for its adoption as a permanent investment incentive. This was confirmed by the Chancellor in the Autumn Statement on 22 November.

Another positive development occurred in May, when the government scaled back its Retained EU Law (Revocation and Reform) legislation. This Bill was intended to bring about a wholesale revocation of EU-derived legislation by the end of 2023. The IoD argued that such a step would create significant business uncertainty and give insufficient time for business and other stakeholders to be properly consulted on the changes. The government listened to these concerns. Instead of generically sunsetting all EU-derived legislation, the Act now only revokes a much more limited list of legislative items.

As the year wore on, policy moved in some unexpected directions. In September, the government weakened its green transition plans by pushing back the deadline for banning the sale of new petrol and diesel cars (from 2030 to 2035). At the same time, it delayed the phase-out of new gas boiler installations (which had been planned for 2035). It also confirmed plans to grant new North Sea oil and gas licences. Although business views on these measures varied, many argued that they created uncertainty around the government's strategy for the achievement of net zero.

In his speech to the Conservative Party Conference in September, Prime Minister Rishi Sunak unexpectedly cancelled the extension of the HS2 rail project north of Birmingham – in the face of escalating costs and delays. Again, although IoD members have mixed feelings about the economic benefits of HS2, the apparent inability of government to follow through on a long-standing infrastructure commitment was a source of concern.

Political controversy also surrounded the announcement, in early December, of a package designed to reduce the number of legal migrants coming to the UK. The measures included substantial increases in the minimum salary requirements needed to obtain a skilled worker visa. The IoD voiced the concerns of its members regarding the difficulties this would create for firms seeking to recruit skilled staff in a tight labour market.

2023 was the year that artificial intelligence burst into the public consciousness. The UK played a leading role by hosting the world's first AI Safety Summit at Bletchley Park in November. However, the UK has no plans to regulate the use of AI in the short-term – in contrast to significant steps being taken in other major jurisdictions such as the US and the EU.

One of the key missions of the IoD is to provide a voice to its members vis-à-vis policy makers. In 2023, we sought to influence government on a range of issues, and achieved some notable successes.

Although we cannot claim that the IoD was the sole (or even the most important) voice driving each of these 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.

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Policy wins

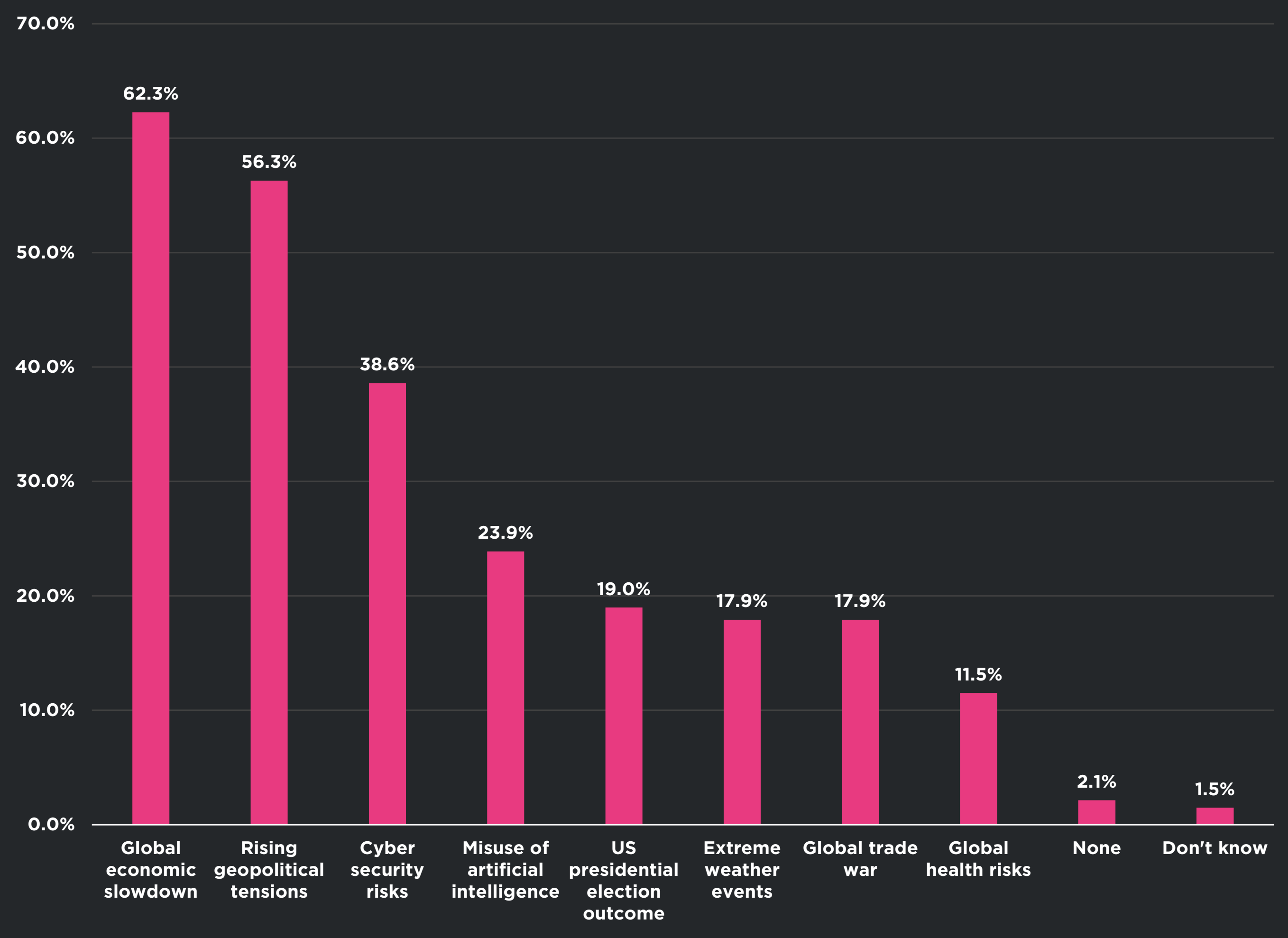
Policy makers adopt proposals being advocated by the IoD.

1. Energy Bills Discount Scheme | January 2023
2. Dormant Assets Scheme to fund social investment | September 2023
3. 100% capital expensing | Budget 2023
4. Up to 30 hours of free childcare for 1-2 year olds | Budget 2023
5. Government removes Equivalent or Lower Qualification rules for the Lifelong Loan Entitlement | March 2023
6. Government decides not to proceed with a proposal to ask employers to classify the occupations of all staff | May 2023
7. Government U-turns on Retained EU Law (Revocation and Reform) Act 2023 | May 2023
8. Large improvements in HMRC regulations to collect data from businesses in 2023-24 Finance Act, for example dropping the proposal to require employee SOC codes to be reported | July 2023
9. Proposal to have a minimum threshold for R&D tax credits dropped | March 2023
10. The government commits to streamline working time regulations, annual leave and holiday pay calculations and consultation requirements under TUPE regulations | November 2023
11. Full expensing made permanent | Autumn Statement
12. Various proposed new requirements dropped from the UK Corporate Governance Code by the FRC, including those relating to audit committees and overboarding disclosures | December 2023
13. The government and OFGEM agree to give more SMEs access to free redress against energy companies via the Energy Ombudsmen scheme | December 2023

Key risks for business in 2024

In November 2023, we asked IoD members to identify the ‘high impact’ global risks which most concerned them for the year ahead. In this section, we drill down into the detail underlying some of these concerns and consider how they could play out.

Which of the following global risks are the most concerning for your business in 2024?



Results of IoD Policy Voice survey, conducted between 14-29 November 2023, 480 responses.

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1 Political uncertainty in a year of elections

2024 will be the first time that more than half of the world's population is going to the polls in a single year. Not all of these elections will be free and fair. However, the outcome of many of them will have significant implications for the business environment.

The US will be voting for its next President on 5 November. Donald Trump has a material chance of winning – despite being beset by significant legal problems. In contrast, Joe Biden is struggling to gain voter approval despite the buoyancy of the US economy under his watch. A second Trump presidency could have significant implications for the US's approach to climate policy and support for Ukraine.

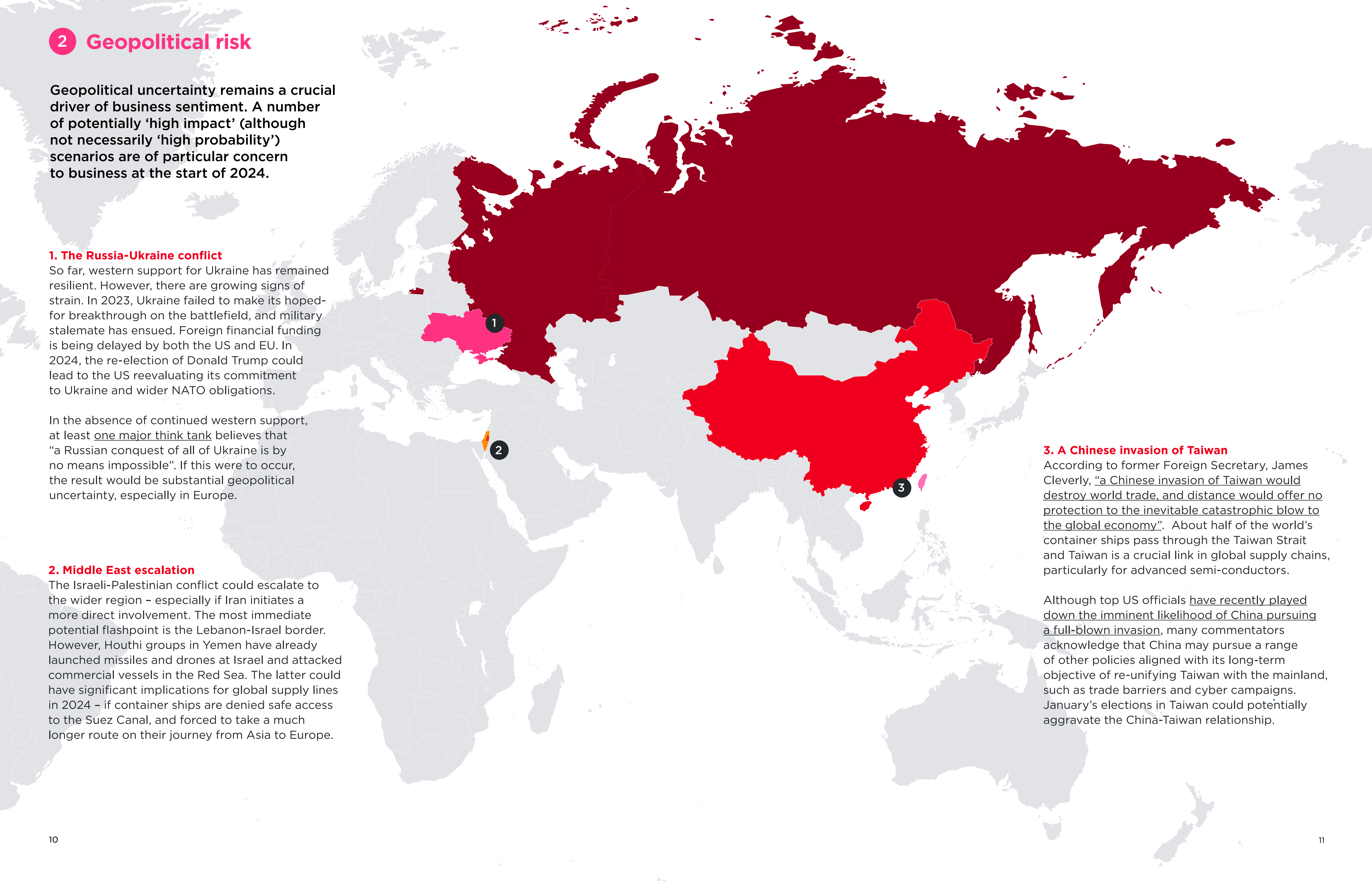
The date of the UK General Election has yet to be determined. The decision is at the discretion of the Prime Minister, Rishi Sunak. In theory, the election could take place as late as January 2025, although Sunak has recently indicated that it is most likely to happen in the second half of 2024.

Although Labour's lead over the Conservatives in the opinion polls declined at the end of 2023, it enters 2024 as the electoral favourite. The extent to which a change of government in the UK will have implications for business policy is uncertain, and forthcoming election manifestoes will be a key source of insight. However, an underlying reality is that a future administration will be hemmed in by the same fiscal constraints as the current one – unless the UK's growth engine can be re-ignited.

The world's largest democracy and fifth largest economy, India, goes to the polls in either April or May. The current Prime Minister, Narendra Modi, has a 76% approval rating and his BJP Party seems the most likely electoral winner. Other major countries going to the polls in 2024 include Mexico, South Africa, Taiwan, Indonesia, Russia, Iran and Pakistan.

2 Geopolitical risk

Geopolitical uncertainty remains a crucial driver of business sentiment. A number of potentially 'high impact' (although not necessarily 'high probability') scenarios are of particular concern to business at the start of 2024.



1. The Russia-Ukraine conflict

So far, western support for Ukraine has remained resilient. However, there are growing signs of strain. In 2023, Ukraine failed to make its hoped-for breakthrough on the battlefield, and military stalemate has ensued. Foreign financial funding is being delayed by both the US and EU. In 2024, the re-election of Donald Trump could lead to the US reevaluating its commitment to Ukraine and wider NATO obligations.

In the absence of continued western support, at least one major think tank believes that "a Russian conquest of all of Ukraine is by no means impossible". If this were to occur, the result would be substantial geopolitical uncertainty, especially in Europe.

2. Middle East escalation

The Israeli-Palestinian conflict could escalate to the wider region – especially if Iran initiates a more direct involvement. The most immediate potential flashpoint is the Lebanon-Israel border. However, Houthi groups in Yemen have already launched missiles and drones at Israel and attacked commercial vessels in the Red Sea. The latter could have significant implications for global supply lines in 2024 – if container ships are denied safe access to the Suez Canal, and forced to take a much longer route on their journey from Asia to Europe.

3. A Chinese invasion of Taiwan

According to former Foreign Secretary, James Cleverly, "a Chinese invasion of Taiwan would destroy world trade, and distance would offer no protection to the inevitable catastrophic blow to the global economy". About half of the world's container ships pass through the Taiwan Strait and Taiwan is a crucial link in global supply chains, particularly for advanced semi-conductors.

Although top US officials have recently played down the imminent likelihood of China pursuing a full-blown invasion, many commentators acknowledge that China may pursue a range of other policies aligned with its long-term objective of re-unifying Taiwan with the mainland, such as trade barriers and cyber campaigns. January's elections in Taiwan could potentially aggravate the China-Taiwan relationship.

3 Global economic slowdown

In 2023, the global economy was buoyed by the resilience of the US economy (which grew by around 3%). Elsewhere, Europe stagnated and the Chinese economic rebound from Covid lockdown was more muted that expected.

In 2024, there is a risk that Chinese economic growth will weaken further due to structural problems in its property sector and subdued consumer and investment demand. In addition, a slowdown may mean that Chinese companies and banks have fewer resources to invest in overseas infrastructure projects, as they have done in recent years.

The capacity of the US to underpin global economic growth may also come into question. The accumulated savings of US consumers built up during the pandemic have now been largely exhausted. However, on the upside, US fiscal policy continues to be expansionary and US interest rates are likely to start declining sooner than elsewhere – as US inflation has now declined to around 3%, and is likely to fall further in 2024.

4 Fracturing global trade

A recent World Trade Organization report noted the emergence of “a more fragmented world dominated by regional trade blocs”. The continuation of these trends in 2024 could reduce the ability of trade to contribute to global growth.

In 2023, the Biden administration continued the policies of his predecessor aimed at decoupling the US economy from China – both through trade restrictions and the subsidy of “made in America” manufacturing capacity (although the latter has been framed in terms of advancing the green agenda).

There has been a noticeable shift amongst western companies towards “friend-shoring” goods from nations that are geographically closer or more politically aligned.

However, the WTO also argues that further de-globalisation in 2024 is not inevitable. It notes that trade in digital services and environmental goods is continuing to grow, and that global value chains show no signs of shrinking (although they are being redirected in an attempt to manage geopolitical risk).

5 Green backlash

A backlash against green policies has been emerging in recent years, especially in the US. A crucial moment in 2024 will be the publication of the SEC's final climate disclosures rules for US companies, which are expected to appear in April. Significant opposition has been growing with regard to the inclusion of scope 3 emissions in these rules. Even if they are included, opponents are likely to seek to overturn them both in the courts and in Congress.

The election of Donald Trump would bring into question the US's wider involvement in global efforts to address climate change – and he could choose, once again, to withdraw the US from the Paris Agreement.

European nations are generally more positive about the green transition. However, a growing perception amongst ordinary voters that the process will be disruptive or costly to them personally could motivate a pull-back from climate change policies. Such political responses were observed in Sweden, Germany and the UK in 2023, and could accelerate further in 2024.

The election of a Labour government in the UK could see the reinstatement of the 2030 ban for petrol and diesel vehicles. Labour also wants to spend £28 billion per year on green investment as part of its green prosperity plan. However, it is far from clear as to whether it will it inherit the fiscal headroom to be able to deliver that goal.

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6 AI hype meets reality

In a recent IoD podcast, the emergence of AI is described in terms of The Gartner Hype Cycle – a lifecycle model of the adoption of new technologies. According to this approach, any new technology moves through five phases of development. Only when it reaches the final stage – 'The Plateau of Productivity' – does mainstream adoption take off. However, before then, it typically passes through phases of inflated expectations, subsequent disillusionment and further, less high-profile development.

2023 may have been the year of inflated expectations for AI, and there is the risk that these expectations become deflated in 2024. Business may conclude that the technology requires further years of refinement before it makes a meaningful impact on mainstream companies.

However, an upside risk is that AI adoption may evolve more rapidly than some of its antecedents. Compared to previous technology transitions, AI applications do not typically require major investment in expensive new hardware – they can often be embedded into existing software. It is often viable for businesses to run low-cost experiments to determine if AI is commercially feasible. The risk of adoption is therefore reduced.

The scope for AI to boost business performance in areas like customer operations, marketing and sales, software engineering and R&D is substantial – and it may be particularly game changing for SMEs.

7 Cybersecurity threats

Cyber risk looms large in the concerns of IoD members, and 2024 is unlikely to see this abating. In a year of global elections, the threat of cyber interference in electoral processes is substantial. And we could see politically motivated disinformation campaigns taking place.

AI featured in a relatively small proportion of reported cyber incidents in 2023, but this may change in 2024. By using generative AI, attackers can develop malicious content that looks more authentic – making it harder to detect phishing emails and messages.

According to many experts, ransomware attacks may increasingly target SMEs and third sector organisations in 2024, given the less sophisticated nature of their cyber defences. Supply chains will also be prominent targets for bad actors, as they represent a soft underbelly that can be used to gain access to the data and systems of larger companies.

Spotlight on key 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 business policy: the economy; skills and employment; sustainability; international trade; and corporate governance. In this section we take a closer look at each of them.

1 UK economy

What happened in 2023?

The most significant economic development of 2023 was the sharp decline in the rate of headline CPI inflation, which fell from 10.1% in January to 3.9% in November.

The Bank of England spent the first half of the year attempting to bring about this outcome. After ratcheting up the Bank rate to 5.25% in August, further interest rate increases have now been placed on hold – reflecting the much-improved inflationary outlook and growing concerns about weak economic growth.

Across the year, UK economic activity went broadly sideways. Although hardly a towering achievement, this was a better outcome than many economists were expecting at the start of the year. Energy and cost of living support from government helped sustain consumer and business demand, despite the headwinds of declining real incomes and higher interest rates (although many fixed rate mortgage holders were not immediately affected by these increases).

The economy was also supported by consistently low rates of unemployment. At the end of the year there were still around 950k job vacancies (down from 1.15 million in January), reflecting a continuing tight labour market.

What is likely to happen in 2024?

Given that inflation is likely to continue falling, it is probable that interest rates will decline in 2024, although the timing is uncertain.

The Bank of England will be less eager to reduce rates than its counterparts at the Federal Reserve and European Central Bank due to concerns about UK wage inflation. Our guess is that Bank rate will start to come down during the Summer, and – in the absence of any unforeseen energy or supply shocks – approach 4% by the end of the year.

2024 will be a better year for employee living standards, with wage growth comfortably exceeding inflation. As a result, aggregate consumer demand could be stronger than some economists are expecting.

Despite the lack of fiscal headroom, the UK government may also be tempted to make further cuts in personal taxation during the Spring Budget on 6 March. Taken together with the reductions in national insurance announced in the Autumn Statement, which take effect in January, the government will hope that these generate a 'feel-good' factor ahead of the General Election. Over the year, our tentative forecast is for economic growth in the region of 1% – a slightly better performance than in 2023[2].

2 In its November 2023 forecast, the Office for Budgetary Responsibility predicted that the UK economy will grow by 0.7% in 2024.

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Polled at the end of 2023, the expectations of IoD members for 2024 are summarised in the following tables. The findings do not suggest a high degree of optimism concerning the prospects for the UK economy as a whole. However, interestingly, members are much more positive about their own organisations.

This may reflect an innate tendency towards optimism amongst business leaders and entrepreneurs. Equally, from the vantage point of the board, directors are better placed than others to form an informed view of their own organisation's prospects – and this may bode well for the performance of the economy as a whole.

How optimistic are you about both the wider UK economy and also your organisation over the next 12 months?

	Very optimistic	Quite optimistic	Neither optimistic nor pessimistic	Quite pessimistic	Very pessimistic	Don't know
Wider UK economy	2.4%	20.8%	25.7%	40.4%	10.5%	0.1%
Your (primary) organisation	11.1%	41.8%	29.4%	14.8%	2.3%	0.6%

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of:

	Much higher	Somewhat higher	No change	Somewhat lower	Much lower	Don't know	N/A
Business investment	3.8%	36.0%	39.7%	10.8%	6.3%	0.9%	2.6%
Cost	10.8%	67.3%	16.2%	3.0%	0.9%	0.4%	1.4%
Exports	3.1%	23.5%	29.6%	3.8%	2.8%	1.6%	35.6%
Headcount	2.0%	33.3%	50.4%	8.7%	2.7%	0.9%	2.1%
Revenue	7.1%	51.1%	22.5%	13.2%	3.4%	1.1%	1.6%
Wages	9.4%	62.0%	22.8%	2.0%	0.9%	0.9%	2.1%

Results of a an IoD Policy Voice survey, based on 703 responses from across all sectors and regions of the UK, conducted between 14-29 December 2023. 15% of respondents ran large businesses (250+ people), 19% medium (50-249), 21% small

2 Skills policy

What happened in 2023?

In March, the government scrapped the cap on the number of apprenticeships which small businesses can receive funding for in England. Previously, businesses which do not pay the Apprenticeship Levy had been limited to receiving funding for no more than ten apprenticeships at any given time.

In September, the Lifelong Learning Entitlement (Higher Education Fee Limits) Act became law, laying the groundwork for a new system of student finance to come into effect in England in 2025. Under this new system, people will have access to a loan (equivalent to four years of undergraduate fees) to pay for university courses and train, retrain and upskill flexibly over their working lives. They will be able to use this loan to pay for full courses at level 4 to level 6, such as a degree or technical qualifications, and modules of high-value technical courses at level 4 to level 5.

At the Conservative Party Conference in October, the Prime Minister announced plans to develop a new qualification for 16–18-year-olds in England, the Advanced British Standard (ABS), which will eventually replace A Levels and T Levels. The ABS will be a baccalaureate-style qualification in which students will typically study five subjects, including some form of English and mathematics, with the ability to mix academic and vocational subjects.

The ABS will not be introduced for around a decade, and it is not yet clear if a Labour government would continue the planned reforms.

At the Autumn Statement, the Chancellor announced that HMRC will rewrite its guidance around the tax deductibility of training costs for sole traders and the self-employed. At present, only training directly related to their business is tax deductible; the intention of this move is to clarify that training to update existing skills or maintain pace with technology or industry practices are allowable costs for tax purposes.

What is likely to happen in 2024?

The government is expected to publish an updated strategy for developing green skills in the UK in early 2024.

A change in government would likely bring about changes in skills policy. The Labour Party, for instance, has committed to reforming the Apprenticeship Levy so that half of funds can be spent on other forms of training, and to establishing a new expert body, Skills England, to oversee the national skills effort in England.

3 Employment policy

What happened in 2023?

In January 2023, the UK government launched a consultation on a draft statutory Code of Practice on dismissal and re-engagement. The Code would require employers to consult staff and explore alternative options, without using the threat of dismissal to pressure employees to agree new terms. The government has not yet responded to the consultation; it may do so in 2024.

Throughout 2023, unemployment and labour inactivity rates remained largely unchanged. Job vacancies decreased steadily throughout the year but remain well above pre-pandemic levels. While annual growth in earnings remains high in cash terms, there are some signs that wage pressure might be easing overall; growth in total average earnings had dropped from 8% to 7.2% in the three months to October 2023.

What is likely to happen in 2024?

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

A number of employment law changes are due to come into effect in England, Scotland and Wales on 6 April 2024:

- Employees will be 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. They will now apply to 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 will have the right to formally request flexible working arrangements from day one of employment (this right currently requires 26 weeks of service).

In Spring 2024, various measures to reduce legal net migration to the UK will come 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 will retain a general threshold discount.
- The removal of the right of social care workers to bring dependents to the UK.

A review of the graduate visa route by the Migration Advisory Committee "to ensure steps are being taken to prevent abuse" has also been commissioned by the government. A possible outcome is that graduate visa holders may be restricted to working only in roles skilled to graduate level or above.

Further details will be revealed when the government publishes amended Immigration Rules and policy guidance, but this may not happen until March 2024.

The expected General Election would also likely bring about significant changes in employment law. The Labour Party, for instance, has committed to reforming Statutory Sick Pay and moving towards a single status of worker.

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4 Sustainability policy

What happened in 2023?

In January, an independent review of the UK's net zero commitments (the Skidmore Review) was published. The review made 129 policy recommendations as to how the UK can seize the "growth opportunity of the 21st century" that is net zero.

In March, the government published a raft of net zero-related policy documents, including its response to the independent review, an updated green finance plan, an updated energy security plan, and a net zero growth plan.

In June, the International Sustainability Standards Board (ISSB) launched its two global sustainability reporting standards, which set rules for general requirements for disclosure and climate-related disclosures. Shortly afterwards, the UK government announced that it will develop new sustainability reporting rules that will highly correlate with the ISSB standards.

In the same month, the Scottish government announced a further delay to the implementation of the Deposit Return Scheme, which will add a refundable deposit to the sale of single-use drinks containers. The scheme was planned to go live in summer 2023 but is now expected to roll out no earlier than October 2025, to better align with similar schemes being introduced in the rest of the UK in 2025.

Later in June, the government announced that the reformed Extended Producer Responsibility scheme, which was planned to launch in October 2024, will be delayed by a year and will instead launch in October 2025. Under the new scheme, the cost of managing packaging waste will be shifted from councils and the taxpayer to businesses. Businesses can reduce costs by improving material efficiencies and adopting formats that are easy to recycle.

In September, the government published its zero-emissions vehicle mandate, stating that 80% of new cars and 70% of new vans sold in Great Britain will be zero emission by 2030, increasing to 100% by 2035. In the same month, however, it also watered down some of the UK's key climate pledges, including delaying the 2030 ban on new petrol and diesel car sales, replacing the plan to phase out of the installation of gas boilers by 2035 with an aim for an 80% phase-out, and removing the planned requirement for landlords to meet energy efficiency targets.

What is likely to happen in 2024?

The government is expected to consult on the implementation of a green taxonomy in the UK in 2024. More detail is also expected on the implementation of a UK Carbon Border Adjustment Mechanism (CBAM), whereby imports from countries with more lax environmental regulations would incur levies. The EU's own CBAM will come into full force in 2026, and the UK is expected to adopt a similar timeline.

New UK sustainability corporate disclosure standards are expected to be endorsed by the UK government by July 2024. The UK standards will be based on those issued by the ISSB in June 2023. Listed companies are expected to be included but it is unclear whether large unlisted companies will be required to report against the standards.

5 International trade policy

What happened in 2023?

The international trading environment was challenging for UK business in 2023, although the supply shocks caused by the pandemic and Brexit started to ease.

The value of UK exports is likely to have increased by around 5-10% in 2023. However, this increase has been overwhelmingly driven by inflation rather than underlying export volumes. Overall, the UK is a less 'open' economy than it was prior to the pandemic (as measured by the share of imports and exports in GDP), and its trade performance has lagged that of peer economies.

In 2023, UK-EU trade remained hampered by Brexit-related trade frictions. Administration and customs red tape left UK businesses at a competitive disadvantage to EU companies not burdened by controls.

The lack of free movement of people across the UK-EU border remained a concern. Visiting clients in the EU was burdensome both in terms of time allowed to be spent in the EU and the time taken to navigate border checks. Many businesses cited their inability to easily recruit from the pool of EU markets as a factor which exacerbated skills shortages. Sponsoring visas remained a complicated and expensive process.

During 2023, many firms sought to rethink their trade strategies. Larger firms were better able to diversify export strategies into new markets, while many smaller businesses stopped exporting altogether. Meanwhile, businesses continued to 'de-risk' supply chains in light of geopolitical tensions surrounding China.

Government policy in 2023 focused on transforming the UK border and negotiating trade deals with partners across the globe. Key developments included the Electronic Trade Documents Act, which allows for paper trade documents to be digitised, and the development of the Border Operating Model, which seeks to improve the functioning of the UK border. In August, the government dropped plans for a post-Brexit UK rival to the EU's "CE" product-quality mark after businesses warned that it would impose an excessive bureaucratic burden.

2023 saw the ratification of the trade deals with Australia and New Zealand, and the UK's accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). The UK government also hopes to sign a free trade agreement with India in the near future – following one-to-one meetings between Rishi Sunak and Indian Prime Minister Narendra Modi in September – and discussions are about to commence with Turkey.

What is likely to happen in 2024?

From January, further frictions will be introduced into UK-EU trade. European businesses exporting animal and plant products to the UK will be required to submit additional paperwork, with physical checks being introduced from April.

In addition, new charges will be levied on electric vehicle exports to the EU. This is a requirement of the post-Brexit Trade and Cooperation Agreement, which requires tariffs of 10 per cent to be levied if EVs contain batteries substantially made outside of Europe or the UK. In December, the European Commission expressed willingness to push back these changes to 2027, but this has yet to be formally confirmed.

UK trade policy is likely to be affected by the outcome of a General Election. Labour has stated that it would pursue trade policies which are more integrated with foreign and industrial policies. It would also seek a "more practical" partnership with the EU, pushing for both a veterinary agreement and an agreement on mutual recognition of professional qualifications.

UK trade prospects in 2024 remain exposed to geopolitical developments. Even if the more extreme scenarios are avoided, it seems likely business will continue to reduce the political and tariff risks associated with globalised supply chains. This implies a continuing fragmentation of the global trading environment, with a greater focus on "friend-shoring" and "on-shoring".

6 Corporate governance policy

What happened in 2023?

At the start of 2023, the UK government remained committed to a programme of governance and audit reforms developed in response to high-profile corporate collapses (including those of BHS, Carillion, Thomas Cook and Patisserie Valerie). Planned measures included the transformation of the Financial Reporting Council into a new statutory regulatory body, ARGA[3], and various changes to corporate reporting and the UK Corporate Governance Code.

However, as the year progressed, the government's intentions regarding these reforms became increasingly unclear. The King's Speech to Parliament, in November 2023, made no mention of any legislative plans relating to the formation of ARGA. In October, the government withdrew secondary legislation relating to new corporate reporting requirements, citing concerns about competitiveness and red tape. In November, the FRC announced that many of its planned changes to the UK Corporate Governance Code, on which it had been consulting during the Summer, were not going forward.

In contrast, governance-related reforms relating to the UK listing regime moved ahead at a rapid pace. In an effort to improve the international attractiveness of UK equity markets to domestic and foreign issuers, the Financial Conduct Authority confirmed in December that it would abolish the 'premium' and 'standard' listing segments, and replace them with a single listing category for commercial companies.

In the new regime, there will no longer be a requirement for companies to obtain shareholder approval for significant or related party transactions. To be eligible for listing, historical financial information, a minimum track record, or a working capital statement will no longer be required. It will also be possible for companies to issue shares with enhanced voting rights (albeit subject to certain restrictions) at the time of listing.

In a further measure aimed at boosting UK competitiveness, UK regulators announced in October that they would scrap the bankers' bonuses cap that had been inherited from the EU. Since 2014, bonuses had been limited to twice base pay for employees of financial companies.

What is likely to happen in 2024?

In January, the FRC will conclude its review of the UK Corporate Governance Code and begin a review of the UK Stewardship Code. Although changes to the UK Corporate Governance Code will be less significant than originally planned, they are still likely to introduce new requirements for reporting on internal control frameworks.

Labour has yet to make any detailed commitments around corporate governance. The Shadow Business Secretary, Jonathan Reynolds, has signalled his intention to move forward with the stalled governance and audit reforms. However, he has also acknowledged that this may not necessarily be the first priority for an incoming Labour government.

3 The Audit, Reporting and Governance Authority.

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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 its training courses and publications on corporate governance.

The IoD is an accredited Good Business Charter organisation.

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