



# Westminster in 2025: Policy Shifts and Political Risks

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## Foreword

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***Louise Allen, Senior Partner and Chief Executive.***

I am delighted to present GK's 'Westminster in 2025' report which sets out the key political themes from 2024 and what we can expect to see over the coming year.

2024 will undoubtedly be remembered as a year which played host to a seismic shift in the political landscape. Labour secured a landslide election win, overturning 14 years of Conservatives in No.10, and Donald Trump became the first US president since Grover Cleveland to be elected to serve non-consecutive terms.

While we won't have a general election and a US presidential race to contend with this year, 2025 shows no signs of slowing down and there will be several significant political events which the team at GK will be paying close attention to. The local elections in May will serve as the first major electoral test for the new Labour government which could place further pressure on Keir Starmer's administration. Next, Chancellor of the Exchequer Rachel Reeves will be presenting the government's first Comprehensive Spending Review (CSR) to set individual departmental budgets for the rest of the parliament. Then, Secretary of State for Health and Social Care Wes Streeting will put forward his 10-year plan for the NHS which is likely to have significant ramifications for businesses and investment in the healthcare sector.

This report, which is the first of a series that we plan to publish throughout 2025, analyses Labour's record in power since last year's general election, the Conservatives' performance in opposition, the economic outlook, as well as business and investor sentiment. It draws on GK's depth of expertise from across the political spectrum, experience in government and knowledge of financial markets from our expert transaction advisory team.

This includes from our Strategic Advisers the Rt Hon David Laws (former Treasury and education minister), the Rt Hon Robert Halfon (former education minister and chair of the education select committee), Steve Brine (former health minister and chair of the health select committee), Phil Hope (former care minister), as well as GK's Chairman and investor heavyweight Tim Farazmand and Mark Linton (co-founder of Hummingbird Advantage, our US-based partner agency).

Do get in touch if you would like to discuss how politics and policymaking will impact your organisation in 2025, and we would be delighted to share how we could support you to best navigate the changing world.



## State of the Nation

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***Scott Dodsworth, Senior Partner & Managing Director, with reflections from GK Strategic Advisers the Rt Hon Rob Halfon (former Skills Minister) and Phil Hope (former Care Minister).***

Labour has found it hard to communicate to voters what it wants to do and why. The first 100 days – typically a time when a government makes its most significant impact – was a series of false starts. Multiple rebrands, milestones, missions and foundations have all served to compound the problem.

As we start this new year, we are reminded that our politics is as fractious and volatile as ever, and that while losing parties might sometimes seem down, they are almost never out. Despite Labour's recent electoral success, its unfavourable numbers are through the floor, the Conservative Party's polling has recovered, and Reform UK is nipping at the heels of both the main parties. Joe Alder, of leading pollsters JLP, reminds us that 'it is remarkable to remember that this time last year Labour led the Conservatives by some 20 points, with Reform UK on just 10 per cent'. British politics is entering unknown territory. JLP's latest polling suggests a genuinely multi-party system, with only a few points dividing Labour, the Conservatives and Reform UK.

The year has started much the same way as the last ended, with Labour struggling not just to find its stride in government but more fundamentally still unable to find its feet. This is against a backdrop of the public's waning patience and significant political events to navigate that are just around the corner, including the upcoming Spending Review, NHS 10-Year Plan, Spring Forecast and Strategic Defence Review. Former Labour minister and GK Strategic Adviser Phil Hope added:

'The first six months of a Labour government has been challenging given the economic legacy it inherited. It chose to use its large majority to make difficult early decisions on taxation, spending and economic growth that will mainly bear fruit in the second half of a five-year parliament... 2025 will be a busy legislative time in parliament with, for example, the flagship Employment Rights Bill and a Fair Pay Agreement for care workers being of particular interest to social care.'

2025 will be critical for Labour – the government needs to show tangible progress against key election promises on waiting lists, living standards and immigration. A Cabinet reshuffle, with underperformers at the Foreign, Commonwealth & Development Office and possibly Department for Energy Security and Net Zero out; greater prominence given to stars like Wes Streeting and Peter Kyle, to name two; and a wider reshuffle of the junior ministerial ranks to bring on new talent are almost certainly on the cards. However, with such a large parliamentary party and so few jobs on the government payroll, expect this to be the year of the grumbling government backbencher keen to have clout and flex their political muscle.



*Phil Hope, GK Strategic Adviser and former Care Minister*

After its historic defeat, the Conservative leadership contest saw Kemi Badenoch elected to lead the party and her plan to return to power has several elements. For all the optimism, it starts with a frank acknowledgment of the current state of the party and its standing in the country. As Badenoch made clear during the leadership campaign, the distance from the election means the Tories will not be setting out detailed policies anytime soon. The Conservative Party's priorities for the year are laid out by GK Strategic Adviser and former minister and chair of the education committee, Rob Halfon:

'First, rebuilding the party infrastructure both at CCHQ and on the ground. This is done by co-chairs Nigel Huddleston and Lord Johnson, tasked with renewing much-depleted funds. Second, ensure the office of the LOTO (Leader of the Opposition) is fit for purpose, and the Shadow Cabinet is strong and adequately supported. Senior hires like Lee Rowley as Chief of Staff and Rachel Maclean as Head of Strategy are key examples. James Roberts, head of political liaison, is regarded as a formidable operator. Shadow Chancellor Mel Stride

and Shadow Home Secretary Chris Philp are highly regarded and regularly put out and about on the media to challenge the government. Third is policy renewal. Rather than rushing into significant policy positions, Badenoch is keen to develop policy over time and ensure the policies developed are credible and respected by the public.'

As we settle back into a busy political year at Westminster, we are all reminded that power ultimately sits with a frustrated, disenfranchised public and, as with many other countries across Europe, voters far more ready to accept lesser-known parties as a means of protesting the status quo. Last year was one of many elections across the globe, and this year must be one of delivery. The UK government needs to find its stride, the public must see positive change in public services, and we should all remain engaged to protect our interests and realise opportunity.



*The Rt Hon Robert Halfon, GK Strategic Adviser and former Skills Minister*



## The Economy, Tax & Spend

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*The Rt Hon David Laws, GK Strategic Adviser and former Treasury and Education Minister.*

The most important of the 'missions' of the new UK government is to boost the country's economic growth rate. In opposition, Keir Starmer and his team gave the impression that higher growth would be the silver bullet that fixed many of the nation's problems – allowing him to boost spending on public services without raising taxes. Alas, we are now six months on from the easy promises of election manifestos and deep into the harsh reality of the difficult choices that governments routinely need to make.

Labour spent its first four months in office spreading gloom about the UK's fiscal position – most of which was obvious well in advance of the election. The October 2024 Budget then included a large increase in payroll costs on employers – a big hike in the minimum wage, combined with a large increase in employer national insurance contributions (NICs). Oddly, the latter was accompanied by a lower starting threshold for paying those employer NICs – a great way of making lower paid employees more expensive to hire. The big rise in payroll costs has been a blow to many employers, and the response will be seen over the months ahead. This could include fewer jobs, price pressures as employers seek to protect their profits, and a squeeze on pay. All this has contributed to higher inflationary expectations – making the Bank of England more cautious about cutting interest rates.

The economy flatlined in the closing months of 2024, and all this is before the employer NICs rise takes effect in April 2025. It is hardly the start to the "growth mission" that Starmer and his Chancellor hoped for.

Nor is the international picture helpful. The German economy is also flat on its back and the election of Donald Trump has raised the risk of tariffs, which could damage growth, increase uncertainty, and cause the Federal Reserve to be more cautious about cutting US interest rates – a major driver of global growth and global markets.

In the first six months of 2025, Rachel Reeves must deliver two major and potentially tricky fiscal events. The first is an economic statement on 26th March and the second is Phase 2 of the Spending Review, which will set departmental spending plans from 2026 onwards.

The Spring Economic Statement is not planned to be a major economic and fiscal event, but the Chancellor will be under pressure if growth remains lacklustre and if it looks as if her fiscal targets are in danger of being missed. Starmer and Reeves have given a strong public steer that they do not plan to come back with another large tax hike on business during this parliament, and indeed

they have given the dangerous impression that no further major hikes in taxes can be expected. If they are forced to reverse course on these pledges, the political cost could be very high indeed.

Then, the government will announce the results of its Spending Review Phase 2, likely in June. From 2023-24 to 2025-26 real departmental spending is due to rise by a healthy 4.3% per year. But the spending plans announced in October's Budget allow for barely 1.5% real growth in spending from 2026 onwards. How this will be reconciled with likely commitments on the NHS, social care, education, defence, housing and many other areas of public spending is anyone's guess. Either a nasty surprise faces many spending departments, or the Chancellor will need to find more money.

All this emphasises just how important growth is. Reeves' first Budget forecast a rise in growth from 1.1% in 2024 to 2.0% in 2025. The latter currently looks ambitious, although a surge in public spending and investment will be one source of support. Beyond next year, the economy cannot rely on public spending to drive growth. Instead, the government needs to do the hard work on trade policy, productivity and skills, planning reform, and housing and infrastructure investment to really drive the growth mission. These are easy things to talk about but require skill and political determination to achieve. 2025 will be a testing year for the UK's new government. How it tackles these challenges will be of crucial importance to its electoral prospects and to the future of the country.



## Business & Investor Sentiment

***Lizzie Wills, Senior Partner & Head of Private Equity, with reflections from GK Chairman, Tim Farazmand.***

2024 will not be remembered as a vintage year for investors in the UK. With a sluggish economy, stubbornly high interest rates and the uncertainty brought about by a general election, it was unsurprising that deal flow and completion numbers felt at times underwhelming.

The Autumn Budget was front and centre in the minds of investors, with the long-trailed changes to Capital Gains Tax and Carried Interest finally being confirmed. The Chancellor announced that tax on Carried Interest would rise from 28% to 32% from April 2025, a short-term reprieve from a reclassification as Income Tax from 2026. Concerns have been raised about the longer-term implications of this move on the UK's competitiveness and ability to attract talent.

Announcements at the Budget about increases to employer NICs, a reduction in the secondary threshold and increases to the National Living Wage (NLW) and National Minimum Wage (NMW) are also impacting investment decisions. Sectors that have traditionally relied on private capital, including hospitality and social care, are looking like riskier propositions. Owners of existing assets now face difficult choices about either passing on costs to customers or revisiting growth plans that involved spend on plant, people or infrastructure.

On the upside, investors are sitting on close to record levels of dry powder, with capital deployment likely to accelerate if market conditions become more favourable over the course of 2025.

With an ambitious Labour government in place, there will inevitably be risks to navigate as policy interventions are made. But there will be plenty of opportunities for sponsors willing to get into the weeds of policymaking. The new National Wealth Fund is a case in point, with the government keen to crowd in 'catalytic capital' to finance a step-change in the UK's energy transition. GK's Chairman Tim Farazmand added:

'Whilst the first few months of Labour's administration have been criticised for not delivering against the party's early promise, one thing is clear: this is a government in listening mode. Businesses are reporting an open door and willingness on the government's part to engage across Westminster and Whitehall. This presents a fresh



*Tim Farazmand, GK  
Chairman*

opportunity for agile businesses to input into policymaking processes and help frame reform agendas in a way that is effective for government and workable for business.'

Other risks and opportunities will arise because of political shifts further afield. Donald Trump's trade policies, and rising levels of global instability, will heavily influence global investment strategies in 2025. Strategic considerations will weigh heavily on investors' minds, not just economic ones.

Trump's promise of tariffs on all goods entering the US will shape dynamics in the global economy, with supply chains disrupted and retaliatory measures from other countries a likely response. In the US, long-term inflationary pressures are likely to be the price paid for Trump's resolutely deregulatory agenda. In the UK, we are likely to see the Labour government strengthen its economic and diplomatic relationship with its biggest trading partner – the European Union – to insulate itself from shocks.





## US Outlook

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### **Mark Linton, Co-Founder of Hummingbird Advantage – GK Strategy's US partner agency**

With Republicans in control of the White House and both branches of Congress starting on January 20, analysts expect to see an early legislative agenda focused on tightening border security and immigration, while extending and making permanent the 2017 tax cuts – and potentially cutting rates further for individuals and corporations. By March, Congress and the White House will also have to agree on a government funding bill for the remainder of the fiscal year or risk a government shutdown. Separately, Congress will need to extend the US government's borrowing limit by the summer in order to cover appropriations already enacted.

On the regulatory side, we expect to see the Trump administration move quickly to reverse many of the Biden administration's executive actions pertaining to climate, clean energy, as well as the size and scope of federal government operations and staffing.

There will likely be some unexpected alliances in nearly every policy domain: for example, agrobusiness will want to protect specific visa categories for farm workers such as the H-2A programme. Industries reliant on high-skilled workers, especially in tech, will be focused on protecting and expanding H-1B visas, making the case to the administration that these should be exempted from any crackdown. Tech leaders have also quite visibly begun to align themselves with political and cultural priorities of the incoming administration in the hopes of currying favour and avoiding new forms of regulation – including legislation aimed at online child safety. When it comes to AI, we anticipate much of the early legislative action occurring at the state level (there were over 700 bills introduced across the country last year alone). It is possible that Congress may take action, but without a clear consensus yet on how to regulate AI – and the recognition that the US is locked in a race for AI supremacy with China – it is just as likely that the federal government will continue to deepen its own use of AI systems across multiple domains, notably in defence.

A hallmark of the first Trump administration was the unpredictability of executive actions. Two months ago, no one was discussing the US acquisition of Greenland or the Panama Canal. Added to that, and with Trump's stated plans to seek retribution against perceived political enemies, it will be crucial to monitor how any backlash, protest, or social unrest unfolds and impacts the cadence of business planning and investments. Finally, Republicans have signalled a separate standard for when and how Democratic-led states can expect to do business with the federal government. In recent days, the Republican leadership in Congress has indicated that any emergency relief aid to help address the California wildfires will come with conditions. This dynamic may create new incentives for investors and businesses to move or headquarter their operations in Republican-led states.

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