Prepare for a bumpy ride ahead

As businesses, we have already embarked on our professional journeys of 2025, hopefully with a full tank and sturdy wheels, but what is the view ahead for small and medium businesses in the UK this year? Where are the bumps in the road and what will be the major landmarks? Matthew Collins, Director at Chelmsford-based Ascend Broking Group, examines some notable signposts on the UK economic landscape to look out for and navigate in 2025.

THE route looks a little different now we have a Labour government in charge. Its first budget, last October, brings big changes, including employer National Insurance rates rising to 15%, boosts to capital gains tax rates, a 4% bump to the state pension and VAT added to private school fees.

Sluggish growth is likely to continue throughout 2025, with global GDP predicted to grow less than 3%. Landlords face a 2% hike in stamp duty for second homes, while first-time buyer relief remains unchanged. On the bright side, house sales are up 29% from last year (according to Rightmove), and mortgage rates should ease in 2025.

Supply chain issues in 2025 will see many businesses shifting gear to local suppliers due to climate and political challenges. AI and tech are helping automate and optimise processes, and growing consumer and regulatory demands will push companies to adopt more sustainable supply chain practices.

With disruptions ongoing, businesses would be wise to reassess their insurance policies to ensure sufficient cover, as they steer towards the new landscape of localised sourcing and sustainable operations.

In the autumn Budget, the UK raised its windfall tax on oil and gas profits to fund clean energy initiatives such as carbon capture, nuclear and green hydrogen. Gas and electricity prices are set to rise through the early part of this year, but long-term investments aim to stabilise costs, whilst increasing climate events raise risks and widen the protection gap when it comes to insurance.

As a result, businesses might need to change course to make sure their business interruption insurance adequately covers these risks and to adopt proactive strategies on route to a robust UK energy infrastructure.

The UK's food self-sufficiency is at a critical low due to the convergent bumpy roads of Brexit, labour shortages, nature loss and extreme weather, with climate change posing long-term risks to domestic food production. These challenges increase insurance risks in areas such as business interruption, agriculture and product recalls.

Businesses should reassess their insurance coverage to address their specific risks when it comes to an uncertain food supply terrain and ensure their resilience as they drive into the future.

Construction costs have been on a shaky path for a while, and are set to rise further in 2025, due to stricter environmental regulations which plan to offer long-term savings in the future through sustainable practices. A skills shortage also threatens short-term progress and rising insurance costs may lead to higher premiums, meaning construction firms must make sure their policies cover changes in materials, timelines or project scopes to mitigate potential disruptions and financial dents.

New EU CO2 standards will continue to drive demand for electric vehicles this year. While EVs are currently exempt from Vehicle Excise Duty (VED), this ends in April 2025, raising costs for many drivers. The luxury car market, meanwhile, fuelled by demand for premium electric options, is set to grow significantly, and overall, car insurance premiums continue to rise, due to inflation-driven repair costs, advanced vehicle technology and a rise in fraudulent claims, bringing headaches for drivers.

Looking at the current skyline of commercial property, the demand for rental properties has surged and renting remains more affordable than buying (despite the continued rise in rents), but there are changes in view. Starting this year, all leased commercial properties must have a valid EPC, and new leases will need a rating of C or higher.

Increased demand is driving applications to convert commercial properties into residential units, offering landlords opportunities but also regulatory challenges. Insurance rates for properties have risen since 2017, and costs to repair and maintain property remain high. Crucially, many SMEs lack accurate rebuild valuations for their premises, requiring a review of insurance coverage to avoid underinsurance and coming off badly in a claim.

The wider backdrop to any business's journey through 2025 is the current geopolitical climate, shaped by conflicts such as Ukraine, tensions in the Middle East, US-China trade friction and significant elections in the US, Taiwan, and the UK. These factors continue to drive uncertainty in the global economy, affecting the UK economy with inflation, market volatility and disrupted supply chains, and challenging the insurance market's risk assessment and pricing models.

All signals considered, it could be a bumpy ride for UK businesses this year, but the more we understand what lies on the road ahead, the better we can equip ourselves for any eventuality. With forethought and a good roadmap in hand, there's no reason not to thrive, wherever 2025's route may take us.