GLAECONOMICS

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The Chancellor delivers tax cuts, although the tax burden for households is still rising

By **Mike Hope**, Economist

Higher than expected inflation has increased tax receipts and enabled the Chancellor, Jeremy Hunt, to cut taxes in his Autumn Statement this month - the headline announcement was a 2 percentage point cut in National Insurance contributions (NICs) for employees from 12% to 10% from January 2024. Together with changes to NICs for the self-employed, this is a tax cut for 29 million working people worth £9 billion a year. The Office for Budget Responsibility (OBR) estimates however that overall government revenues will rise sharply to 38% of UK GDP by 2027/28.

This rising tax take is in part due to rising inflation. Income tax thresholds, for example, have been frozen to 2028 (announced in November 2022), and will therefore not rise with inflation even as pay increases – this means that a worker pays more tax on their income, even after adjusting for inflation. Low growth has constrained tax raising by means other than higher taxes.

Government revenues are projected to be at the highest share of the size of the UK economy since the second world war. The expected 2027/28 figure still places the UK between the current Organisation for Economic Cooperation and Development (OECD) and G7 averages.

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Pressures will remain as the population ages and global interest rates remain higher than their historically low levels during the 2010s and early 2020s.

On the expenditure side there was no additional spending for public services to alleviate pressures. This is despite plans for large real-terms cuts in spending to non-protected departments after 2025. The other pressure on spending is rising debt costs. There is a reliance on short-term loans by the Bank of England via its quantitative easing programme, and inflation-linked bonds - the OBR estimates that Public Sector Net Debt (excluding the Bank of England's debt) will increase from 89% of GDP in 2022/23 to 93% in 2026/27 before falling marginally in 2027/28. Overall, public spending is set to settle at around 43% of GDP in 2027/28, the largest sustained level since the 1970s, if below the peak of 53% of GDP during the pandemic.

The Chancellor also announced 110 measures in his Autumn Statement to improve growth. Notable was to make permanent "full expensing". This policy enables businesses to write off the entire cost of new plant and machinery against their taxable profits. The aim is to stimulate investment, and the OBR estimates that it will increase output by slightly below 0.2% in the long run. In contrast, the decision to hold capital departmental spending flat means that public sector investment falls as a share of GDP – from 3.6% in 2023/24 to 3.1% in 2028/29. This is likely to have a negative material impact beyond the forecast horizon. Overall, the OBR expects potential output growth to remain weak, at an average of 1.6% between 2024 and 2028, 0.1 percentage points slower than in the March forecast.

The UK economic outlook is little changed

While real GDP growth, that is the growth in output after inflation, has been stronger than the OBR anticipated in March, they expect it to cool over the second half of 2023 with close to zero growth. The Office for National Statistics (ONS) estimates that real GDP grew by 0.2% in September, and 0.1% in August with no growth over the quarter to September 2023.

The OBR now believes that the unexpected strength in the economy earlier this year will be reversed in the coming quarters. This is because interest rates have risen by more than expected in March, and this should weigh on activity. Real GDP growth is forecast to average 1.5% between 2024 and 2027, 0.6 percentage points weaker than forecast in March (Figure 1).

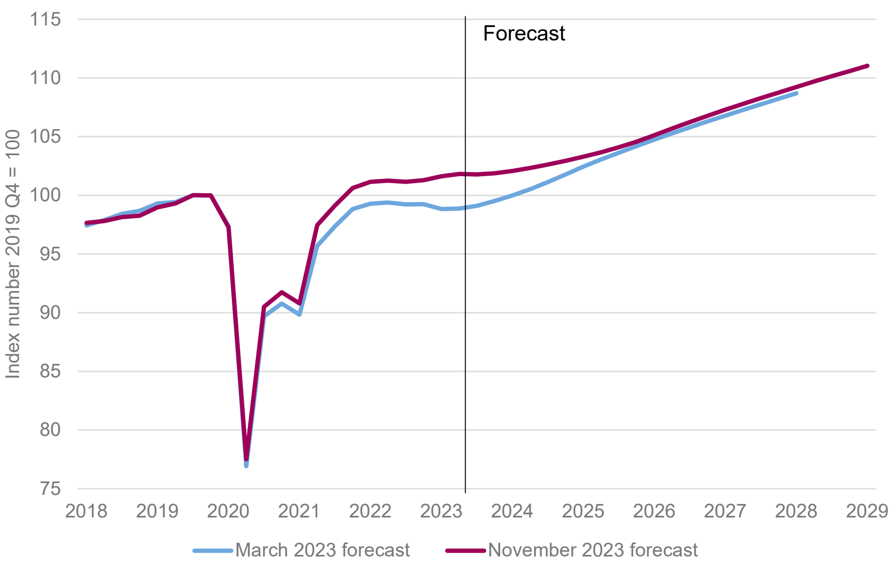


Figure 1: OBR UK real GDP forecasts

Source: ONS, OBR

Further, the OBR only expects Consumer Price Inflation (CPI) to hit the Bank of England 2% target in the second quarter of 2025, about a year later than the March forecast (the Bank expects this to happen by the end of 2025). Domestic factors drive most of the upward revision, particularly higher nominal (cash) earnings growth outweighing the effect of lower energy prices.

The labour market is expected to continue to loosen with the UK unemployment rate peaking at 4.6% in the second quarter of 2025, as GDP growth slows and spare capacity opens up. This compares with an unemployment rate of 4.2% in 2023 Q3.

Elsewhere the Resolution Foundation has been looking at household finances over the course of this parliament. They project that the average household will be 3.1% worse off, or £1,900 poorer, as measured by real disposable household income (RDHI) per person, in January 2025 than they were in December 2019. The deterioration reflects the impact of high inflation, poor economic growth, and a rising tax burden. This is the only parliament in 70 years to oversee a decline in living standards. More positively, the OBR estimates that living standards will recover to their pre-pandemic level in 2027/28.

Bank of England holds interest rates as inflation falls

This month the Bank decided to hold interest rates at 5.25% by a majority of 6-3. Three members preferred to increase the bank rate by 0.25 percentage points to 5.5%. The Monetary Policy Committee continues to judge that inflation risks are skewed to the upside. Second-round effects in domestic prices and wages are expected to take longer to unwind than they did to emerge. There are also upside risks to inflation from energy prices given events in the Middle East. There continue to be signs of some impact of tighter monetary policy on the labour market and on momentum in the real economy more generally.

There was a marked fall in CPI inflation last month. In the 12 months to October it rose by 4.6%, down from 6.7% in September. The largest downward contribution came from housing and household services due to gas and electricity – gas costs fell by 31.0% in the year to October 2023, compared with a rise of 1.7% in September. Despite this, the price of gas in October 2023 was around 60% higher than it was in October 2021, and for electricity it was 40% higher. The next largest downward contribution to inflation was from food and non-alcoholic beverages where the annual rate was the lowest since June 2022. The price of food in October 2023 was still around 30% higher than it was in October 2021.

Despite this positive news, measures of underlying inflation, services inflation and core inflation (which omits volatile energy, food, alcohol and tobacco prices) fell by less and remained stubbornly high. These measures are now higher than CPI. Annual services inflation fell from 6.9% to 6.6% from September to October, and for core inflation the fall was from 6.1% to 5.7% (Figure 2).

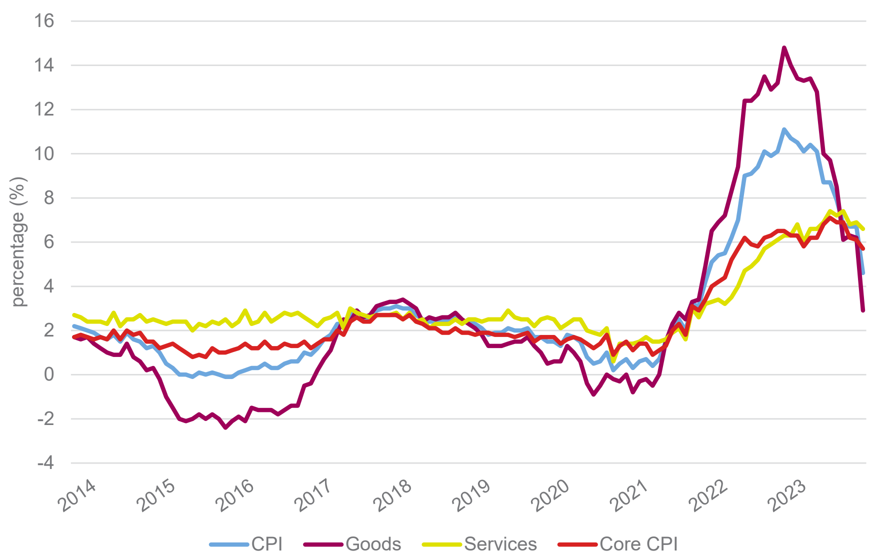


Figure 2: Annual CPI, core CPI, goods and services inflation, January 2014 to October 2023

Source: ONS

After two years when this wasn't the case, for the second month pay (excluding bonuses) was higher than inflation. This was 7.7% in 2023 Q3 in Great Britain, slightly down on previous periods, but still among the highest annual growth rates since ONS comparable records began in 2001. Including bonuses the increase was 7.9%. This was affected by one-off payments to civil servants in July and August 2023.

Meanwhile, Ofgem has announced the latest change to the energy price cap. From 1 January 2024 the price for energy for a typical household who use gas and electricity and pay by Direct Debit will go up by £94. This will take the price cap from £1,834 to £1,928 per year.

Other major central banks also hold interest rates

This month the US Federal Reserve (Fed) held interest rates at a 22-year high. The benchmark funds rate is between 5.25% and 5.5% after 11 increases since March 2022. There may, though, be more for the central bank to do to meet its inflation target, Fed chair Jay Powell indicated. This is because the annual rate of GDP growth to 2023 Q3 was a strong 5.2%, according to the US Bureau of Economic Analysis - driven by a robust labour market and consumer spending. US inflation has been rising at 2.6% in September, after being as low as 1.4% in June.

In late October, the European Central Bank (ECB) held interest rates at 4%, to end a run of 10 consecutive increases in borrowing costs. This is after eurozone inflation more than halved from its peak and the economy showed signs of weakening. ECB president Christine Lagarde would not rule out another rate increase, adding that it was "totally premature" to discuss a potential cut. Eurozone inflation has been falling steadily and is expected to stand at 2.4% in November.

Net migration flows have been rising, although they are set to fall

Total long-term immigration for the year ending June 2023 was 1.2 million, while emigration was 508,000, so net migration was 672,000, according to the ONS. This is down on the estimate of 745,000 for the year to December 2022. More recent estimates indicate a slowing of immigration and increasing emigration.

Before the pandemic migration was relatively stable. Net migration has increased sharply since 2021 because of a rise of non-EU migration of students and workers. This is when new immigration rules came into effect after the UK left the EU. The figures also include people arriving on humanitarian routes (particularly from Ukraine and Hong Kong). The number of EU citizens has been falling from a net inflow of 322,000 in the year to June 2016 (when the EU Referendum took place) to a net outflow of 86,000 in the year to June 2023 (Figure 3).

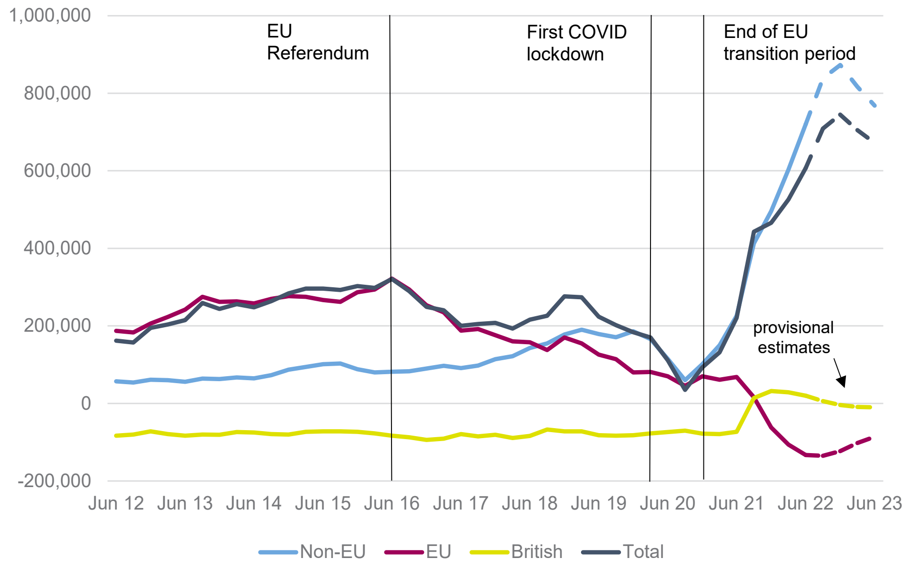


Figure 3: Non-EU, EU, and British nationals net migration to the UK between year ending June 2012 and year ending June 2023

Source: ONS

GLAE Economics analysis reports that London appears to have gained less than the UK from the inflow of non-EU workers and lost relatively more EU workers.

The increase in non-EU immigration in the year to June 2023 was mainly driven by migrants coming for work (up to 33% of the total from 23% in the year to June 2022). This is largely attributed to those coming on health and care visas. In contrast, those arriving on humanitarian routes decreased from 19% to 9% over the same period. The largest contributor to non-EU immigration in the year to June 2023 (39%) was study, which was largely unchanged compared with the previous year.

The Migration Observatory notes that there is considerable uncertainty in migration trends, but estimates that net migration might fall to 300,000 by 2030, roughly similar to pre-Brexit levels. A majority of this decline results from an increase in emigration, offsetting the increase in the inflow observed recently, particularly of international students. A decline in humanitarian immigration also plays a role in the decrease.

City of London office space demand continues to rise

Demand for office space is continuing to rise in the City of London despite the post-pandemic shift to working from home. There has been an increase in jobs, and planning applications are up a quarter on last year – 1,023 to September this year, compared with 820 in the same period last year. More than 500,000m^2 of office space is in the planning pipeline alongside a similar amount already being constructed.

Finance still dominates but there has been a 27% increase in tech firms. Legal and insurance companies had led the way back to office use with a focus on in-person training and mentoring. HSBC (finance) and Clifford Chance (law) are also shifting their headquarters to the City from Canary Wharf.

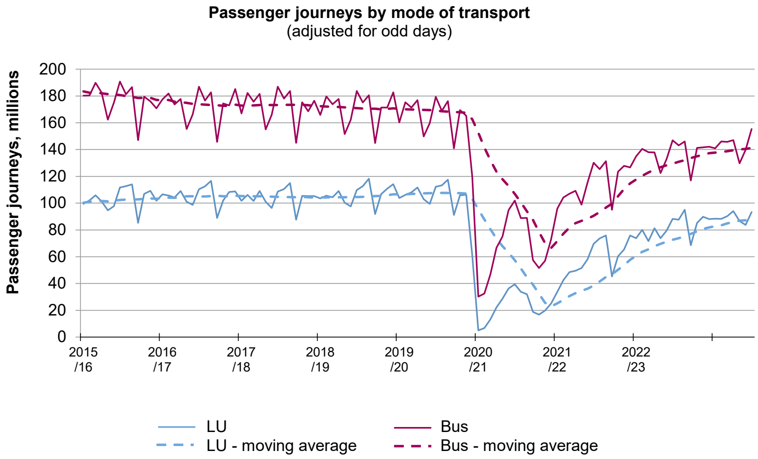
GLA Economics will continue to monitor all these issues over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport remains very marginally upward

- 248.8 million passenger journeys were registered between 17 September and 14 October 2023, 25.3 million more than in the previous period. 223.5 million passenger journeys were registered between 20 August and 16 September 2023.
- In the latest period, 93.4 million of all journeys were underground journeys and 155.4 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 227.8 million in the previous period to 228.8 million in the latest period.

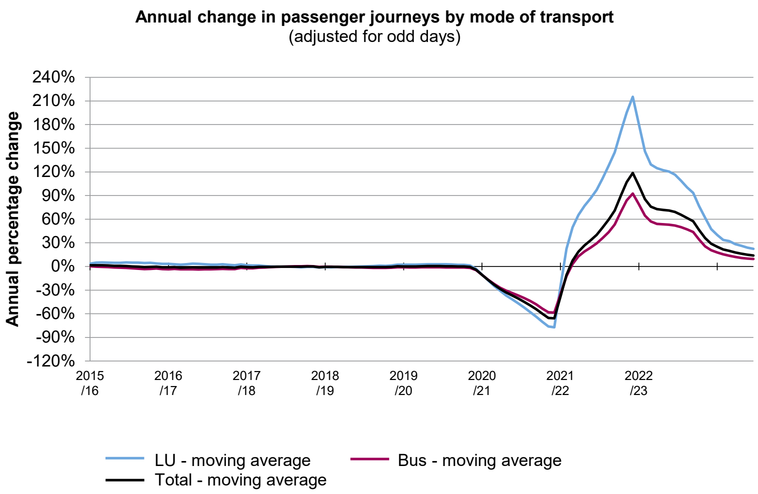
Source: Transport for London
Latest release: November 2023, Next release: December 2023



Annual growth in passenger journeys remains positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 13.9% between 17 September and 14 October 2023, down from 14.8% between 20 August and 16 September 2023.
- The moving average annual growth rate of bus journeys decreased from 10.0% to 9.5% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 23.9% to 22.3% between those periods.

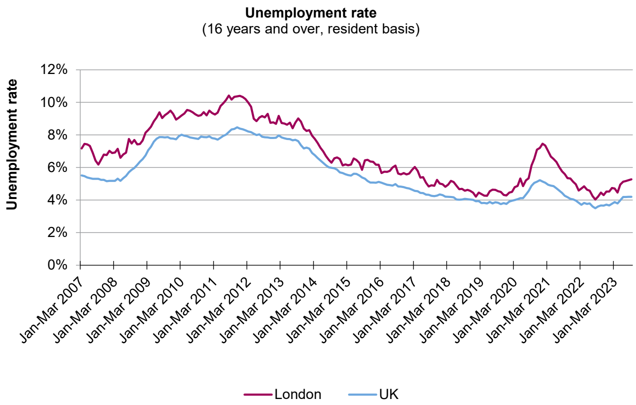
Source: Transport for London
Latest release: November 2023, Next release: December 2023



London's unemployment rate has been rising slowly, but remains low

- Around 265,000 residents 16 years and over were unemployed in London in July - September 2023.
- The unemployment rate in London was 5.3% in that period, slightly higher than in the previous quarter, April - June 2023, of 5.1%.
- The UK's unemployment remained steady at 4.2% in April - June 2023 and July - September 2023.
- Due to declining survey response rates, the estimates incorporate data from administrative data sources, and are classified as experimental statistics.

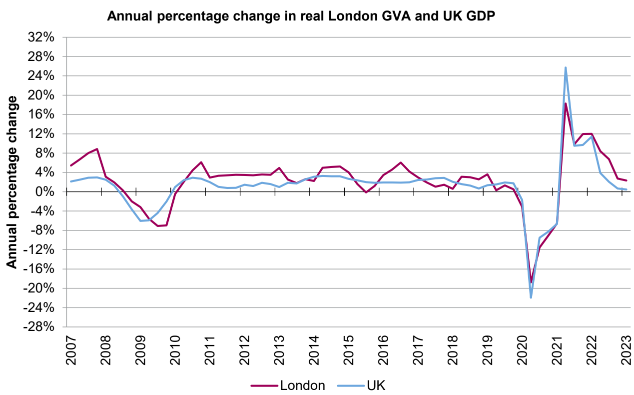
Source: ONS Labour Force Survey
Latest release: November 2023, Next release: December 2023



London's economy had surpassed pre-pandemic levels of output by Q4 2021, and continued to grow to Q1 2023

- By Q1 2023 London's GVA was 4.5% above its pre-pandemic level (Q4 2019), and UK GDP was 0.5% below.
- London's real GVA was unchanged in Q1 2023 - compared with Q4 2022 - after increasing by 0.1% in the previous quarter.
- The UK's real GDP growth rate increased by 0.1% in Q1 2023 – compared with Q4 2022- after increasing by 0.1% in the previous quarter.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so is more robust.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012, and from Q4 2022 onwards have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which has not published quarterly estimates for London's real GVA for the other periods.

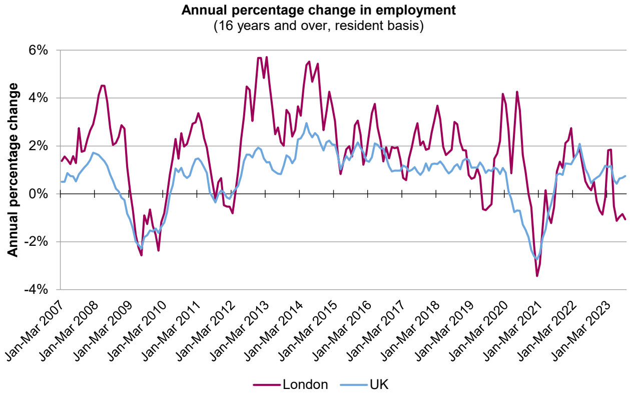
Source: ONS and GLA Economics calculations
Latest release: August 2023, Next release: December 2023



London's employment fell year-on-year in the quarter to September 2023

- Around 4.7 million London residents over 16 years old were in employment during the three-month period of July – September 2023.
- The rate of employment growth fell by -1.1% in the year to this quarter, the same as in the quarter to June.
- The UK's employment grew by 0.7% year-on-year in the most recent quarter, slower than the rate of 0.4% in the previous quarter.
- London's labour market remains a conundrum. Evidence from a range of sources is that labour demand is weakening, although the estimated pace and degree of the weakening varies across data sources. The data reported here shows an earlier and stronger weakening than other sources, perhaps partly reflecting the underlying volatility due to comparatively small sample sizes in this data.
- Due to declining survey response rates, the estimates incorporate data from administrative data sources, and are classified as experimental statistics.

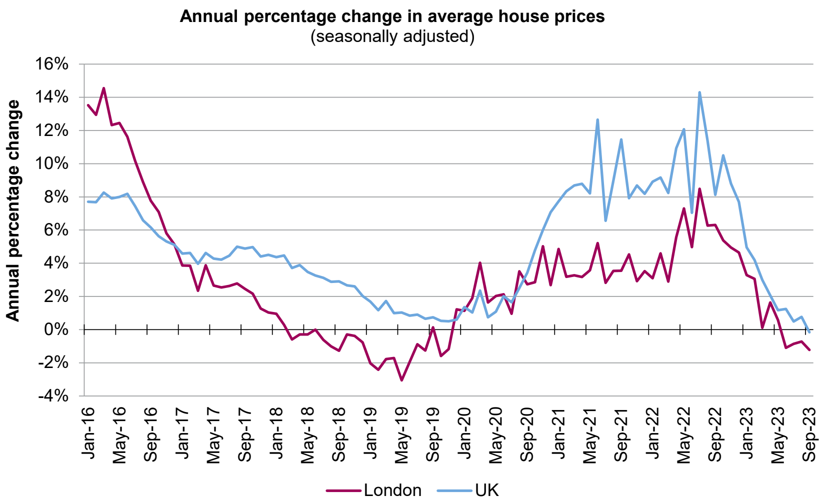
Source: ONS Labour Force Survey Latest release: November 2023, Next release: December 2023



On an annual basis house prices fell in London in September

- In September 2023, the average house price in London was £529,000 while in the UK it was £286,000.
- Average house prices in London fell by 1.2% year-on-year in September, lower than the fall of 0.7% in August.
- Average house prices in the UK fell by 0.2% on an annual basis in September, lower than the increase of 0.8% in the year to August.

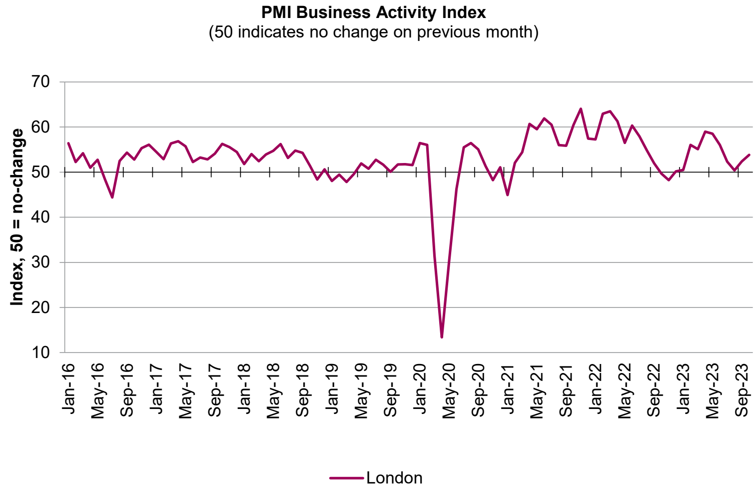
Source: Land Registry and ONS
Latest release: November 2023, Next release: December 2023



In October, the sentiment of London's PMI business activity index remained positive and increased slightly

- The business activity PMI index for London private firms increased from 52.4 in September to 53.8 in October.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

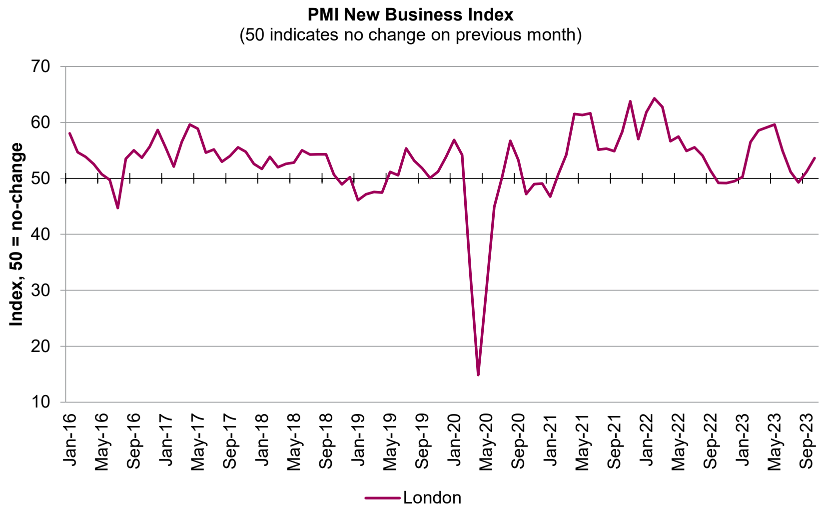
Source: IHS Markit for NatWest
Latest release: November 2023, Next release: December 2023



In October, the sentiment of London's PMI new business activity index increased, and remained positive

- The PMI new business index in London increased from 51.2 in September to 53.6 in October.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

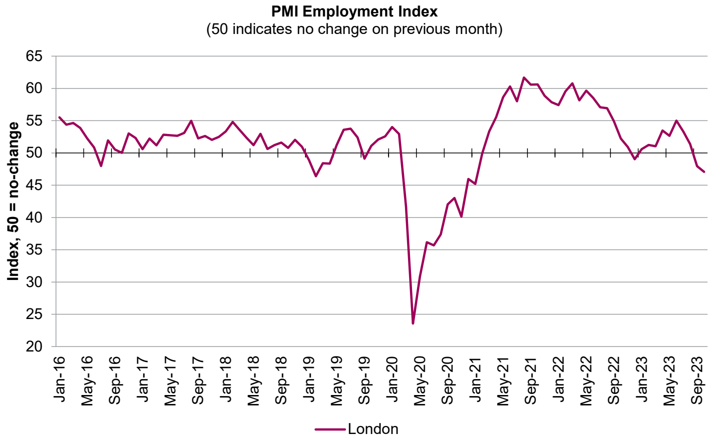
Source: IHS Markit for NatWest
Latest release: November 2023, Next release: December 2023



In October, the sentiment of the PMI employment index in London decreased and remained negative

- The Employment Index for London decreased from 48.0 in September to 47.1 in October.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

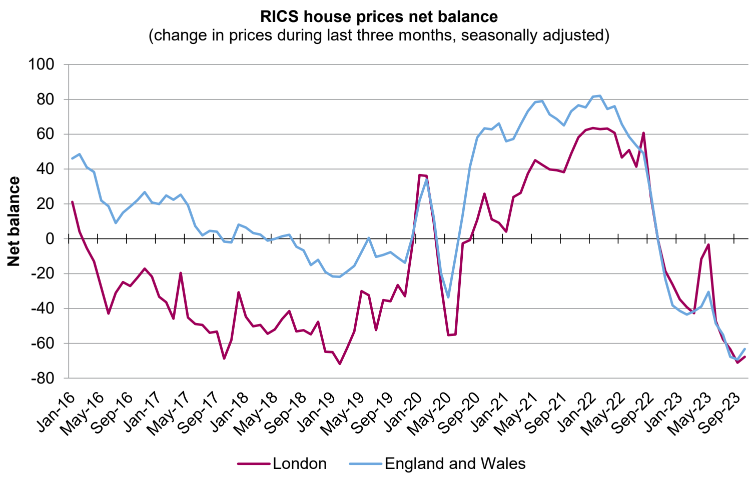
Source: IHS Markit for NatWest
Latest release: November 2023, Next release: December 2023



Over four-fifths of property surveyors in London reported house price falls in October

- In October, more property surveyors in London reported falling prices than rising prices. The net balance index was -68 and in September 2023 it was -71
- For England and Wales, the RICS house prices net balance index improved marginally from -69 in September to -63 in October.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

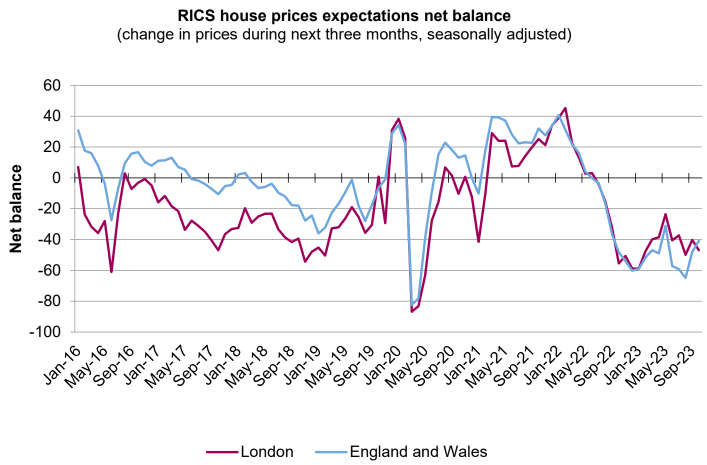
Source: Royal Institution of Chartered Surveyors
Latest release: November 2023, Next release: December 2023



In October, nearly three-quarters of property surveyors had negative expectations for house prices in London over the next three months

- The net balance of house prices expectations in London was -47 in October, worsening from -40 in September.
- The index for England and Wales was -41 in October an increase from -48 in September.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

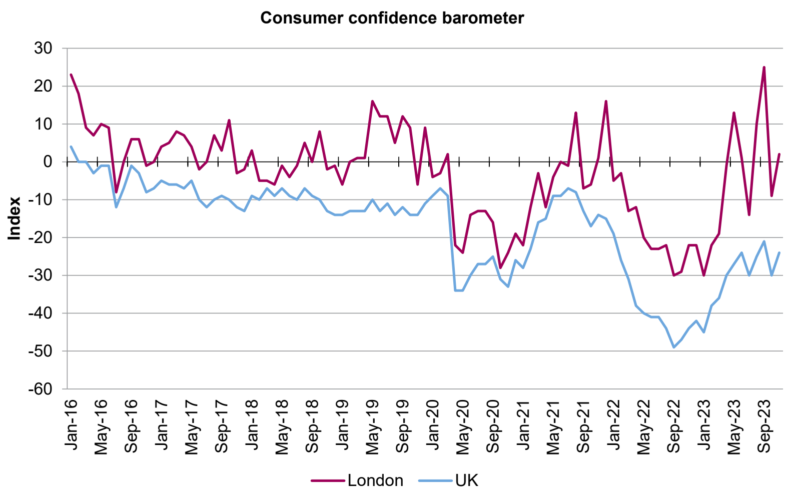
Source: Royal Institution of Chartered Surveyors
Latest release: November 2023, Next release: December 2023



Consumer confidence in London was slightly positive in November

- The consumer confidence index in London increased from -9 in October to 2 in November. It has been volatile month-on-month around zero since the Spring.
- The sentiment for the UK increased from -30 to -24 over the two months. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: November 2023, Next release: December 2023



Housing affordability and Public-Sector recruitment in London

Adam Yousef, Head of GLA Economics

It is no surprise to many of us that London has been facing an acute affordability crisis in recent years that has affected the prices of necessities such as food, energy, and housing. In particular, the city's housing sector has experienced substantial rises in price especially when compared to income levels. According to data from the Office for National Statistics (ONS) for the financial year ending in 2022, an average London house costs just under 14 times a typical London household's income, with median house prices exceeding the £500,000 mark[1].

While this surge in housing prices could be traced back to the 2008 Financial Crisis or even earlier, it has been exacerbated in recent years by a combination of factors including the COVID-19 pandemic and an acute supply/demand mismatch in London's housing market. This supplement presents recent analysis by GLA Economics that demonstrates the extent to which housing has become unaffordable in London compared to other UK regions, with various grave implications, including for public sector recruitment and retention.

Public sector salaries and housing prices in London: brief context

It is worth noting that public sector salaries in London continue to exceed those in other UK regions for roles of comparable seniority and responsibility. ONS data, for example, shows that since 2016, the median annual public sector salary in London has been nearly 20% higher than that for the UK as a whole, thereby complementing similar trends for private sector pay.

1 Average London home now costs 14 times the typical annual income | Evening Standard

Nevertheless, when we look specifically at growth in public sector pay by region, and if we also adjust such growth for inflation, we see that growth in London's real median annual public sector salary between 2016 and 2022 (14.9%) lagged that of the UK (15.5%). Moreover, it also lagged growth in the median annual private sector salary over that same period by more than 2% (17.4%). Several factors could explain that slowdown: lower productivity growth in London's public sector, higher price levels, and unaffordable housing (as we shall see).

Meanwhile, London's property prices significantly exceed those in other parts of the UK. For example, data from HM Land Registry shows that in 2021, the average house price in London represented nearly twice the UK average and was 45% higher than that for Southeast England (the region with the second-highest average price). This affordability challenge has been a feature of London's housing market but has gotten worse since 2016[2]. There are various reports and publications that have linked London's unaffordable housing to the city's anaemic productivity[3] and high levels of income, wealth, and social inequality[4]. This analysis continues in that same vein to highlight this issue with an illustrative example involving a typical public sector worker and the challenge they would face living in a typical London borough compared to a typical borough outside the capital.

Housing affordability and public sector recruitment: an illustrative example

Combined with London's relatively weak public sector nominal wage growth since 2010, unaffordable housing has undermined the city's ability to hire and retain public sector workers. Let us go through an illustrative example that compares the effect of this housing crisis on equivalent public sector workers in and outside of London.

This example looks at the situations of entry-level police constables in a typical London borough and a local authority outside of London. Table A1 lists the assumptions concerning the profile shared by our two constables in the example.

Table A1: Assumptions behind Illustrative Example (apply to both constables)

Characteristic	Assumption
Profession	Police constable (entry-level)
Marital status	Single
Benefits claimed	None
Property (owned or rented)	One-bedroom apartment

For this example, we chose two boroughs: one in London and one outside of London. Both boroughs were chosen based on whether their residents' median gross incomes resemble those of the London-wide (for the London borough) or the UK-wide (for the other borough) medians. Therefore, we assumed our London constable resides in Greenwich (which ranks 16th out of 32 boroughs by median income[5]), while the other constable resides in the district council of West Suffolk (where median incomes resembled the UK median in 2021[6]).

2 Ratio of house price to equivalised disposable household annual income deciles - Office for National Statistics (ons.gov.uk)
3 Capital losses: The role of London in the UK's productivity puzzle | Centre for Cities
4 Centre for London | Housing and Inequality in London
5 London's richest and poorest boroughs: The average incomes in 2022 where you live - MyLondon
6 Income and tax by borough and district or unitary authority - GOV.UK (www.gov.uk)

Data from the Metropolitan police shows that an entry-level constable can expect to earn about £37,000[7] as a starting salary in 2023. Meanwhile, a police constable outside of London[8] can expect to earn about £23,000 as a starting salary. We assume these are our constable's respective gross annual salaries, and that they don't earn any other income during a given tax year. We also don't account for the possibility that different forces pay different allowances to their constables based on location.

With that in mind, for each of the other years covered in our examples (2018 to 2022), data on annual inflation from the ONS was used in addition to the 2023 salary information above to calculate what the salary would have been for that year. This would assume that annually, the gross nominal salaries of our constables grow only by the inflation rate.

Scenario 1: Our constables own their one-bedroom apartments

Table A2 lists the assumptions for this scenario, where our constables own their respective one-bedroom apartments.

Table A2: Scenario 1 Assumptions

Characteristic	Assumption	Considerations
Year apartments bought	2018	
Mortgage product taken	5-year fixed; 75% LTV ratio; 25-year term.	This is a very common mortgage product on offer, with a 25% deposit being typical for prospective homeowners. We implicitly assume the 2 constables have the same credit history/rating, and that they would get identical mortgage rates.
Property price in 2018	Greenwich: £413K West Suffolk: £112K	According to data from home.co.uk, median flat/apartment prices in London grew by about 9% from 2018 to 2022[9]. For West Suffolk, price data from Zoopla show that they resemble the UK median, and so median prices were used for 2018 and 2022.
Property price in 2022	Greenwich: £450K West Suffolk: £150K	The median price of a 1-bedroom apartment sold in Greenwich in 2022[10] is approximately £450K; data for West Suffolk[11] is taken from Zoopla.
Mortgage Rate (2018-2022)	2%[12]	Both constables are assumed to have the same fixed-term mortgage product and incur the same rate. Both are expected to renew their mortgage (with new term starting in 2023).
Mortgage Rate (2023-2027)	6%[13]	Both constables are assumed to choose the same product upon renewal of their mortgage for 2023-2027. The higher rates account for the increase in benchmark interest rates since early 2021.

With these assumptions in mind, under this scenario, the mortgage costs incurred by our London-based constable per year since 2018 are more than 3.5 times those incurred by our West Suffolk constable, despite both facing the same mortgage rate and having the same loan-to-value (LTV) ratio (see Table A3).

7 Police constable | Benefits and rewards | Metropolitan Police
8 UK Policing Ranks from PC to Chief Constable - Police Success. Note: This source suggests the starting salary of a constable in the UK ranges between 20k and £26k, and so for our example we chose the mid-point (£23k).
9 Home.co.uk: House Prices Report for London - January 2016 to December 2022
10 Properties For Sale in Greenwich | Rightmove
11 Find 1 Bedroom Flats and Apartments for Sale near West Suffolk College, Suffolk, IP33 - Zoopla
12 Quarterly development of mortgage rates UK 2000-2023 | Statista
13 Compare Fixed Rate Mortgages (moneyfactscompare.co.uk)

Table A3: Annual mortgage cost as a percentage of gross annual income (2018-2023)

	London constable	West Suffolk constable
2018Mortgage cost as % of income in 2018	47%	20%
2019Mortgage cost as % of income in 2019	45%	20%
2020Mortgage cost as % of income in 2020	44%	19%
2021Mortgage cost as % of income in 2021	43%	19%
2022Mortgage cost as % of income in 2022	43%	19%
2023Mortgage cost as % of income in 2023	47%	21%

Table A3 shows that during the first five-year mortgage term (with both constables facing a 2% mortgage rate), mortgage costs represented just under half of the London constable's gross income due to the considerably higher price for the same one-bedroom apartment that is owned by the West Suffolk constable.

In this scenario, we also assume that our constables renew their five-year fixed term mortgages in 2023. With the Bank of England having raised benchmark interest rates considerably since 2021, our constables now face a 6% rate for the same mortgage product they had during the previous five years. As a result, our London constable's mortgage costs rise to represent just under half their gross income in 2023, while for our West Suffolk constable, the costs rise to just over a fifth of their 2023 gross annual income.

Scenario 2: Our constables rent their one-bedroom apartments

Table A4 lists the assumptions for this scenario, where our constables rent their respective one-bedroom apartments.

Table A4: Scenario 2 Assumptions

Characteristic	Assumption	Considerations
Year rent started	2018	Both constables rent identical one-bedroom apartments, and the rent increases every year by the average increase for London and the UK (for the West Suffolk apartment).
Rent in 2018	Greenwich: £1,594 West Suffolk: £679	These rates were calculated from the 2023 average private rental rates for one-bedroom apartments in Greenwich and West Suffolk. For Greenwich, London's year-on-year change in Index of Private Housing Rental Prices was used to calculate the rents for previous years. For West Suffolk, the UK's Index figures were used given that area's rental market's relative resemblance to the UK average[14].
Rent in 2023	Greenwich: £1,700[15] West Suffolk: £750[16]	

For this scenario, the annual rental costs incurred by our London constable since 2018 represented nearly 2.3 times those that were incurred by our West Suffolk constable for an identical apartment (see Table A5).

14 Index of Private Housing Rental Prices, UK - Office for National Statistics (ons.gov.uk)
15 Properties To Rent in Greenwich | Rightmove
16 1 Bedroom properties to rent near West Suffolk College, Suffolk, IP33 - Zoopla

Table A5. Annual rental costs as a percentage of gross annual income (2018-2023)

	London constable	West Suffolk constable
2018Mortgage cost as % of income in 2018	57%	39%
2019Mortgage cost as % of income in 2019	55%	38%
2020Mortgage cost as % of income in 2020	55%	38%
2021Mortgage cost as % of income in 2021	54%	37%
2022Mortgage cost as % of income in 2022	53%	38%
2023Mortgage cost as % of income in 2023	54%	38%

Table A5 shows that rental costs represent over 50% of our London constable's gross annual income for all years, compared to just under 40% for our West Suffolk constable. The difference is stark in spite of them renting identical apartments and the London constable's considerably higher annual gross income. In other words, the capital's considerably higher rents and weaker public sector wage growth combine to aggravate the financial burden that our London constable faces compared to their West Suffolk counterpart.

Implications for public sector recruitment in London

The above example, while only hypothetical and illustrative, demonstrates the extent to which housing has become unaffordable in London, especially when compared to wage levels and growth in the public sector. There is little question that this affordability crisis is undermining the financial wellbeing of public sector workers in the city, relative to their non-Londoner counterparts. The results of this example confirm the findings of previous reports on the impact of the housing crisis on London's ability to attract and retain talent[17].

Furthermore, recent data from the ONS suggests that the housing crisis is already starting to hurt public sector recruitment and retention in London (see Figure A1). The growth in public sector employee headcount in London (6.2%) between 2018 and 2022 was slower than that for the UK (6.9%) and England (6.7%).

Figure A1: Increase in public sector employee headcounts by UK region (2018-2022)

With public sector nominal wage growth and productivity in London being slower than the national averages, this situation is likely to get worse. This willfurther harm public sector employee retention at a time when most public services are based in the capital and when public sector organisations are in greater need to hire and retain talent to support the publics quality of life more than ever before.

17 [London's productivity growth lags well behind global competitors | Centre for Cities]

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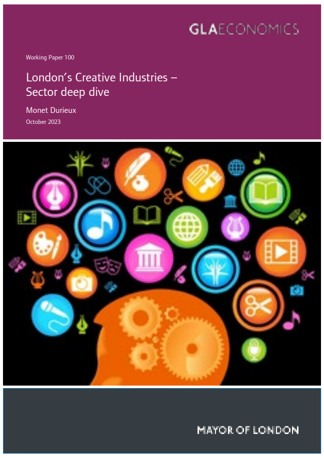

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GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.

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