GLAECONOMICS

Autumn Statement 2023

Overview and Economic Implications for London

November 2023

Introduction

On November 22nd, Chancellor Jeremy Hunt released the 2023 Autumn Statement. The Statement's release comes amid ongoing uncertainty regarding the date of the next general election, as well as concerns about the UK's fiscal position, the social and economic consequences of the cost-of-living crisis, and ongoing geopolitical flux.

Key Points

- This Autumn Statement was meant to present a 'pro-growth' agenda centred on tax cuts and lower economic inactivity. Instead, **it overlooked several challenges facing the London and UK economies, and risks achieving the opposite outcome.**
- The Statement does not (at least directly) address London's needs and challenges, and could have harnessed the city's competitiveness and economic potential.
    - The **'levelling-up' announcements were framed within a 'zero-sum' mindset** that what benefits other UK regions must come at London's expense.
- Cuts to Class 2 National Insurance contributions to employees are more than offset by the additional tax employees will pay due to the income tax bracket freeze. **Low and middle-income Londoners will lose hundreds of pounds**.
    - Meanwhile, **cuts to Class 4 NICs are unlikely to address some of the key challenges self-employed people face** - from financial resilience in the face of the cost-of-living crisis to business solvency.
- Increasing local housing allowance (LHA) rates, while welcome, does not sufficiently tackle London's housing affordability crisis. **It comes on the back of them being frozen since 2020**.
- Commitment to the pension triple-lock **would favour pensioners**, while working-age Londoners (who generally hold less wealth) would still face a more precarious financial situation.
- Policies announced to reduce economic inactivity and boost employment **underestimated the extent to which genuine long-term sickness and caring responsibilities impede labour force participation**.

  - **More stringent conditions to claim benefits risk undermining the health and financial wellbeing of London's most disadvantaged individuals**, at a time when the capital has higher inactivity rates, starkly unequal social outcomes, and a more acute affordability crisis.

- Raising the National Living Wage, while welcome, **falls short of levels that would help Londoners cope with the cost-of-living crisis.**

- Some of the announcements that relate to business and investment could prove beneficial for London (e.g., permanent full expensing of the full cost of qualifying plant and machinery investment), pooling of pension pots, and extra funding for SMEs and high streets).

  - Nonetheless, **the amounts committed were relatively limited** considering the challenges, and there is a **risk that some of the announcements made regarding financial services would lead to further divergence** from the EU- which would hurt London's critical financial sector. By the same token, **investments pertaining to infrastructure and skills were modest.**

- Last but not least, the OBR's figures reveal that the UK economy should brace for **slower growth and more persistent inflation than previously expected**. Meanwhile, the announced tax cuts are likely to come at the expense of cuts to public spending.

  - While London's economy is more resilient than the UK's (and should see a smaller fall in growth), **it would nonetheless experience a slowdown**. As the city's inflation rate is usually higher, this would suggest that **Londoners are likely to find life less affordable in 2024**, with unemployment exceeding 5%.

  - This would indicate that **economic and social inequality will remain acutely high** in the city, with **those of protected characteristics suffering the most**.

Overview of the Statement's content

- The Chancellor commenced his statement by reflecting on the UK's effort to lower inflation but stated that although it is now lower than the double-digit highs reached over the past 12 months, the government remains committed to lowering it further.

- The government's key mission is to avoid a fiscal programme of substantial government spending and tax rises, instead favouring tax cuts (see below) and restraint on government spending.

    - Various organisations deemed the Statement a return to the "austerity agenda", which would impede the adequate provision of public services[1].

- The table below summarises the Statement's key announcements by theme.

[1] See Institute for Fiscal Studies The Autumn Statement 2022 explained | Institute for Fiscal Studies (ifs.org.uk) Office for Budget Responsibility Economic and fiscal outlook – November 2023 - Office for Budget Responsibility (obr.uk), and Jeremy Hunt's budget cuts spark fears of 'existential threat' to English councils | Politics | The Guardian for examples.

Macroeconomic and fiscal outlook	• Inflation to fall more slowly than expected, reaching 2% target in Q2 2025 instead of Q2 2024 • UK output expected to grow by 1.6% annually between 2024 and 2028- slower than what was predicted back in March • Labour market inactivity remains 400K above pre-pandemic levels, with those citing long-term sickness major contributors to the trend. Unemployment expected to increase as GDP growth and labour demand slow while spare capacity opens up • Government revenue expected to reach 37.7% of UK GDP by 2028-29, a post-WWII high even after accounting for the tax cuts in the Statement • Public spending expected to fall from 44.8% in 2023-24 to 42.7% in 2028-29 due to lower departmental spending and debt interest
Pensions and Benefits	• Maintain triple lock; state pension to rise in line with the lock • Allow individuals to have one pension pot for life • Uprating basic State Pension, new State Pension and Pension Credit standard minimum guarantee for 2024-25 in line with average earnings growth of 8.5% • Working-age benefits for 2024-25 uprated by September CPI rate (6.7%) • Invest over £1.3bn over the next five years so that unemployed Universal Credit claimants find work. 18-month limit for mandatory work placement. Benefits to be stopped for non-compliance with work coaches. Changes to Work Capability Assessments from 2025
Levelling-up	• Investment Zones programme extended from 5 to 10 years (double the envelope of funding and tax reliefs from £80m to £160m) • To support investment zones and freeports, create a new £150m Investment Opportunity Fund, available over five years • Establish four more investment zones (in Wrexham, Cardiff/Newport, East Midlands and Greater Manchester) • Additional funding for levelling-up partnerships in Scotland • £37.5m to support regeneration across UK (not including London)
Devolution	• Agreed Memorandum of Understanding outlining approach to single funding settlements with West Midlands and Greater Manchester Combined Authorities (takes effect from April 2024) • Four new deals (Level 3 deals with Greater Lincolnshire and Hull and East Yorkshire, and Level 2 deals with Cornwall and Lancashire) • Offer Level 2 devolution powers to councils that cover functional economic or whole county area, and meet relevant criteria as set out in the Levelling Up White Paper • Extend deeper devolution to existing Level 3 Mayoral Combined Authorities (MCAs). The Level 4 framework provides new powers for MCAs, including powers over adult skills, local transport and housing
Housing and planning	• Raise Local Housing Allowance rates to the 30th percentile of local market rents in April 2024 (compared to freeze at 2020 levels) • £5m in additional funding to target application backlogs, and premium planning services across England with guaranteed accelerated decision dates for major applications • Expanding £3bn scheme by a further £3bn to support housing associations to access cheaper loans for efficiency works and new homes • Consultation on new 'Permitted Development Right' for subdividing houses into two flats without changing the façade • £150m allocation to London from Brownfield, Infrastructure and Land Fund (BILF)
Infrastructure	• Joint Connections Action Plan with Ofgem to give clean energy businesses quicker access to the grid • Updated National Infrastructure Strategy next year • £23m funding for a rapid transit bus network in Thamesmead, as part of its vision for a new Docklands 2.0 (part of £150m BILF allocation) • Remove barriers to investment in infrastructure by UK pension funds and private insurers • Accelerating electricity transmission network build, reducing the end-to-end process from 14 years to 7 years on average
Taxation and Pay	• Main rate of Class 1 employee National Insurance contributions (NICs) will be cut from 12% to 10% from 6 January 2024 • Reducing main rate of Class 4 self-employed NICs from 9% to 8% • National Living Wage (NLW) will increase by 9.8% to £11.44, with the age threshold lowered from 23 to 21 years old • Changes (£280m a year) to simplify and improve R&D tax reliefs

	• Abolished Class 2 NICs for self-employed individuals with profits of at least £12,750. This will apply from 6 April 2024
Business and innovation	• Full expensing (allowing businesses to write off the full cost of qualifying plant and machinery investment) is made permanent • £4.3bn over five years to support small businesses and the high street • Tax rate reduced from 25% to 19%, as well as a lower qualifying threshold (loss making SMEs spending 30% (of their total expenditure on R&D), previously 40%) • Targeted support for digital technology, green industries, life sciences, advanced manufacturing and creative industries
Investment and Finance	• Recommendations of Lord Harrington's review of FDI accepted • Support for Office for Investment to strengthen its concierge offer • Commitment to Smarter Regulatory Framework programme • Extend Mortgage Guarantee Scheme to end of June 2025 • Fully exit shareholding in NatWest Group by 2025-26
Skills and Education	• Allocate funding (£50m over next two years) to increase apprenticeship growth areas and address barriers to entry in high-value apprenticeships • Funding down payment of over £600m over next two years. This will give early-career teachers in shortage academic and technical subjects up to £6,000 per year tax free • £40m capital investment into Education Endowment Fund

Implications for London

Macroeconomic and Fiscal Outlook

- The Office for Budget Responsibility's forecasts suggest that the UK's output growth will slow down by more than what Budget 2023 forecasts suggested, while inflation will persist above the Bank of England's 2% target for at least a year longer.

- Regional GVA data shows that **London's economy has generally been more resilient than the UK average**, with the city's post-pandemic recovery exceeding the UK's and the economy weathering the cost-of-living crisis better than expected.

    - Nevertheless, **a downward revision of national GDP estimates would suggest that London's growth forecast would also be revised downwards**. The ONS' recent decision to suspend release of quarterly regional GVA statistics renders it difficult to quantify the effect at present.

- According to GLA Economics' 'off-shelf' inflation measure, London's inflation rate for necessities such as food and rent exceeds that for the UK.

    - The OBR's expectation that inflation will last longer suggests that **London's affordability crisis will be worse than expected** before the Statement.

    - Recent GLA/YouGov polling indicates that over half of Londoners are either financially struggling or just about managing - a record share. Unfortunately, OBR forecasts would suggest that **such polling results are likely to continue for the foreseeable future**.

- London's labour market has been acutely affected by inactivity, whether due to long-term sickness or caring responsibilities (among other reasons).

    - With over 1.3 million economically inactive individuals, London's inactivity rate is relatively similar to the UK's. The Statement devoted considerable attention to reducing inactivity and incentivising inactive individuals to return to work (more on the implications of these measures in the following section).

- The Statement also forecast a higher national unemployment rate. Given that London's unemployment rate is usually higher than the UK's, **that would suggest that London's unemployment rate would remain above 5% in 2024**.

  - London's adjusted unemployment rate for the three months ending September 2023 was estimated at 5.3%, compared to the UK's 4.2%.

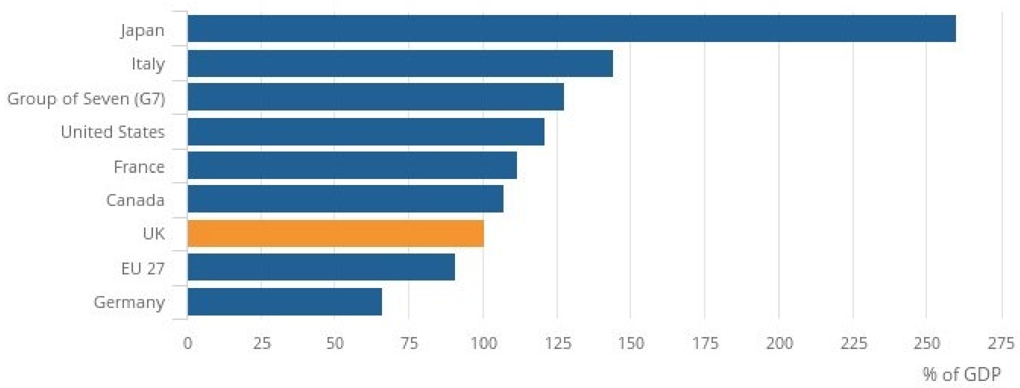
  - Meanwhile, as the UK and London labour markets loosen due to reduced demand and excess capacity, the employment rate for both will also drop, with **London's likely to remain lower than the UK's**.

  - According to the latest data, London's adjusted employment rate was estimated at 74.2% for the three months ending September 2023, which is lower than the UK's 75.7%.

- A combination of lower real public-sector spending and high tax-to-GDP ratio (by historical standards) would suggest **further public-sector spending cuts**.

  - It is worth noting that compared to G7 countries, **UK general government gross debt at the end of December 2022 was 27.6 percentage points lower than the G7 average** (only Germany had a lower debt-to-GDP ratio; Figure 1).

Figure 1: General government gross debt as a percentage of gross domestic product (GDP), at the end of December 2022, UK, EU average and Group of Seven (G7) member states



Source: Office for National Statistics

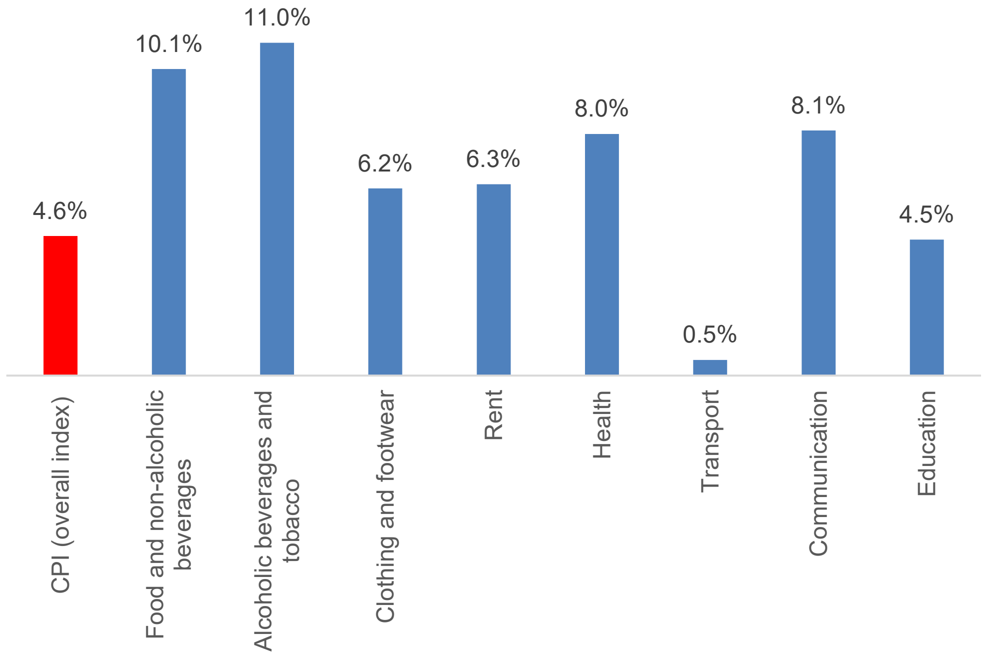
- This combination is likely to reduce funding for much-needed public services in London and elsewhere. Given that London's inequality levels are more pronounced than those of the UK, **Londoners from disadvantaged backgrounds (especially those with protected characteristics) are likely to experience worse economic and social outcomes**. In turn, this is likely to curtail the city's overall growth.

Pensions and Benefits/Welfare

- Maintaining the triple-lock (as announced in the Statement) and uprating the State Pension by 8.5% would benefit UK pensioners.
    - With a lower old age dependency ratio (176) than any other UK region in 2023, **London has a younger demographic than the UK average[2]. Therefore, Londoners are generally less likely to benefit from this decision.**

- Uprating working-age benefits for 2024-25 by September's CPI rate (6.7%) instead of the lower October rate (4.6%), is welcome, **but may not be enough to help Londoners cope with the affordability crisis**.
    - For example, ONS data shows that over the past 12 months, the CPI for necessities (e.g., food and rent) have generally risen by more than the average CPI figure used to uprate working-age benefits (Figure 2). These trends apply to London just like the UK.

Figure 2: Percent change in CPI over 12 months to October 2023



Source: ONS

- Measures to reduce economic inactivity by making benefits eligibility conditions more stringent are likely to **disadvantage economically inactive Londoners who are long-term sick or who have caring responsibilities. These represented approximately 550,000 Londoners as of June 2023.**
    - It is worth noting as well that these measures mainly target Universal Credit (UC) claimants. In other words, inactive Londoners currently ineligible for UC risk remaining inactive.

[2] ONS (2020). [Population of State Pension age and working age, and old age dependency ratios, for local authorities and regions in England - Office for National Statistics]

- Moreover, instituting mandatory work placements risks allocating workers to jobs that do not suit their skillset. This risks reducing London's labour market efficiency, and by extension its productivity and output growth.

Levelling-up

- The Statement's announced 'levelling-up' measures reveal that **the government continues to view levelling-up as a zero-sum game** (in other words, to benefit other UK regions, London and the Southeast should not be prioritised).
    - Four new investment zones were announced (none in London), while tax incentives for freeports and investment zones were extended from 5 to 10 years. **Thames Freeport (which entered operation in December 2021) covers an area within London and Essex.**
    - Freeports are meant to create economic activity by exempting imports from tariffs, exports from UK duties, or both. Firms can also benefit from lower national insurance rates if they hire employees within the freeport.
    - Investment zones and freeports enjoy special tax and regulatory privileges that are meant to boost investment and output growth.
- However, some studies suggest that they do not foster growth. For example, the OBR notes that **the evidence suggests that freeports don't necessarily create new economic activity but rather shift it from other regions to the freeport**[3].
    - Aside from impacts on growth, there are also **concerns about employee rights within freeports, the quality of jobs created in them** (which tend to be shed jobs), and the fact that **the government abandoned them in 2012 because they failed to deliver the promised benefits**[4].
- It should also be noted that such initiatives **are unlikely to fully replace the benefits of broad fiscal devolution** to London and other regions of the country.

Devolution

- The Memorandum of Understanding detailing the Single Settlement Mechanism with Greater Manchester and West Midlands Combined Authorities (per the trailblazer agreements) **should be carefully reviewed by London**. The Mayor already expressed interest in a similar arrangement for London, and therefore monitoring its implementation becomes necessary.
    - **London should also review the announced new 'Level 4' of the devolution framework.** Devolved institutions with a directly elected leader that meet eligibility requirements will be able to draw upon this framework, which delivers deeper powers alongside new scrutiny expectations.

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[3] Office for Budget Responsibility (2021). CP 545 – Office for Budget Responsibility – Economic and fiscal outlook – October 2021 (obr.uk)
[4] The establishment of free ports in the UK - House of Commons Library (parliament.uk).

- The four new devolution deals announced in the Statement encompass a lower degree of devolution than that already enjoyed by London.

Housing and Planning

- The raising of Local Housing Allowance (LHA) rates following a three-year freeze (to correspond to the 30th percentile of local market rents) was a welcome announcement and long overdue.
    - In London, the three-year freeze exacerbated housing affordability pressures for those on low and middle incomes. Median monthly private rent in London is at £1,500 (April 22-March 23)[5].
- Nevertheless, the Statement did not reference a removal or an increase in the benefit cap. The cap is a limit on the amount that is received and applies to income from UC together with other benefits (including Housing Benefit).
    - Not removing or revising this cap means that the amount Londoners would get from the revised "higher" LHA would be limited by the cap.
- Comprehensively modelling the impact of rising LHA rates with a fixed cap on all housing benefit recipients in London is very difficult, especially since we do not have the 2024 LHA rates available at present.
    - However, using 2023 LHA rates, the benefit cap for a single adult living in Greater London without children in 2023 (£326.29 per week), and assuming they live in a 'Category B' dwelling where the tenant has exclusive use of only one bedroom with exclusive use of other facilities, we could illustrate how the cap freeze adversely affects private renters in certain areas of London despite the LHA increase (Table 1).
    - This modelling assumes that the single adult is already in receipt of the standard rate of Universal Credit, as the majority of those receiving housing benefit will be receiving a 'housing payment' element of Universal Credit.

[5] Private rental market summary statistics in England - Office for National Statistics (ons.gov.uk)

Table 1: Benefit Cap vs. LHA Rates vs. 30th Percentile Private Rents in London

Region of London	2023 LHA Rate (per week; prior to Statement)	Estimated total benefit claim* (per week prior to statement)	New LHA Rate based on 30th Percentile Rent (2023) (per week)	Estimated total benefit claim* 2023/24 (per week)	Benefit Cap	Difference (- means the amount 'wiped out' by the benefits cap)	Already hitting benefit cap before change	Now hitting benefit cap after change
Central London	295.49	387.68	393.99	486.18	326.29	-159.89	Yes	Yes
Inner East London	295.49	387.68	303.7	395.89	326.29	-69.60	Yes	Yes
Inner North London	295.49	387.68	308.15	400.34	326.29	-74.05	Yes	Yes
Inner South East London	264.66	356.85	276.16	368.35	326.29	-42.06	Yes	Yes
Inner South West London	295.49	387.68	310.68	402.87	326.29	-76.58	Yes	Yes
Inner West London	278.01	370.2	287.67	379.86	326.29	-53.57	Yes	Yes
North West London	230.14	322.33	241.64	333.83	326.29	-7.54	No	Yes
Outer East London	241.64	333.83	264.66	356.85	326.29	-30.56	Yes	Yes
Outer North East London	207.12	299.31	218.63	310.82	326.29	15.47	No	No
Outer North London	246.24	338.43	246.25	338.44	326.29	-12.15	Yes	Yes
Outer South East London	205.97	298.16	218.63	310.82	326.29	15.47	No	No
Outer South London	201.37	293.56	211.73	303.92	326.29	22.37	No	No
Outer South West London	241.64	333.83	253.15	345.34	326.29	-19.05	Yes	Yes
Outer West London	212.88	305.07	218.63	310.82	326.29	15.47	No	No

*Assumes that the benefit claim consists of a Universal Credit standard allowance plus the relevant LHA rate

Source: ONS and GLA Economics

- **Table 1 is only an illustrative example and not representative of every benefit claimant's situation**. Nonetheless, for a single Londoner with no dependents living in a one-bedroom dwelling with exclusive amenities who is claiming the maximum cap, we can see that **even raising the LHA rates to the 30th percentile of local market rents per week means they could still lose out**.

- That is **especially the case in less affordable parts of London** (e.g., Central London and Inner Southwest London), but also in other areas.

- **Londoners who are subject to the benefit cap are more likely to be financially disadvantaged and to have a protected characteristic**. Raising the LHA rates after a three-year freeze is unlikely to help such individuals cope financially[6].
    - Meanwhile, for London regions where claimants could potentially benefit, we see that the extra potential saving is relatively small.
    - It is also worth highlighting that in their published analysis, the OBR confirmed that **the LHA rate will be refrozen from 2025/26 onwards**.

- Londoners under 35 renting in shared accommodation, without exclusive access to other facilities, would receive a lower rate of housing payment called the Shared Accommodation Rate (SAR). In other words, they'd lose out even more. Moreover, **the benefit cap disproportionately affects Londoners with children**.

- **£450m was also allocated to a third round of the Local Authority Housing Fund to deliver 2,400 units across the UK.**
    - This will benefit refugees while also easing pressures related to precarious housing arrangements in London.

- The government criticised the "outdated" and "inefficient" planning system while introducing the new "premium planning services" with guaranteed accelerated decision dates for major applications and fee refunds wherever these are not met. £5m will also be invested to incentivise the use of Local Development Orders to expedite commercial developments. **Time will tell whether these will in fact deliver the desired result of boosting planning and development.**

- Additional funding will be provided to tackle planning backlogs in Local Planning Authorities and government will consult on a new Permitted Development Right (PDR) for subdividing houses into two flats without changing the façade.
    - **The GLA will wish to consider the implications of the new PDR and respond to the consultation given the impact previous reforms had in the capital.**

Infrastructure

- Three of the announced infrastructure-related measures in the Statement could carry ramifications for London and its economy: the Thamesmead project, removal of barriers to infrastructure investment by pension funds and private investors, and giving clean energy providers quicker access to the grid.

[6] See https://cpag.org.uk/news-blogs/news-listings/autumn-statement-no-help-capped-families

- **The Thamesmead bus rapid transit network project, while only costing the Exchequer £23m, targets a relatively disenfranchised part of London** and one where significant housing development is planned as part of the Docklands 2.0 project (revealed in July by DLUHC). The scheme is part of the £150m allocation to London from the Brownfield, Infrastructure and Land Fund.
    - With a population of just over 30K, Thamesmead is one of the largest districts in London without railway infrastructure. Moreover, Bexley and Greenwich (the two boroughs encompassing Thamesmead) have lower health life expectancy and lower median incomes than the London average. **Such a project could boost transport accessibility, growth, and social outcomes in the area over time.**
- While TfL welcomed the reference to the Thamesmead scheme, the more substantive issue was **the lack of support for a long-term capital funding settlement.** As part of this, TfL has set out how **£500m in capital investment is needed for 2024/25** to support critical transport projects (such as continued replacement of the rolling stock on the Piccadilly line).
- **Unlocking UK pension fund and private investment into UK infrastructure projects is a long-held aspiration. If the reforms are successful, it could support certain London-related projects** (e.g., extending the London terminus of HS2 to Euston instead of Old Oak Common), with positive economic and social benefits for London (e.g., higher productivity, prosperity, and social outcomes).
- The government announced reforms to the grid connection process to support the transition to low-carbon power generation. Giving clean energy providers quicker access to the grid aligns with the Mayor's 2030 net-zero commitment.
    - While the central government's clean-energy commitments are not as ambitious as the Mayor's, **supporting the energy transition represents a step in the right direction** given the importance of this issue to London's future economic and environmental sustainability.
- The Autumn Statement addressed some of the recommendations by the National Infrastructure Commission in its National Infrastructure Assessment 2 (NIA2), and it will respond in full with **an updated National Infrastructure Strategy next year**.
    - **The Mayor, GLA and TfL will wish to consider how London could benefit from this new strategy**.

Taxation

- A major component of taxation-related changes announced in the Statement is cutting the main rate of Class 1 employee NICs from 12% to 10%.
    - While this is welcome news for employees in London and the UK, this **NIC cut is more than offset by the tax increase resulting from freezing the income tax thresholds until 2028**.
    - GLA Economics developed a series of illustrative examples in which a single (no dependents) employee of working age earns different amounts of pre-tax employment income (with no other

income earned) to highlight how modest the cut is compared to the tax rise resulting from bracket freeze until 2028 (Table 2).

Table 2: Impact of Main Rate Class 1 employee NIC cut vs. freezing of income tax thresholds by pre-tax employment income

Pre-tax income	Saving from NIC cut in the Statement	Extra tax paid due to income tax bracket freeze (up to 2028)	Net effect (Extra tax paid)
20,000	111	625	514
30,000	261	671	410
40,000	411	779	368
50,000	561	1667	1106

Source: GLA Economics calculations based on ONS data; rounded to nearest £

- The table shows that **low to middle-income Londoners will still pay much more tax** than any savings received from the 2% rate cut to NIC.

- The National Living Wage (NLW) has also been raised to £11.44 and extended to those aged 21 and 22. However, this remains below both the Real Living Wage (£12) and the London Living Wage (£13.15).
  - In 2022, **over 13% of Londoners** earned below the London Living Wage.
  - In the year to June 2023, there were about 350,000 economically active and 190,000 economically inactive Londoners aged 20-24. Extending the NLW to those aged 21+, while potentially boosting the wages of tens of thousands of Londoners, **does not sufficiently address the inequality and affordability crises**.

- London has a **higher proportion of self-employed individuals (16.5%) than England (13.6%) and the UK (13.3%)**.
  - Abolishing Class 2 NICs for self-employed individuals with profits of at least £12,750 **would benefit Londoners more than those in other UK regions**. Moreover, it is likely to boost business activity at a time when the city's medium-term growth prospects are uncertain. To what extent that will be the case will become clearer with future data.

- Reducing Class 4 NIC rates from 9% to 8% benefits self-employed people whose profits exceed £12,570.
  - **London remains the region with the largest number of self-employed people** in the UK (over 750,000 as of Q1 2022).
  - While data on profits of self-employed Londoners is difficult to obtain, it could be suggested that reducing the Class 4 NIC by 1% is likely to benefit London-based self-employed workers more than others. For example, **if we assume that self-employed Londoners earn an average of £35,000 in profit (i.e., close to the average median income), then this change would save each one of them £224. Collectively, they would save nearly £168m.**
  - **Nonetheless, this change does not address other challenges faced by self-employed Londoners - from high input costs to high debt to financial insecurity.** These issues represent key threats to their profitability and economic survival.

Business and Innovation

- The Autumn Statement made the full expensing of qualifying business costs permanent rather than temporary as communicated in the 2023 Spring Budget. Companies can save up to 25p in tax for every £1 of capital investment.
    - Businesses have generally welcomed this announcement, as they strongly prefer policy certainty prior to making the long-term investments required to boost productivity and growth. London businesses are certainly likely to benefit.
- Nevertheless, it is worth noting that **this decision comes on the back of a rise in corporation tax from 19% to 25%, and the ending of the more generous 'super-deduction' introduced during the pandemic.**
    - Furthermore, the OBR projected that this policy shift will result in a **£10.9 billion reduction in tax receipts for the fiscal year 2028/29[7]. Whether this policy will truly translate into greater business investment and productivity for London and the UK over time remains to be seen**, but existing studies suggest there will be positive effects from making such expensing permanent[8]**.**
- The government will implement a business rates support package valued at £4.3bn over the upcoming five years, aimed at bolstering small businesses and those in the Retail, Hospitality, and Leisure (RHL) sectors. This package includes:
    - An extension of the existing 75% business rates relief for qualifying retail, hospitality, and leisure properties for an additional year, encompassing the 2024/25 period. The statement says that around 230,000 RHL properties will be eligible, and **ONS data shows that for 2023 alone, there were over 64,000 London businesses in the retail trade, travel, creative arts and sports and recreation sectors[9].** These do not encompass the entire RHL sector by any means (ONS data does not precisely define RHL), but demonstrate the extent to which these businesses are pivotal to the economy. They also represent just under a quarter of all businesses in the aforementioned categories across the UK.
    - **Maintaining the small business multiplier is likely to benefit 220,000 premises in London[10].**
- Starting in April 2024, the Research and Development Expenditure Credit (RDEC) and the Research and Development Tax Relief for SMEs will be merged into a unified scheme. For businesses incurring losses under this merged scheme, the notional tax rate will decrease from the current 25% in the RDEC scheme to 19%.
    - This will support many startups engaged in R&D, with **London being a principal beneficiary by virtue of the concentration of start-ups in the city.**

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[7] Office for Budget Responsibility, Economic and fiscal outlook, CP944, 22 November 2023, Table 3.3, p58
[8] See Williams and Clougherty (2023) for example: Permanent-Full-Expensing.pdf (cps.org.uk)
[9] Office for National Statistics UK business: activity, size, and location (2023); UK business: activity, size and location - Office for National Statistics (ons.gov.uk)
[10] As of 31 January 2023. Note that small business multipliers are applied based on the size of property (rateable value below £51,000), not the size of the business occupying it. In theory, large national chains could occupy a small property, and therefore pay the small business multiplier. Therefore, this figure should be seen as a proxy for number of small businesses.

- Announcements related to strategic manufacturing sectors (auto, aerospace, life sciences, and clean energy) **may not have a significant economic impact on London, seeing as it is not a key economic sector for the city**.

Investment and Finance

- Lord Harrington's review of foreign direct investment (FDI) made six recommendations: 1) Greater clarity on what government wants to achieve, 2) Lift the profile of investment across government, 3) Make better use of local insight to secure investments, 4) Deliver meaningful and measurable improvements to the business environment, 5) Establish an Office for Investment, and 6) Strategically targeted incentives via concrete offers with fixed timelines for decisions.
    - **Recommendation 3 could prove beneficial for London**, seeing as how local agencies (e.g., London and Partners) are in a better position to identify local investment opportunities that would reap the maximum benefit. In fact, **the review praised London and Partners' contestability criteria** (part of its Evaluation Methodology) and recommends that the OFI consider these to measure the impact of its operations.
    - The review also recognises **London's role as the pre-eminent FDI destination**, which in turn generates rewards for the rest of the country.
- Delivering a Smart Regulatory Framework tailored to the UK, while welcome, risks creating a regulatory divergence in financial services from the EU.
- With the UK already risking the loss of passporting rights to the EU's lucrative financial services market post-Brexit, **many of the proposed changes to financial services regulation in the Statement seek to do away with EU retained law, and risk further regulatory misalignment. This could undermine London's position as Europe's leading financial services hub over time**. Loss of activity in such a pivotal component of London's economy would undoubtedly curtail the city's future GVA.
- Extending the Mortgage Guarantee Scheme by 18 months could help prospective home-buying Londoners with small deposits to climb the ownership ladder.
- Pension reforms **(including allowing individuals to pool their pensions into one pot) could support further investment into UK (and London) business and assets.**
    - **Business underinvestment is a key challenge facing London and the UK**. In particular, startups in the UK struggle to access domestic capital. For example, pensions make up only 10% of Britain's venture-capital pool, compared with 72% in the US. Meanwhile, UK pension funds are much smaller than their counterparts in the US, Australia, and Canada[11]. **Pooling pensions would facilitate more investment in British firms, boosting both productivity and growth**.

[11] The Economist (Nov 25 Edition): The government tries to unlock growth capital for British firms (economist.com)

Skills and Education

- The key announcement related to apprenticeships is the allocation of £50m over the next two years for a pilot to explore ways to increase apprenticeship uptake in engineering and other key growth areas.
    - The **impact for London may be limited** as the capital has a relatively low number of people starting apprenticeships compared to other regions in England. For example, in the academic year 2021/22 (latest year for which full data is available), only around 10% of apprenticeship starts were in London.
- **Based on this data, a small proportion of investment funding for skills might be allocated to London** over two years. In addition, it is not clear how that funding will be allocated across growth sectors and businesses.
- Data for academic years 2016/17 to 2021/22 highlights important trends for London which would merit attention when considering policy related to boosting apprenticeships. For example:
    - **Apprenticeship starts are still below pre-pandemic levels** and have increasingly been at higher levels of education.
    - In recent years, **fewer young people (e.g., aged under 19) are starting apprenticeships.**
    - The rate of **apprenticeship starts (per 1,000 workforce) in areas linked to priority sectors,** such as Health, Hospitality, Creative, and Construction, **has increased from 2019/20, but remains lower than it was in 2016/17**. The exception is digital/ICT, where the rate has almost doubled since 2016/17.
    - **Apprenticeship starts have increasingly been concentrated in larger businesses**, whereas starts in SMEs have declined since 2016/17.
- Therefore, any central government initiative to boost apprenticeship uptakes in London **would require more funding and be targeted to priority sectors for the capital** (which has been seeing recent increases in uptake).

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