GLAECONOMICS

Budget 2024: Content and Considerations for London

March 2024

Context

On 6 March 2024, Chancellor Jeremy Hunt presented details of the 2024 Budget. At the same time, the Office for Budget Responsibility (OBR) released updated forecasts for the UK's macroeconomic position. This note sets out the main points from the Budget. Where possible, it includes considerations and estimates of the potential impact of the announcements on London.

Budget Highlights

Topic	Announcement	Considerations for London
Macroeconomic Outlook	UK GDP grew by 0.1% in 2023 (lower than the Autumn Statement forecast of 0.5%). The OBR expects growth to increase to 0.8% in 2024, before reaching around 2% in the mid-2020s.	London's GVA growth correlates with the UK's GDP growth. GLA Economics' (GLAE) forecast for London's growth in 2023 was 0.9%, before increasing to 1.0% in 2024 and rising further in the mid-2020s.
	Inflation to fall to 2.2% in 2024 and 1.5% in 2025, before returning to its 2% target by 2028/29.	As London's inflation is higher than the UK's, the cost-of-living crisis has been more severe in London. Nonetheless, GLAE expects inflationary pressures in the capital to also ease in line with OBR projections.
	Budget policies raise borrowing by £12.7bn in 2024/25, tapering down to £5.2bn in 2028/29. This results in higher public-sector borrowing in every year of the five-year forecast period than in the Autumn Statement, reaching £4.4bn more in 2028/29.	The fiscal position remains challenging due to high debt, subdued economic growth, and high interest rates. This would impact funding and provision of public services in London and beyond, as well as support for local authority budgets in light of the recent challenges they have been facing.
	Tax as a share of GDP is forecast to rise to 37.1% of GDP in 2028/29, 4.0% of GDP higher than pre-pandemic.	Londoners are likely to pay higher taxes than those in other regions by virtue of their higher incomes. London contributes nearly £40bn to the Exchequer annually.
Devolution	New Level 4 'trailblazer' devolution deal with the Northeast Mayoral Combined Authority, new Level 2 deals with Buckinghamshire Council, Surrey and Warwickshire County Councils, and additional Level 4 powers granted to West Midlands Combined Authority (WMCA).	More detail on the additional Level 4 powers will emerge in due course. It is likely that such powers would include transitioning from a 'DLUHC-only consolidated pot covering local growth and housing' to a 'single department-style settlement' covering all devolved spending areas. The GLA asked for a similar 'single settlement' arrangement in the past and

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		therefore monitoring its application by WMCA would be of interest.
Levelling-up	£1.3bn dedicated to the 'Levelling-Up Fund' for 2024/25 (total size £4.8bn).	London was not included in the Budget's 'Levelling-up' announcements. Nevertheless, the Thames Freeport would benefit from the tax relief extension.
	An Enhanced Investment Zone offer in Northern Ireland with £150m, able to be used flexibly across spending and tax levers.	
	Extension to Freeport tax reliefs (announced in Autumn Statement) to September 2031 (across all English Freeport tax reliefs).	
	£400m in new funding to extend the 10-year Long-Term Plan for Towns to 20 more places, including Darlington, Rhyl, Carlton (in Gedling), Peterhead, Coleraine and Eastbourne, and over £30m into capital and regeneration projects across the UK, including in Bradford and Ashfield.	
	£100m in new funding for culture projects across UK (none in London).	
Labour Market	At the end of 2023, the number of inactive UK working-age adults remains close to peak levels. This picture ties in with the sharp rise in the number of incapacity benefit claimants, which rose 20.3% between 2019/20 and 2022/23, from 2.5 million to 3.1 million.	Inactivity has not been as much of a challenge for London. Unlike in the wider UK, inactivity in London has been falling over recent months, and compared to pre-pandemic there are similar levels of people off work due to illness.
	UK unemployment is now expected to peak at 4.4% in 2024 and 2025 from 4.6% in the Autumn Statement forecast. It is currently at 3.9% (based on Nov 23 to Jan 24 data).	London's unemployment rate tends to be slightly higher than the UK's. Nevertheless, it moves in tandem with the national rate, and so a downward revision for the UK should lead to a drop in the London rate.
	UK labour force participation is expected to fall from 63.1% in 2023 to 62.8% by 2025.	London has more economically active people than the UK. For Dec 2023, 79.2% of Londoners aged 16-64 were active, a 1.3% increase on the previous year.
	Earnings to grow 1.4% in 2024, 1.1 percentage points (pp) stronger than the Autumn Statement forecast, as wage settlement expectations held up.	London's earnings (nominal and real) have been growing in recent months. In Dec 2023, nominal employee pay in London was up 5% on the year (an increase of 0.8% in real pay). The annualised growth rate of real pay in London was 7.5%. This would suggest London's real pay growth is stronger than the UK's.
	Nominal average pay growth in the UK is expected to slow to 3.6% in 2024 (lower than the Autumn Statement forecast), while real earnings are expected to grow 1.4% in 2024, slowing to 0.3% in 2026 before recovering to 1% by 2028/29.	
Housing	£124m investment in Barking Riverside (expected to unlock 7,200 homes), and £118m to deliver Canary Wharf scheme.	Both schemes will provide additional homes (~ 8,000) in London as well as commercial property for businesses.
	Cap on percentage of cost of replacement home that can be funded from Right to Buy receipts increased from 40% to 50%.	GLA and London Councils had previously requested greater flexibilities for local authorities to use Right to Buy receipts.
	£20m investment in a social finance fund to support the development of community-led housing schemes.	No mention of regional breakdowns and London's share in the fund.
	Elimination of Furnished Holiday Lettings tax regime that benefitted short-term lets.	Could ease affordability pressures in London's private rental market (since it means equal tax treatment for short and long-term lets), but it may also affect London's ability to attract tourists (tourism being an important economic sector).

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	Higher rate of capital gains tax (CGT) reduced from 28% to 24%.	Private Residence Relief will continue to apply (meaning the vast majority of residential property disposals in London and elsewhere will still not pay CGT). As Londoners tend to have more housing wealth, they are more likely to benefit from a CGT rate reduction. It may also address the supply-side of affordability pressures by encouraging property sales.
	Removal of Multiple Dwellings Relief.	As this is meant to discourage purchasing multiple properties, it could lead to reduced affordability pressures in London.
	Amending rules to claim First-Time Buyers' Relief from Stamp Duty Land Tax in England and Northern Ireland.	This is meant to extend relief to first-time buyers irrespective of how a leasehold property is purchased. As more newly-built properties in London are leasehold, this is likely to support more first-time buyers.
Productivity & Infrastructure	The productivity growth forecast is little changed from the Autumn Statement (trending below pre-2008 trend rate of 2%).	A key component of weak national productivity is London's productivity, which has been growing more slowly than most UK regions since 2010.
	Average trend productivity growth forecast for 2024/28 unchanged at 0.9%, with uncertain outlook.	Between 2010 and 2021, London's productivity grew by less than 2.5%; the key sources of uncertainty to productivity include low investment, housing affordability pressures and Brexit.
	Public Sector Productivity Programme announced to boost public-sector productivity, including £3.4bn to improve NHS productivity.	London's productivity growth since 2010 lags most other UK regions despite being the country's most productive region. Addressing the city's productivity challenge is fundamental to regional and UK growth.
	Commitment to privately financed HS2 Euston terminus and establishment of Ministerial Task Force to oversee next stages of delivery.	Supporting a Euston terminus to HS2 is a major Mayoral ask. Establishing the Euston Housing Delivery Group to support delivery of up to 10,000 new homes is welcome.
	New £14m for Research and Innovation Organisation (RIO) fund for infrastructure.	Likely to benefit London as the nation's key innovation hub.
Tax & National Insurance	Employee NIC cut by a further 2pp from 10% to 8% (after Autumn Statement cut from 12% to 10%).	OBR and GLAE modelling show that the NIC cut by itself benefits high-income earners more in percentage terms. When accounting for the freezing of income tax and NIC thresholds, both GLAE and the Institute for Fiscal Studies (IFS) show that those earning between £20k and £60k "benefit" more than those earning other income amounts.
	Class 4 NICs paid by the self-employed cut to 6%.	London has a higher proportion of self-employed individuals (16.5%) than England (13.6%) and the UK (13.3%). This could disproportionately benefit Londoners.
	Reforms to existing 'Non-Dom' regime (to come into effect April 2025); eligibility to be based on residence rather than domicile.	These changes are likely to impact London more than other regions, given the larger presence of people with Non-Dom status in the capital.
	Abolishing 'remittance basis' tax treatment for Non-Doms and introducing new regime.	
	Offshore protected trusts to be brought into scope of UK taxation for foreign income/gains.	As Londoners more likely to accrue income and gains from foreign sources, they are likely to pay more tax due to this change.

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	Extension of energy profits levy, new vaping duty, freezing of fuel and alcohol duties, and increase in Air Passenger Duty.	The increase in Air Passenger Duty for non-economy flights could affect London and the UK's tourism industry.
Skills and Education	Initial £105m commitment for 15 new schools for special needs (SEND) children in England.	London retains a competitive advantage in sectors highlighted by this support (such as AI). Its workforce tends to be more highly skilled than the UK's, and it hosts about 20% of the country's SMEs. It is likely to benefit from this support. No London or UK-related announcements were made on devolution related to apprenticeships or employer investment in training.
	£3m commitment to match industry-led funding for skills and education programme.	
	AI Upskilling Fund Pilot (£7.4m to help SMEs develop AI skills).	
	Training an additional 6,000 midwives in neonatal resuscitation.	
Childcare, Benefits, Pensions and Social Welfare	Changes to High-Income Child Benefit Charge (HICBC); income threshold increased to £60k and rate of charge halved so that Child Benefit only repaid in full when person earns £80k.	From London's perspective, the impact of this change on cost-of-living is likely to be greater than any reduction in inactivity (given that the latter is not as acute a challenge for London).
	HICBC will be administered on a household rather than individual basis from April 2026.	
	Removing administration fee (£90) for Debt Relief Orders (DRO) and raising maximum debt value threshold from £30k to £50k.	The rate of new DROs per 10,000 people in London has been lower than England's over the past decade.
	Extra £2.5bn for NHS England in 2024/25 and £35m over 3 years to improve maternity safety in England.	No regional breakdown provided.
	Creation of a "British ISA" with £5k allowance on top of existing £20k and "British Savings Bond" that offers consumers a guaranteed interest rate fixed for three years.	13% of aggregate UK household savings are held by Londoners. While saving is harder for Londoners given the high cost of living, these changes provide room for savers to expand their wealth tax-free; high income Londoners more likely to benefit (more so than high-income UK residents).
Business and Industrial Sectors	£1bn in extra tax relief for creative industries.	Creative industries represent 11.5% of London's GVA, and London's creative industries comprise 52% (£55bn) of the UK's creative industries. They also employed 52% (800,000) of all jobs in this sector across the UK. London likely to benefit.
	£26.4m to upgrade National Theatre and extend National Film and Television School (offering up to 200 apprenticeships per year).	
	Increase in VAT registration threshold from £85k to £90k and extension of Recovery Loan Scheme to support SMEs.	London's SMEs have higher average turnover than the UK's and likely to benefit.
	£100m for London-based Alan Turing Institute, £17m for DWP transformation, £427m to support agricultural productivity, £100m for low earth orbit communications and £1.6m for quantum computing.	Some of these changes will benefit London due to its innovative high-skill economy.
	Extend full expensing announced in Autumn Statement to leased assets.	Likely to support London and UK-based businesses that are financially precarious and need to lease assets.
Energy and Cost of Living	Household Support Fund extended by six months and an additional £500m provided.	This will be welcome to disadvantaged Londoners given the capital's higher cost-of-living and its disproportionate impact on Londoners of protected characteristics.
	Increase repayment period on budgeting advance loans by claimants on Universal Credit from 12 months to 24 months.	
	Remove pre-payment meter premium.	
	Establish new National Energy System Operator in 2024 and extend 'windfall' tax on profits of energy firms to 2029.	

Macroeconomic Outlook

1. CPI inflation was 4.2% in the final quarter of 2023, 0.6pp lower than the OBR forecast in November. It is expected to fall further to an average of 2.2% in 2024 and 1.5% in 2025, before gradually returning to target at the end of the forecast period.

    a. London's inflation tends to be higher than the UK's. For example, GLA Economics' shelf-front inflation measure shows that London's food inflation was 7.0% in January 2024, down from a peak of 10.8% in June 2023, while the figures for the UK were 6.1% and 10.1%, respectively. That said, London's inflation correlates with national rates, and so we would expect London's inflation to reduce over 2024 and 2025.

2. The OBR is also expecting a sharper fall in interest rates than in the Autumn Statement, as inflationary pressures recede.

    a. Other things equal, this would boost economic growth through encouraging consumers and businesses to borrow and invest. As a services-based economy that is very reliant on business investment and retail spending, London's growth would benefit substantially from this.

3. With a growing population yet lower labour force participation, the UK's potential output growth over the next five years is largely unchanged at around 1.67% a year.

OBR and GLA Economics Forecasts for UK GDP and London GVA Growth (%)

	2024	2025
UK GDP Growth Forecast (OBR)	0.8	1.9
London GVA Growth Forecast (GLA Economics)	1.0	1.6

    a. London's economic growth has been stronger than the UK's due to a greater proportion of economically active people, resilience to external shocks, and a bigger migrant population. Therefore, GLA Economics expects better macroeconomic performance for London in that regard.

4. The UK's fiscal position remains challenging due to high levels of public debt, subdued economic growth, and high interest rates. This will add to pressure on financing public services in London, adding to challenges faced by local authorities.

5. Tax as a share of GDP is forecast to rise to 37.1% of GDP in 2028/29, 4.0% of GDP higher than pre-pandemic. As London is a net contributor to the Exchequer (e.g., in the fiscal year ending 2022, London contributed nearly £40bn to the Exchequer), it is likely that a disproportionate share of that tax will be incurred by Londoners. For example, in the 2021/22 tax year, Londoners paid 26% of the UK's total taxes, which is an even greater contribution than London's share of the UK's GDP.

6. Public sector net borrowing currently stands at 4.2% of GDP but is expected to fall to 1.2% in 2028/29. That said, public sector net debt in the OBR's central forecast rises from 88.8% of GDP this year to 93.2% in 2027/28, before falling slightly to 92.9% of GDP in 2028/29. This is similar to Autumn Statement forecasts.

7. The current headroom of £8.9bn is lower than the average £26.1bn that Chancellors tended to set aside against their fiscal rules since 2010. This would suggest limited room for fiscal manoeuvring by central government in the upcoming fiscal year.

8. There are significant risks to the OBR forecasts, including heightened geopolitical tensions (e.g., the wars in Ukraine and the Middle East), movements in gilt yields, more revision to net migration figures, and revisions to the ONS' labour market data.

9. It was also confirmed that the next Spending Review will be after the General Election.

Income Tax and National Insurance

1. A key Budget announcement is that employee NIC rates will be cut by another 2pp (from 10% to 8%), following on from the 2pp cut in the Autumn Statement (from 12% to 10%). The OBR estimates that the fiscal cost of this cut will be £10.7bn by 2028/29.

    a. The OBR expects this change to boost real household incomes by 0.5% on average, and that the cost may go down from £10.7bn to £8.9bn if economic growth increases after this change. Moreover, 27.6m employees (nationally) would benefit, with average annual gains of £303 for basic-rate taxpayers, £646 for higher-rate payers, and £705 for those on the 45% additional rate.

    b. To contextualise the impact of this change on households, it is important to compare the savings from the NIC cut to the tax increase resulting from the freezing of income tax and NIC thresholds. The Institute for Fiscal Studies compared the impact of the thresholds freeze since 2021 with the impact of the announced NIC cut; their modelling indicates that the change would only benefit workers earning between £26k and £60k in the 2024/25 tax year. In other words, these are the only earners who would gain from the cut.

    c. GLA Economics opted for a different modelling exercise where the impact of the NIC cut in the Budget is compared to the effect of freezing income tax and NIC thresholds from 2024/25 to 2027/28 (which is the year until which the thresholds would remain frozen). Using HMRC data on historical employment income growth by income level (assuming the historical trend of gross nominal income growth from 2009/10 to the present holds until 2027/28) and assuming that the NIC cuts and threshold freezes remain as they are, the following results were produced.

Total Savings (2024/25 to 2027/28) (£)

Gross annual Income	Saving (from NIC cut in Budget)	Extra Tax (from tax threshold freeze)	Net Saving (- means tax paid)
20,000	0.24	487.41	-487.18
30,000	186.69	533.93	-347.24
40,000	362.71	613.88	-251.17
50,000	528.69	726.60	-197.91
60,000	691.73	1,646.11	-954.37
70,000	677.01	2,034.47	-1,357.46

The results are similar to the IFS' in that those earning between £20k and £60k would "benefit" the most for the NIC cuts (although by 2027/28 they will still pay more in tax due to the thresholds freeze than what they would save from the NIC cuts). Those earning under £20k and over £60k would pay much more in tax as a result of the threshold freeze than they would save from the NIC cut.

d. It is worth noting that according to GLAE, those on higher incomes save more from the NIC cut over time than those on lower incomes (which confirms OBR findings), in part due to the structure of national insurance. For example, a person earning £30k would save £186.69 from the cut by 2027/28 (assuming their employment income grows annually according to the historical trend). The saving represents 0.6% of their gross earnings. Meanwhile, a person earning twice that income would save 1.2% of their gross earnings. As Londoners tend to earn higher employment incomes than their UK counterparts, they are likely to accrue more savings from the NIC cut.

2. The Budget also included a 2pp cut in the main rate of Class 4 NICs paid by the self-employed (the new rate is 6%). The OBR estimates that this would benefit 2.2m self-employed individuals in 2024/25, with the annual average gain ranging from £235 for basic-rate taxpayers to £710 for additional-rate payers.

    a. London has a higher proportion of self-employed individuals (16.5%) than England (13.6%) and the UK (13.3%). This move should benefit Londoners more than those in other UK regions. Moreover, it is likely to boost business activity at a time when medium-term growth prospects are uncertain, and when businesses with turnover of less than £100k represented more than a third of London's businesses in 2022.

3. The Chancellor also announced reforms to the existing Non-Dom regime (for individuals who are not domiciled in the UK) that will come into effect from April 2025. The new regime will be based on tax residence in the UK rather than domicile. It is estimated to generate £2.6bn in tax revenue by 2028/29.

4. From April 2025, the current 'Remittance Basis' (RB) tax treatment for Non-Doms will also be abolished and replaced with a new regime.

    a. Under the current regime, Non-Doms have the option (to be exercised annually) of paying UK tax only on their UK income and gains plus any foreign income and gains that they remit to the UK.

    b. The new regime would shift eligibility to residence and would only be available for the four years after a person first becomes tax-resident in the UK. Those that opt in are exempt from paying UK tax on foreign income for the first four years of UK tax residence. This is more generous than under the current RB, where foreign income can only be remitted tax-free if it is invested in a qualifying UK business. Those who are ineligible would be treated as UK domiciles and taxed accordingly; the OBR expects that 5,500 people would be affected by this in April 2025.

5. Also from April 2025, offshore protected trusts will be brought into the scope of UK taxation for all newly arising foreign income/gains.

    a. There will be a two-year window (from 2025/26 to 2026/27) that will allow UK residents that are ineligible for the new regime to bring onshore previously realised foreign

income/gains outside of trusts to the UK at a discounted 12% tax rate. This allows individuals to transfer some or all of their offshore wealth to the UK and incur lower tax during this period.

6. The changes to the Non-Dom regime are more likely to impact London than other UK regions by virtue of its greater wealth and bigger share of non-UK residents.

   a. In July 2023, the government estimated that "London continued to have the largest non-domiciled taxpayer population in the tax year ending 2021, with 57% of non-domiciled taxpayers in the UK located in that region and 74% of non-domiciled UK Income Tax, CGT and NICs coming from that region".

   b. In 2021, There were 68,800 individuals claiming non-domiciled taxpayer status in the UK, which means at least 35,000 of them would be London-based and would be affected by the changes.

7. The Budget also included a reduction to Capital Gains Tax (CGT) on residential properties. The higher rate of CGT for residential property disposals will be cut from 28% to 24%. The lower rate will remain at 18% for any gains that fall within an individual's basic rate band.

   a. This is meant to encourage landlords and second homeowners to sell their properties, making more supply available for buyers, while also raising revenue over the forecast period.

   b. Private Residence Relief remains in place. According to the OBR, since most disposals of residential property involve private residence, that means the change will not affect most property disposals.

   c. London suffers a more acute housing affordability crisis than other UK regions. This change could increase housing supply while reducing the tax burden for landlords disposing of their non-principal residences.

   d. The OBR forecasts that this change would raise £310m in 2024/25 (it comes into effect this April) and £760m by 2028/29.

8. Other tax-related changes announced in the Budget include an extension to the energy profits levy (expected to raise £1.2bn in 2028/29), a new 'vaping' duty (to be introduced October 2026), the freezing of fuel and alcohol duties (expected to cost £1.2bn in 2028/29), and an Air Passenger Duty increase for non-economy flights (expected to raise £140m by 2028/29).

   a. The rise in Air Passenger Duty could have implications on London's tourism sector. For example, visitors to London paid more than £500m in APD in 2022/23 (out of nearly £1.2bn for the whole of the UK).

Childcare, Benefits, Pensions and Social Welfare

1. The Budget included changes to the High-Income Child Benefit Charge (HICBC); the income threshold was increased to £60k and the rate of the charge will also be halved so that Child Benefit is not repaid in full until one earns £80k. The Budget also announced a change in the administration of the Benefit Charge so that it is administered on a household rather than individual basis (by April 2026). Consultations will be made on this in due course.

   a. The OBR projects that 170,000 families will not pay the tax as a result of increasing the threshold to £60k. London families make up 12% of all families in receipt of Child Benefit payments in the UK, so if this proportion is assumed to apply to the calculation above, this would mean nearly 21,000 families in London will be taken out of paying this tax charge.

   b. HMRC also estimates that 485,000 families across the UK will gain an average of £1,260 in Child Benefit in 2024/25 as a result of these changes. If we assume the proportion of London Child Benefit payments applies to this calculation, this would mean about 60,000 families in London gain this amount.

   c. The OBR also forecasts that both measures will increase total hours worked in the economy by more than 100,000 additional full-time workers (boosting GDP by 0.2% in 2028/29). By 2028/29, the government will incur a £660m cost due to these changes.

   d. A key reason for these changes is that at present, a household with two parents each earning £49k a year will receive Child Benefit in full, while a household earning less overall but with one parent earning over £50k will see some or all of the benefit withdrawn. The change seeks to address this.

   e. Raising the threshold and modifying the taper is meant to incentivise parents to participate in the labour force while balancing their parental commitments, thereby tackling economic inactivity. From London's perspective, inactivity is not as big a challenge. Moreover, ONS data shows that in 2022, the percentage of workless households with dependent children in London (3.2%) was lower than England's (3.4%) and the UK's (3.4%). That aside, raising the threshold and halving the rate of the charge will provide some support to Londoners during the ongoing cost-of-living crisis.

   f. Under the existing rules, if a Child Benefit recipient is affected by the HICBC (because either they or their partner earns in excess of £50,000) they can choose to "opt-out" of receiving payments and negate the need to pay the HICBC. In 2013, when HICBC was introduced, the opt-out rate in London was 7% (~75,000 families). By 2022, it reached 11.7% (~116,000 families), which was the 2nd highest opt-out regional rate after the Southeast. London's higher incomes could explain this situation.

2. The government will remove the administration fee (£90) for Debt Relief Orders (DRO) from April 2024. Meanwhile, in June 2024, the government will amend the eligibility criteria for DRO entry, raising both the maximum debt value threshold and the maximum value of motor vehicles. Scotland and Northern Ireland will receive equivalent Barnett Consequential funding.

   a. In 2022, there were 1,784 new DROs issued in London, the second lowest number after the Northeast (1,641). The rate of new DROs per 10,000 people is lowest in London (2.6 per 10,000) compared with 5.1 for England. The London rate has been below England's over the past decade.

3. The government is allocating an additional £2.5bn to the NHS in England for 2024/25, protecting day-to-day funding in real terms and supporting the NHS to continue to improve performance and reduce waiting times. It will invest nearly £35m from 2024/25 to 2026/27 to improve maternity safety across England. It will also work to reduce the costs of agency staffing from July 2024.

4. The Budget also announced the creation of a "UK ISA" with a £5k allowance that would supplement the £20k that can be subscribed into existing ISAs. It will be restricted to investment in UK-based

equities. A "British Savings Bond" will also be introduced that offers consumers a guaranteed interest rate fixed for 3 years (available from April 2024).

a. The Family Resources Survey shows that in 2021/22, there were over 500,000 London households (16% of all London households) that had no savings, while over 1.5m London households (43% of all London households) had savings of less than £3,000. The share of Londoners with no savings is higher than the UK share (14.2%), while the share of Londoners with less than £3,000 in savings is lower than that for the UK (48.2%). As the cost of living is higher in London, low-to-middle income Londoners are less likely to save, which would impact Londoners' subscription to the new ISA.

5. The government confirmed that the hourly rate providers are paid to deliver the free hours offers for children aged 9 months to 4 years will increase in line with the metric used at Spring Budget 2023 for the next two years. This reflects that workforce costs are the most significant costs for childcare providers and represents an estimated additional £500m of investment over two years.

   a. The Department for Education (DfE)'s Survey of Childcare and Early Years Providers (SCEYP) covers group-based providers, school-based providers and childminders. When looking at the difference between the mean fees charged by childcare providers to parents and funding rates paid by the government to childcare providers across English regions, it can be seen that the biggest differences are in London, with a shortfall of £1.81 per hour for three- and four-year-old children and a shortfall of £1.26 per hour for two-year-olds.

Difference between the mean fees charged by childcare providers and funding rates paid by the government to providers by age of child and English region

	Three- and four-year-old children	Two-year-old children
London	£1.81	£1.26
Southeast	£1.43	£0.63
East of England	£1.16	£0.50
Southwest	£0.89	£0.31
West Midlands	£0.88	£0.24
East Midlands	£0.73	-£0.01
Northwest	£0.65	£0.04
Northeast	£0.49	-£0.03
Yorkshire and The Humber	£0.45	-£0.16

Note: Values are less than zero where average funding rates are higher than average fees and greater than zero where average fees are higher than average funding rates.

There is a shortfall in all English regions when it comes to providers' fees for three- and four-year-old children. In 2023, staffing costs made up 75% of all group-based providers' costs, while they made up 85% of all school-based providers' costs.

Devolution

1. The Chancellor announced a new Level 4 'trailblazer' deal with the Northeast Mayoral Combined Authority, which will provide that authority with new funding potentially worth over £100m. The deal will mirror similar ones with the Greater Manchester and West Midlands Combined Authorities. The deal with the Northeast includes support for a new zone to encourage local economic growth, while £10m is also due to be invested into a "Health Innovation Zone" in Newcastle.

2. The Budget announcements also included a commitment to grant additional Level 4 powers to the WMCA and comes on the back of recent announcements of similar Level 4 deals with West Yorkshire, Liverpool City Region and South Yorkshire Combined Authorities.

3. Devolution powers will also be extended through new Level 2 agreements with Buckinghamshire Council, Surrey County Council and Warwickshire County Council.

4. While none of these deals offer the powers that London currently has, the Level 4 ones envisage a 100% single-settlement mechanism through a transition that starts with "a DLUHC-only consolidated pot…covering two investment themes- local growth; and housing and regeneration'. Following successful delivery of the consolidated pot, authorities will receive a single department style settlement covering all devolved spending areas.

    a. While the Budget does not specify what the 'additional Level 4 powers to the WMCA' will be, it is likely to reference this transition towards a single settlement covering all devolved areas and not just local growth and housing.

5. No London-related announcements were made.

Levelling-Up

1. £1.3bn was committed to the 'Levelling-up Fund' (total size: £4.8bn) for 2024/25.

2. The Budget included several announcements on Investment Zones outside of London. For example, it mentioned that further details about such Zones in the East Midlands, Tees Valley, Scotland and Wales would be made public shortly. The government will also establish an Enhanced Investment Zone offer in Northern Ireland (with £150m that could be used flexibly across spending and tax levers).

3. The Budget confirmed the extension of Freeport tax reliefs to September 2031, which will apply across all such sites in England (including the Thames Freeport).

4. The government published the prospectus for the Investment Opportunity Fund, which details how the Fund will support Investment Zones and Freeports.

5. The Budget also included £400m in new investments to extend the 10-year Long-Term Plan for Towns to 20 more places, including Darlington, Rhyl, Carlton (in Gedling), Peterhead, Coleraine and Eastbourne, and injects over £30m into capital and regeneration projects across the UK, including in Bradford and Ashfield.

6. £100m was allocated to culture projects (subject to business cases), recognising the role that culture and pride in place have in levelling-up. This will support a combination of nationally significant cultural investments such as the British Library North in Leeds, National Railway Museum in York,

and National Museums Liverpool, as well as the development of cultural projects in places prioritised for levelling up investment but which have not to date received levelling-up funding, including in High Peak, Redditch and Erewash.

7. The Budget did not include any reference to London in its 'Levelling-up' announcement (whether those related to Investment Zones or culture projects).

Labour Market

1. The UK's economic inactivity was highlighted by the Chancellor in this Budget, given its adverse impact on productivity and growth.

    a. The OBR notes that the number of inactive working-age people rose by around 750,000 to its peak in mid-2022 and remained close to this level at the end of 2023. This ties in with the 20.3% rise in the number of incapacity benefit claimants between 2019/20 and 2022/23 (from 2.5 million to 3.1 million).

    b. This has not been as big a challenge for London. Unlike in the UK, economic inactivity in London has been falling over recent months, and compared to pre-pandemic there are similar numbers of people off work due to illness.

2. The OBR lowered its forecast for UK unemployment, now expecting it to peak at 4.4% in 2024 and 2025 (from 4.6% in its November 2023 forecast); it is currently at 3.9% in the UK. It deems this consistent with the loosening of labour market conditions.

    a. London's unemployment rate tends to be slightly higher than the national rate. That said, it usually moves in tandem with the national rate, and so a downward revision to the national rate should lead to a drop in London's rate.

3. The UK's labour force participation rate is expected to fall from 63.1% in 2023 to 62.8% by 2025; this partly reflects the growing inactivity problem nationally.

    a. London has a higher labour force participation rate than the UK. For Q4 2023, the rate of economically active Londoners aged 16+ stood at 70.1%. For those aged 16-64 it was 79.2%. This is in line with the aforementioned observation that inactivity has not been as severe in London.

4. The OBR cautions that labour market data has been affected by methodological changes (by the ONS) and that although unemployment has recently fallen, a look at the wider evidence (including Claimant Counts and job vacancies) indicates that the rate has been trending upward.

    a. When it comes to London, GLA Economics has also warned that recent data for London should be treated with vigilance; for example, the latest data shows that the number of people claiming benefits principally for the reason of being unemployed in London increased by 27,200, or 9.7%, on the year.

5. The OBR also expects that from a thirty-year peak of close to 7% in 2023, nominal average pay growth will slow to 3.6% in 2024. This is 0.2pp lower than the Autumn Statement forecast, pulled down by a more rapid slowdown in inflation and a loosening in labour market conditions.

   a. GLA Economics data shows that with regards to the annual change in median nominal salary across UK regions, London's 5.1% change is the 2nd lowest amongst all regions (Northern Ireland having the lowest change of 4.6%). London is unlikely to defy the national trend of slowing pay growth.

6. In real terms, the OBR expects national earnings to grow 1.4% in 2024, 1.1pp stronger than the Autumn Statement forecast, as wage settlement expectations held up despite falling inflation.

   a. This would indicate that real pay will slow down across London's different sectors, although recent GLA Economics data shows that real pay in London has increased (albeit slightly) year-on-year (e.g., in December 2023, there was an increase of 0.8% in real pay on the year).

Housing

1. The government announced an investment of £124m at Barking Riverside and it expects that it will unlock 7,200 homes. An additional £118m was allocated to accelerate the delivery of the Canary Wharf scheme.

   a. The funding for Barking Riverside will come from the Brownfield, Infrastructure and Land (BIL) Fund and a loan. The exact breakdown between fund and loan was not announced. As for the Canary Wharf scheme, it will be funded via the Home Building Fund - Infrastructure Loans. It will comprise a life sciences hub, commercial and retail floor space, a healthcare diagnostic facility and between 500 (GLA expectation) and 750 (government expectation) homes.

   b. It is unknown when the additional homes will be delivered.

2. The government also announced an increase in the cap (from 40% to 50%) on the percentage of the cost of a replacement home funded from Right to Buy receipts. That said, the government also discontinued a temporary policy it announced in March 2023 that allowed local authorities to retain 100% of their Right to Buy receipts. The GLA expects that this will result in London having to return around £70m of Right to Buy receipts to the Treasury every year[1] and reduce social rent housing delivery by roughly 300 homes a year[2].

   a. The GLA and London Councils have called for additional flexibility in the use of Right to Buy receipts in the past, with measures that would complement the increase in the cap. Other things equal, this would permit local authorities greater discretion to use the receipts towards their specific objectives.

[1] Table 692 annual: Right to Buy Receipts, by local authority: https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales#right-to-buy-sales. Use of receipts from Right to Buy sales: Government response to the consultation: Use of receipts from Right to Buy sales: Government response to the consultation - GOV.UK (www.gov.uk)

[2] In 2022,Savills research found that the delivery cost per home of a social rented home was £448,598. On Budget day the government announced that Right to Buy receipts can now fund up to 50 per cent of the development cost of a home meaning that, on average, they could contribute £224,299. Assuming that London boroughs will return an average of £69m a year to the Treasury, it means that they will lose funding that could support the delivery of 310 social rented homes (£68m/£224,299=303). Over a five-year period, this means a reduction in social rented homes of just over 1,500 homes.

3. The government allocated £20m in a social finance fund to support the development of community-led housing schemes over ten years, subject to a business case.

4. These proposals are intended to address local housing affordability challenges- a pertinent issue for London.

5. From 6 April 2025, the Furnished Holiday Lettings tax regime will be eliminated. This means that short and long-term lets will be treated the same for tax purposes. This measure is expected to raise about £600m in total until 2028/29.

    a. On the one hand, eliminating the tax advantage for landlords who let short-term furnished holiday properties could increase housing supply in London. However, it could also impact the city's tourism sector (which comprises over 10% of London's GVA and employs over 10% of its workforce).

6. From 1 June 2024, Multiple Dwellings Relief, a relief in the Stamp Duty Land Tax (SDLT) regime that reduces the SDLT payable when an individual or company purchases two or more dwellings in one transaction or as part of a series of linked transactions in England and Northern Ireland, will be abolished. Purchases completed before 1 June 2024 will continue to benefit from the relief.

    a. In 2028/29, the measure is expected to raise £385m. The change was justified by an external evaluation which showed no strong evidence that the relief helped support investment in the private rented sector.

    b. Legislation will also be updated to ensure that from 6 March 2024, registered providers of social housing are not liable for Stamp Duty Land Tax (SDLT) when purchasing property with a public subsidy.

7. From 6 March 2024, the rules for claiming First-Time Buyers' Relief from Stamp Duty Land Tax in England and Northern Ireland will be amended so that individuals buying a leasehold residential property through a nominee or bare trustee will be able to claim First-Time Buyers' Relief, including victims of domestic abuse.

8. The government re-announced the establishment of the Euston Housing Delivery Group, with £4m to support the delivery of up to 10,000 new homes.

Productivity and Infrastructure

1. A big focus of the Budget is boosting public-sector productivity. The ONS collects data on national public-sector productivity (PSP), and its November 2023 bulletin shows that total PSP grew by an annual average of 0.2% from 1997 to 2019, with healthcare responsible for the overall positive rate. Growth rates for education, adult and children's social care were close to zero. A breakdown by region was not provided.

    a. According to the OBR, the average productivity of public services is 5.9% below pre-pandemic levels. Returning productivity to pre-pandemic levels would deliver up to £20bn annually.

    b. The Budget included £3.4bn of funding for a comprehensive NHS productivity plan as part of a broader Public Sector Productivity Programme. The rationale is to boost PSP so that the

NHS can deliver service targets without needing additional migrant labour. This investment is expected to unlock £35bn in cumulative productivity savings from 2025/26 to 2029/30.

c. The Budget committed an additional £4.2bn to support the next steps of the Public Sector Productivity Programme. This includes £3.4bn of additional capital departmental expenditure limit (CDEL) over 3 years (from 2025/26) as part of the NHS's productivity plan in England, investing in technological and digital transformation, and £0.8bn to wider public services. There was a £34m commitment to deploy AI in the Public Sector Fraud Authority.

d. It is unclear how much of that funding would be destined to London-based NHS facilities. While London outperforms other UK regions on several health indicators, it also faces multiple challenges.

2. The government reiterated its commitment to a privately financed HS2 Euston Station terminus. It is working with Lendlease (the Euston Master Development Partner) and the London Borough of Camden to identify parts of the station site for early release and development in the coming months. The vision is for an internationally competitive life sciences hub. It is also establishing a Ministerial Taskforce to oversee the next stages of delivery.

   a. A Euston terminus for HS2 is likely to generate productivity gains for London's economy due to agglomeration benefits and proximity to knowledge quarters, business centres, and other amenities. According to analysis by Metro Dynamics, it could contribute £41bn to the UK economy in the next 30 years, create 34,000 new jobs and at least 2,000 homes.

3. The Budget also allocated £14m for public sector research and innovation infrastructure. This includes funding to develop the next generation of health and security technologies, unlocking productivity improvements in the public and private sectors. These are areas where London's economy enjoys a competitive advantage.

4. The OBR estimates that productivity growth is little changed from the Autumn Statement forecast, but the starting level is 0.5% lower, as revised data shows a larger population producing a similar amount of output. This is still below the pre-2008 Financial Crisis trend of 2%.

   a. Like the UK, London's productivity growth has slowed down significantly since 2008, despite being the country's most productive region. According to the ONS, London's productivity grew by 2.4% between 2010 and 2021, with only the Southwest growing more slowly.

5. The OBR forecast for average trend productivity growth over 2024 to 2028 is largely unchanged at 0.9%. Productivity growth is composed of *capital deepening* – the change in the capital stock per hour worked – and *total factor productivity*– the economy's efficiency at combining capital and labour to produce output.

6. The OBR also cautioned that while the productivity outlook is uncertain, the effects of subdued investment, the energy price shock and Brexit compound the ongoing weakness seen since the Financial Crisis.

   a. In alignment with previous analysis by GLA Economics, the OBR noted that Brexit impacts on productivity and growth by reducing the UK's trade intensity and undermining inward investment.

Skills and Education

1. The Budget included a commitment of an initial £105m towards 15 new special free schools to create over 2,000 additional places for children with special educational needs and disabilities (SEND) across England. There was no mention of allocation to London and other regions.

    a. There were 19 special free schools in England in 2015/16. This has grown nearly five-fold to 92 in 2022/23. Within London, there were 6 special free schools in 2015/16 and this has grown three and a half times, so that there were 21 special free schools in London in 2022/23. The number of pupils in London with an Education, Health and Care (EHC) plan or statement of SEN increased by 9.5% between 2021/22 and 2022/23, while the pupil population increased by 0.3%.

2. £3m was also committed to match industry-led funding for a skills and education programme to attract people to roles as local planners in planning authorities.

3. The government also announced an AI Upskilling Fund Pilot, which includes an allocation of £7.4m for the pilot to help SMEs develop AI skills for the future. Furthermore, two new data pilots costing £3.5m will be introduced to support high quality AI in education and improve access to data in adult social care.

    a. London hosts over one million SMEs (defined as businesses with less than 50 employees), or about 18% of the UK's SMEs. They employ over 2.3 million of London's workforce as of 2023. The city also acts as the national hub for key sectors of the new economy such as AI, biotech and green technology. London is likely to benefit from a significant fraction of this funding.

4. In addition, 6,000 additional midwives will be trained in neonatal resuscitation to ensure that the NHS can provide safer care linked to maternity.

5. No announcements of interest to London (e.g., details on devolution related to apprenticeships or employer investment in training) were made. The Budget includes some support for sectors in which London excels (e.g., creative industries, green, digital and life sciences); these sectors are integral to Mayoral economic strategies, and London could benefit from such support.

Business and Industrial Sectors

1. The government announced a £1bn package of additional tax relief targeted at the creative industries sector. The package includes:

    a. Visual Effects Tax Relief, which removes the 80% cap on qualifying expenditure and 5% uplift for qualifying costs from April 2025. This is expected to cost £70m by 2028/29.

    b. A 40% business rates relief for eligible film studios in England for 10 years from April 2024. This is expected to cost £50m by 2028/29.

    c. Audio-Visual Expenditure Credit, a new 53% relief for expenditure on eligible UK independent film productions from April 2024. This is expected to cost £80m by 2028/29.

   d. Extension of reliefs for orchestra, theatre and museums/galleries, including a permanent extension of the 40% for non-touring productions and 45% for touring and orchestral productions. This will cost £170m by 2028/29.

2. The government allocated £26.4m to upgrade the National Theatre's stages and infrastructure and announced an extension of the National Film and Television School (subject to approval), offering up to 200 apprenticeship places per annum.

3. Creative industries represent 11.5% of the city's GVA. Pre-pandemic, London's creative industries produced 52% of the UK's creative industries output (or £55bn). In 2021, 52% of all creative industries jobs (or 800,000) were in London. Therefore, such changes are likely to benefit the city.

4. From April 2024, the turnover threshold for VAT registration will increase from £85k to £90k to reduce SMEs' tax burden, while the Recovery Loan Scheme will be extended to help SMEs access finance.

   a. The reason the threshold was increased by only £5k is the post-Brexit Northern Ireland Protocol. A bigger increase would have meant different regimes for SMEs in Great Britain and Northern Ireland (which is still part of the EU Single Market and bound by its €100,000 threshold). The Protocol required the UK to abide by this to ensure a level playing field for EU SMEs.

   b. The OBR forecasts that over 28,000 businesses would benefit in 2024/25, and the change is expected to cost around £185m in 2025/26.

   c. In 2023, London SMEs had an average turnover of £418k, compared to £290k for the UK. Hence, London SMEs are likely to benefit more from the change.

5. The government also announced that the London-based Alan Turing Institute will receive £100m of funding over the next five years. £7.4m was allocated to a pilot project aimed at SME development of AI skills as part of a new SME Digital Adoption Taskforce. The Budget also includes commitments for DWP's digital transformation (£17m), increasing agricultural productivity (£427m), low-earth orbit communications (£100m) and quantum computing (£1.6m).

   a. Many of these commitments pertain to sectors such as life sciences and digitalisation that are vital to London's productivity and economic growth.

6. The Chancellor also announced that he would allow full expensing (announced in the Autumn Statement) to apply to leased assets. Full expensing allows businesses to offset investment in items such as new factory machinery and IT equipment against tax, thereby facilitating business investment and financial planning.

Energy and Cost-of-Living

1. The government remains committed to establishing a new National Energy System Operator in 2024 in order to deliver grid reforms and better system coordination (including through the new Strategic Spatial Energy Plan).

2. The 'windfall' tax on the profits of energy firms has been extended until 2029 (it was going to expire originally in March 2028).

3. The Household Support Fund (HSF), introduced by the government in 2021 to help families struggling with the cost-of-living crisis, has been extended by six months. Meanwhile, an additional £500m would be provided to the Fund.

    a. This will be welcome to disadvantaged Londoners given the capital's higher cost-of-living. In the most recent GLA/YouGov Poll for example, 48% of Londoners reported that their cost of living "increased a lot", while nearly half of them are either 'financially struggling' or 'just about managing'.

    b. The first iteration of HSF was made available from Oct 2021 to Mar 2022 and offered £421m, of which £68m (16%) went to London. That remained London's share when HSF was extended up to Mar 2023. The government released a fourth round of funding from April 2023 to March 2024 worth £842m. Assuming the same London share, that would mean £136m would be allocated to London boroughs. With regards to how London boroughs spent their allocations, all boroughs spent 100% of their HSF grant, and they were more likely to spend it on families with children than England boroughs. Meanwhile, grant expenditure on families with disabled individuals and pensioners was lower in London than England.

4. The government also committed to remove the pre-payment meter (PPM) premium on a permanent basis, following the end of the Energy Price Guarantee in March 2024, saving PPM customers an average of £50 per year.

5. The government is increasing the repayment period on budgeting advance loans taken out by claimants on Universal Credit from 12 months to 24 months. This will apply to new Budgeting Advances taken out from December 2024 and reduce the monthly repayments on these loans, thereby alleviating financial pressures for households on Universal Credit.

6. The government is providing additional funding that will increase system capacity to meet increased demand, and therefore enable people to get the right support in a timely manner.

    a. There are two main disability benefits that are available for disabled people: Personal Independence Payment (PIP) and Disability Living Allowance (DLA). Since 2013, working age adults have been moving from DLA to PIP. In August 2019, there were 179,286 DLA Cases in Payment and 226,522 PIP Cases with Entitlement – in total, 405,808 cases in London. By August 2023 there were 158,841 DLA Cases in Payment and 358,989 PIP Cases with Entitlement – in total, 517,830 cases (a 28% increase in four years).

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