GLAECONOMICS

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Bank of England raises interest rates for the first time since 2023



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The Monetary Policy Committee (MPC) of the Bank of England voted to raise interest rates to 4.0% this month the first increase in interest rates since 2023 (see Figure 1). Eight members of the MPC voted for the 0.25 percentage points (pp) rise, while one wanted to increase them by 0.5pp.

In discussing its decision to increase rates the MPC observed that "the impact of protracted conflicts overseas on global energy prices remained the main source of uncertainty for the UK inflation outlook". However, it does see inflation continuing to rise over the next few months with inflation "now expected to rise to around 5% by the middle of next year". This expectation for inflation is significantly higher than what the Bank had previously been thinking for next year.

Alongside the decision the Bank also published its November 2026 Monetary Policy Report. In it, as well as forecasting further rises in inflation next year before it starts to fall back towards target in 2028, the Bank set out its expectations for GDP growth. In this, the Bank sees growth slowing from 2.0% in Q4 2026 to 1.0% in Q4 2027 before picking up to 1.4% in Q4 2028. The Q4 2026 forecast is an upgrade on what the Bank expected in its July forecast but the Q4 2027 and Q4 2028 forecasts have been downgraded.

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Datastore

The main economic indicators for London are available to download from the London Datastore.

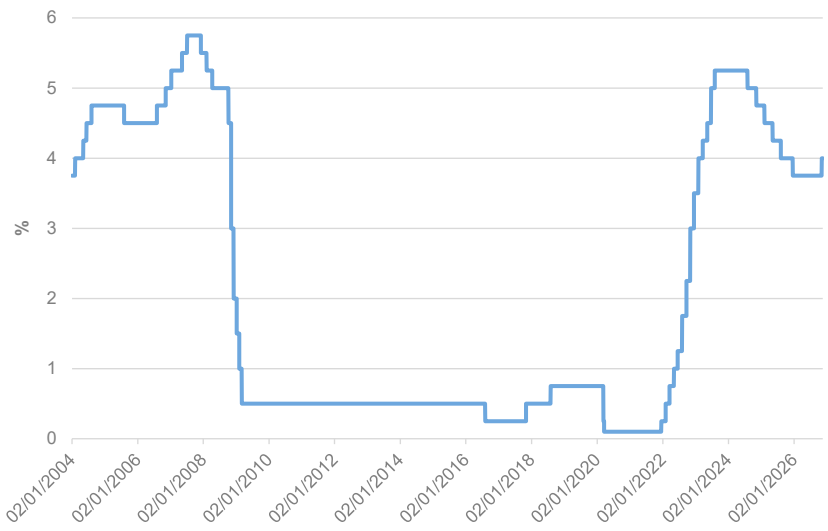


Figure 1: Bank of England Base Rate over time

Source: Bank of England

Inflation edges up as fuel costs climb

Looking at inflation in more detail the Office for National Statistics (ONS) has published new data on Consumer Price Index (CPI) inflation which showed that it rose to 3.6% in the 12 months to October 2026, up from 3.5% in September (Figure 2). This marked the fourth consecutive monthly increase in the annual inflation rate and its highest level since October 2025. CPIH inflation, which includes owner occupiers' housing costs, rose to 3.7%. On a monthly basis, CPI rose by 0.5% in October, compared with an increase of 0.4% in October 2025.

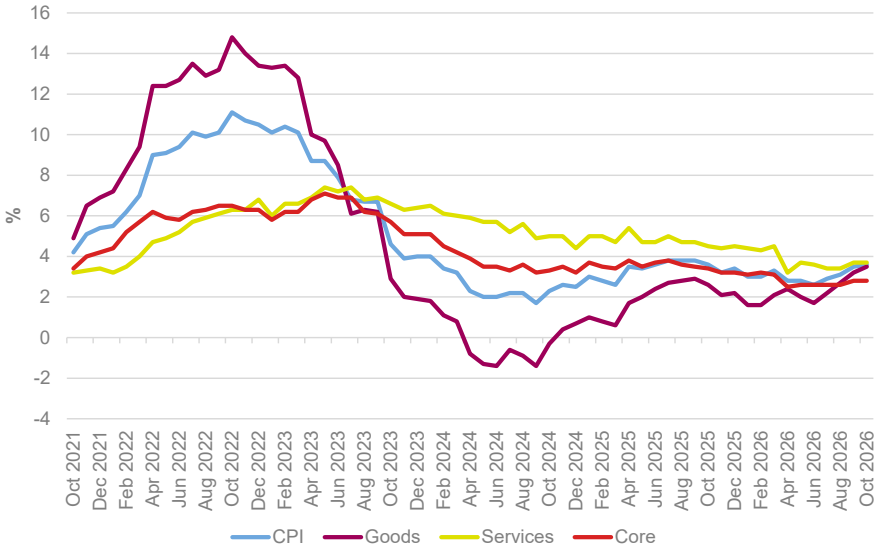


Figure 2: CPI, goods, services and core annual inflation rates, UK, October 2021 to October 2026

Source: ONS

Transport was an important source of inflationary pressure, reflecting continued increases in motor fuel prices. Motor fuel prices were around a third higher than a year earlier, the largest annual increase since July 2022. Overall, transport contributed 1.1 percentage points to the annual CPI inflation rate in October. Tobacco prices also rose by 5.2% on the month, possibly reflecting the earlier timing of this year's increase in tobacco duty, an effect that should drop out of the annual rate by December. The largest offsetting downward contribution to the change in annual inflation came from restaurants and hotels, where prices fell by 0.4% between September and October.

Underlying measures of inflation were more stable. Core CPI inflation, which excludes energy, food, alcohol and tobacco, remained at 2.8%, while services inflation was unchanged at 3.7%. By contrast, goods inflation increased from 3.2% in September to 3.5% in October, its highest rate since September 2023.

The October data suggest that the recent increase in headline inflation continues to be driven primarily by goods prices, particularly motor fuels, rather than a broad-based acceleration in underlying inflation. However, elevated wholesale energy prices and the increase in the Ofgem energy price cap in October could place further upward pressure on inflation over the coming months. While looking forward, Ofgem has announced a further rise in the energy price cap from January. The new cap will mean a typical annual household energy bill will cost £2,166, an increase of £37 a month or 26%.

The impact of these price pressures may differ in London, where household spending patterns are not the same as in the rest of the UK. London households typically allocate a smaller proportion of their expenditure to motor fuels but a larger proportion to housing and certain services. As such, the persistence of services inflation remains a concern for household living costs in the capital.

UK economic growth strengthens in the third quarter of 2026

The latest data from the ONS showed that UK real GDP grew by 0.7% in the three months to September 2026, up from growth of 0.5% in the three months to June. In the three months to September, services output grew by 0.9%, contributing 0.77 percentage points to GDP growth (Figure 3). This was the ninth consecutive three-month period of growth in the sector. Within services, growth was strongest in administrative and support service activities (4.1%), information and communication (2.1%), and professional, scientific and technical activities (1.6%).

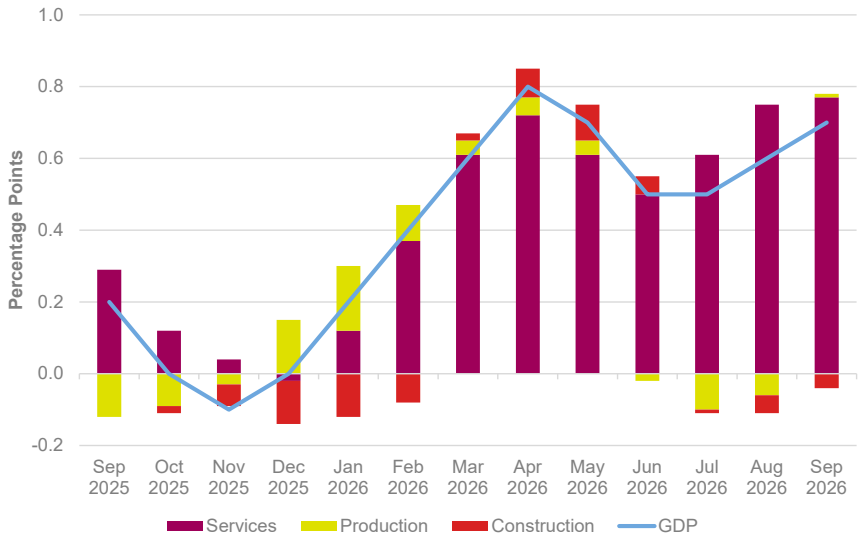


Figure 3: Contributions to UK three-month GDP growth, September 2025 to September 2026

Source: ONS

Production output grew by 0.1%, contributing 0.01 percentage points to GDP growth. Growth of 0.9% in manufacturing was largely offset by falls in electricity and gas supply, water and waste, and mining and quarrying.

Construction output fell by 0.7%, subtracting 0.04 percentage points from GDP growth. The fall reflected weaker new work, particularly in private housing, while repair and maintenance continued to grow.

On a monthly basis, GDP increased by 0.2% in September, following no growth in August (revised down from growth of 0.1%) and growth of 0.4% in July. Services output grew by 0.2% in September, while production and construction output increased by 0.3% and 0.8%, respectively. Compared with the same month a year earlier, real GDP was 2.1% higher.

Milburn review aims for 'NEET Zero', but some commentators question whether its recommendations add up

Alan Milburn's review of young people and work, From a Welfare State to a Working State, was published on 17 November, setting the direction for how the UK will address the 981,000 16 to 24-year-olds not in education, employment or training (NEET).

The review sets an ambition of 'NEET Zero', a NEET rate of around 5% by 2036. Key recommendations included:

- legal guarantees of support for every NEET 18 to 24-year-old (regardless of benefit status) commissioned locally by mayors;
- a state-paid job after 12 months (rather than 18) and a 'duty to engage', where those persistently refusing offers would ultimately lose benefits;
- a new Youth Allowance in place of Universal Credit for under-25s, abolishing its health top-up.

The package would cost around £5.8bn a year by 2036-37, which it expects will be fully offset by welfare savings and higher tax receipts, and with an initial £500m in investment to be made available in 2027 to begin establishing the new system. Work and Pensions Secretary Pat McFadden accepted the guarantees, local delivery and the 12-month job guarantee – and Milburn will chair a new Youth Opportunities Unit reporting to the Prime Minister. The government has yet to take a position on the proposed benefit changes, with a White Paper due in the new year.

The Institute for Government noted that the review relies on legal guarantees "without specifying funding for them" – and on the review's own modelling, its proposals bring the NEET rate down to around 6.8% by 2036. The National Institute of Economic and Social Research (NIESR) judged the review "strongest on diagnosis and weakest on the arithmetic of what its remedies will deliver", noting that its estimate of 440,000 more young people in work "makes no allowance for displacement" – that is, for jobs that would otherwise have gone to others.

The capital's NEET rate was 12% in Q4 2025 (the latest regional data), below England's (13.3%) - but well above the review's 5% target.

UK-EU summit concludes three deals, but none take effect before 2028

UK and EU leaders issued a joint statement from their Brussels summit on 20 November that confirmed that talks had concluded on three agreements first agreed in principle in May 2025, though nothing has yet been signed:

- a sanitary and phytosanitary (SPS) deal, easing checks on food, plant and animal products, due to apply from March 2028;
- a link between the UK and EU emissions trading systems (ETS), the two carbon markets, from 2028, exempting around £6.5bn of UK exports from the EU's carbon border tax;
- and a youth experience scheme, which would let up to 100,000 EU and 100,000 UK 18 to 31-year-olds every year live and work in each other's territories for up to three years, from January 2030 at the latest.

Both the SPS and ETS deals rest on 'dynamic alignment', with the UK following EU rules in these areas as they change. An agreement on tuition fees for EU students, with a six-month deadline, and UK access to the EU electricity market remain unresolved.

The government says the deals "could add up to 0.5% to UK GDP by 2040", around £17bn a year. That is, however, an upper bound estimate. The Institute for Government noted that "the big concession will come

when/if the UK discounts tuition fees for EU students at UK universities", and the British Chambers of Commerce stressed that deadlines "must now be hit".

For London's economy, the UK's largest services exporter, there was little: services are not covered beyond a commitment to speed up recognition of architects' qualifications – with the City of London Corporation urging that "financial services must be part of what comes next".

The youth scheme will, however, directly impact the capital, with its scale of effect hinging on net flows. The Treasury expects more young Europeans to arrive than Britons to leave, a net inflow of 18,000 to 50,000 a year (two-thirds of them in work) in the scheme's first three years. If we assume that past patterns hold, and that roughly 30% settle in London, the 3,000 to 10,000 extra workers would slightly increase labour supply (forming about 0.2% of London's workforce) - and have a similarly minor effect on housing demand.

London's productivity fell in 2024, with the lowest growth since 2019 of any region

The ONS has (after two postponements) this month published its regional productivity figures for 2024. Output per hour worked (the value produced in an average hour across the economy) was £62.90 in London, down 0.7% on the year and up 0.2% on 2019 (in real terms) – the lowest growth since 2019 of any region. UK output per hour worked, by contrast, rose by 0.1% on the year and 4.3% since 2019.

Output growth comes from two sources: productivity growth (more output per unit of input) or more input (jobs and hours worked). According to the new data, the 2024 fall in London's output per hour worked is due to hours worked rising faster than output growth. Since 2019, London's output and hours have grown at similar rates, leaving its output per hour flat. The UK's output has also grown, but hours have grown more slowly (0.2% a year), pushing up UK productivity growth

These are the first regional figures since the ONS moved its headline productivity measure onto a new 'component' approach, which lowered its estimates of growth in UK labour inputs. The ONS will review the method further next year, which "may lead to some further revisions".

For London, these figures do not cover recent weaker jobs trends. With recent data showing strong output growth in the capital, this growth may have come from productivity gains. With measurement of each part of the equation recently changed (with further changes due), GLA Economics will monitor what it all means for London.

London's labour market sees some signs of improvement

The latest labour market data from the ONS suggests that labour market conditions in London may be slightly improving but the outlook remains quite balanced. The data showed in the three months to September that the unemployment rate declined, while the employment rate rose. However, the ONS urges caution when interpreting short-term movements, given the data volatility issue in the Labour Force Survey.

Thus, in more detail, the 16–64 employment rate in London was estimated at 74.2% for the three months ending September 2026. This represents an increase of 0.3pp on the quarter. While the unemployment rate for London was estimated at 6.4%. This represents a decrease of 0.1pp on the quarter. The rate of economic inactivity in London was estimated at 20.7%. This represents an increase of 0.5pp from a year earlier although it was unchanged compared to the previous quarter. Looking at the more timely estimate of payrolled employees (subject to revision) this showed that there were around 4.3 million payrolled employees living in London in October 2026, a decrease of 13,900 from September.

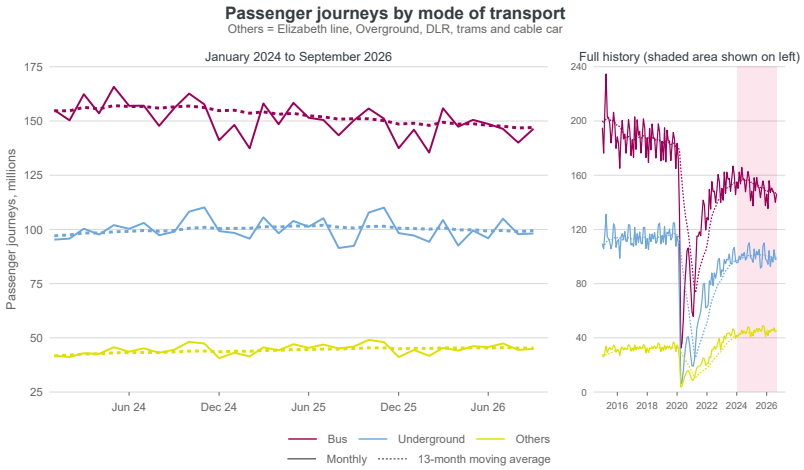
GLA Economics will continue to monitor these (and other) aspects of London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport slightly increased in September

- In September 2026, 289.4 million passenger journeys were made on TfL services (bus, Underground, Elizabeth line, Overground, DLR, tram and cable car), 7.1 million more than in August.
- In the latest period, 146.4 million journeys were made by bus, 98.1 million on the Underground and 44.9 million on other TfL services.
- The 13-month moving average in the total number of passenger journeys rose slightly from 291.0 million in August to 291.8 million in September.

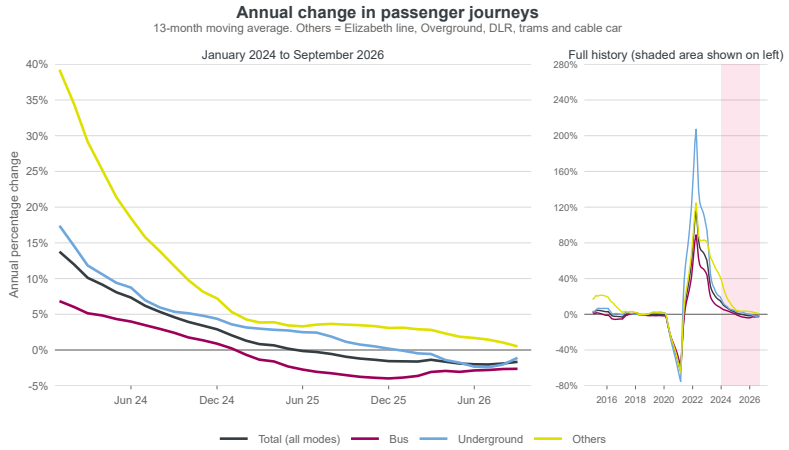
Source: Transport for London and GLA Economics calculations
Latest release: November 2026, Next release: December 2026



Annual growth in passenger journeys moderated

- In September, the 13-month moving average annual growth rate in the total number of passenger journeys moderated slightly, from a decline of 1.9% in August to a decline of 1.7% in September.
- The moving average annual growth rate of bus journeys moderated slightly from a decline of 2.7% in August to a decline of 2.6% in September.
- The moving average annual growth rate of underground passenger journeys moderated from a decline of 2.0% in August to a decline of 1.1% in September.
- The moving average annual growth rate of other rail journeys (Elizabeth line, DLR, London Overground and trams) remained positive but eased from 1.1% in August to 0.5% in September.

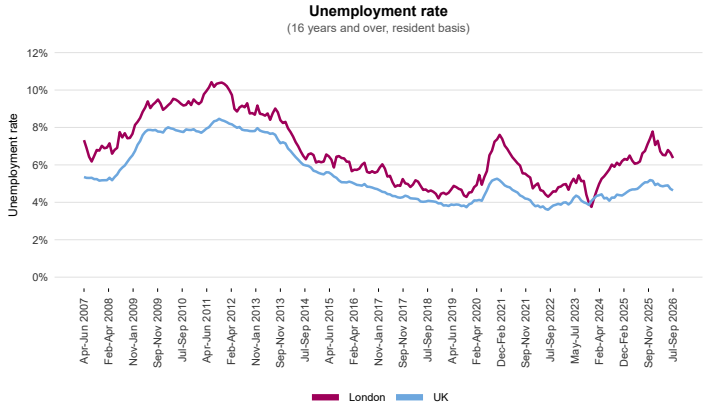
Source: Transport for London and GLA Economics calculations
Latest release: November 2026, Next release: December 2026



London's unemployment rate decreased marginally over the last quarter

- Around 334,000 residents aged 16 and over were unemployed in London in the period from July to September.
- The unemployment rate in London for that period was 6.4%, a marginal decrease from 6.5% in the previous quarter April - June.
- The UK's unemployment rate decreased to 4.6% in July - September, from 4.9% in April - June.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

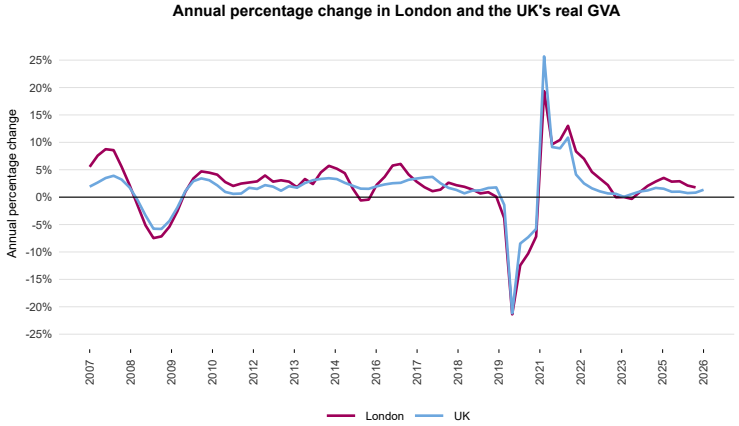
Source: ONS Labour Force Survey
Latest release: November 2026, Next release: December 2026



London's economy continues to expand through Q1 2026

- In September 2026, the ONS published updated annual regional economic activity estimates covering the period up to 2024, including chained volume measures. Pending the reinstatement of quarterly regional estimates in real terms, GLA Economics continues to nowcast London's real GVA from Q1 2025 onwards.
- According to the latest ONS regional estimates, London's real GVA grew by 1.4% in 2024. GLA Economics nowcasts that London's real GVA grew by 2.8% in 2025.
- London outperformed the UK in 2025, when UK output grew by 1.1%. In Q1 2026, London's output was 1.8% higher than a year earlier, compared with 0.8% for the UK.
- On a quarter-on-quarter basis, London's economy expanded by 0.8% in Q1 2026. By Q1 2026, London's real GVA stood 9.7% above its pre-pandemic Q4 2019 level, compared with 5.8% for the UK as a whole.

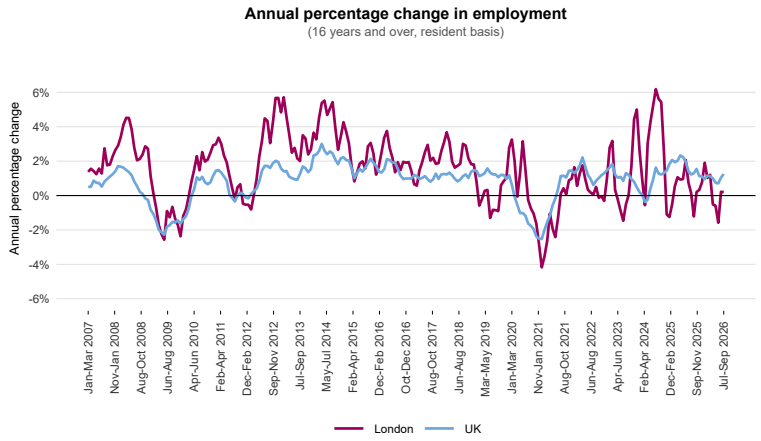
Source: ONS and GLA Economics calculations
Latest release: November 2026, Next release: December 2026



Employment in London rose on an annual basis in the quarter to September

- Around 4.9 million London residents aged 16 and over were in employment during the three-month period from July to September.
- Employment in London rose by 0.2% in the year to July - September, compared with a fall of 0.6% in the year to April - June.
- Employment in the UK as a whole grew by 1.2% in the year to July - September, up from 0.7% in the year to April - June.
- The Office for National Statistics cautions that significant volatility has been observed in recent periods, and short-term changes should be treated with vigilance and used in conjunction with other indicators.

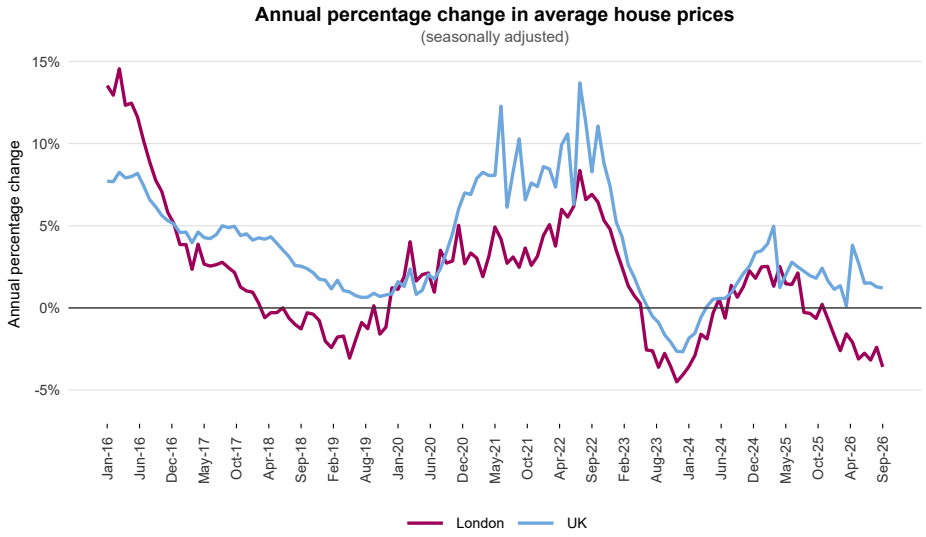
Source: ONS Labour Force Survey
Latest release: November 2026, Next release: December 2026



On an annual basis house prices fell in London in September 2026

- In September 2026, the average house price in London was £539,000 while in the UK it was £269,000.
- Average house prices in London fell by 3.6% year-on-year in September 2026, a larger drop than the 2.4% decrease in August.
- Average house prices in the UK rose by 1.2% on an annual basis in September, a smaller change than the increase of 1.3% in the year to August.

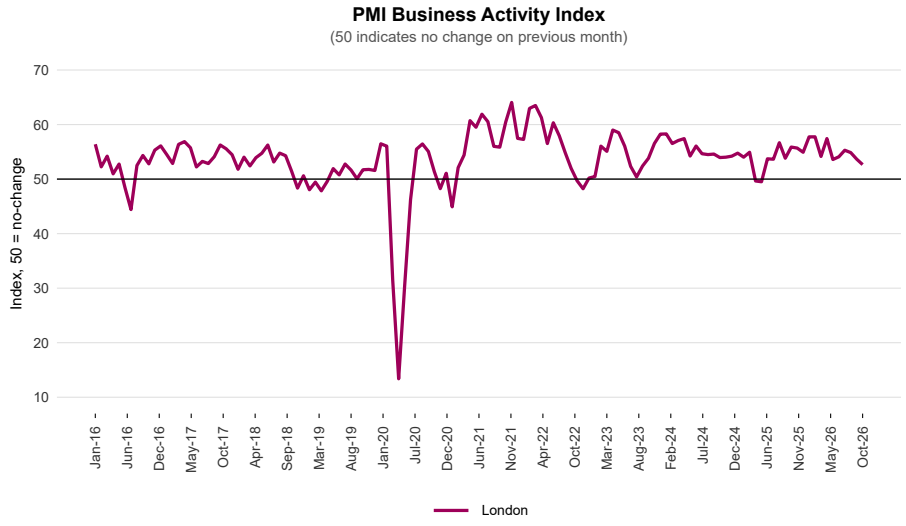
Source: Land Registry and ONS
Latest release: November 2026, Next release: December 2026



In October, London's PMI business activity index moderated

- The business activity PMI index for London private firms slowed from 53.7 in September to 52.7 in October.
- The Purchasing Managers' Index (PMI) survey shows the monthly business trends at private sector firms. Index readings above 50 suggest a month-on-month increase in activity on average across firms, while readings below 50 indicate a decrease.

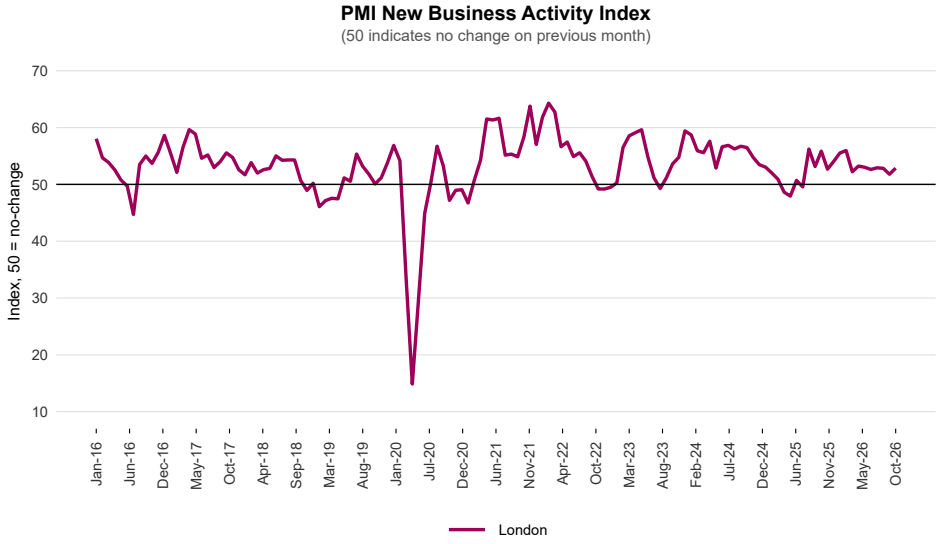
Source: IHS Markit for NatWest
Latest release: November 2026, Next release: December 2026



In October, London's PMI new business index increased

- The PMI new business index in London increased from 51.8 in September to 52.9 in October.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

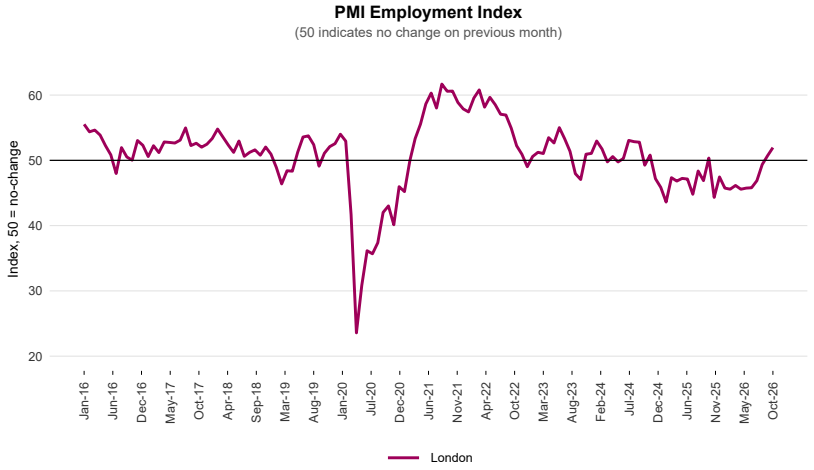
Source: IHS Markit for NatWest
Latest release: November 2026, Next release: December 2026



In October, London's PMI employment index increased

- The Employment Index for London increased from 50.7 in September to 52.0 in October, indicating that staffing levels rose at a faster pace.
- The PMI Employment Index measures the month-on-month change in staffing levels at private sector firms. A reading above 50.0 indicates an increase in employment from the previous month, whereas a reading below 50.0 indicates a decrease.

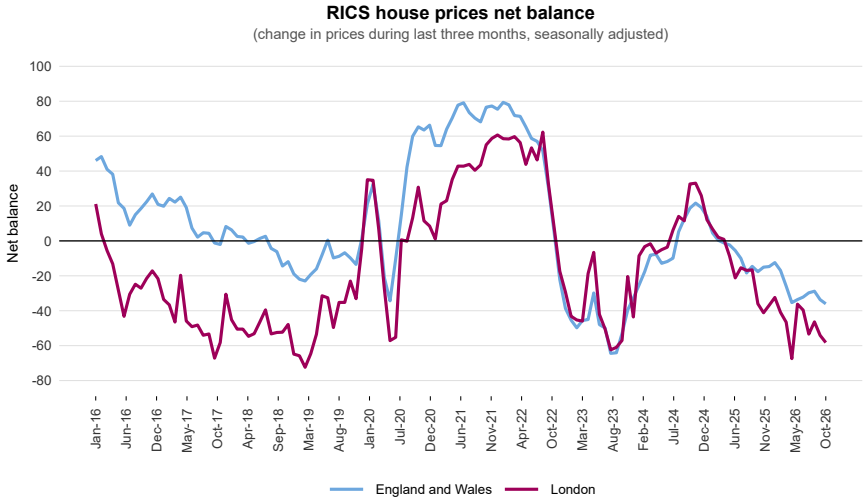
Source: IHS Markit for NatWest
Latest release: November 2026, Next release: December 2026



More property surveyors in London reported falling house prices than rising house prices in October

- In October, more property surveyors in London reported falling prices than rising prices. The net balance index was -58, down from -54 in September.
- For England and Wales, the RICS house prices net balance index dropped from -34 in September to -36 in October.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

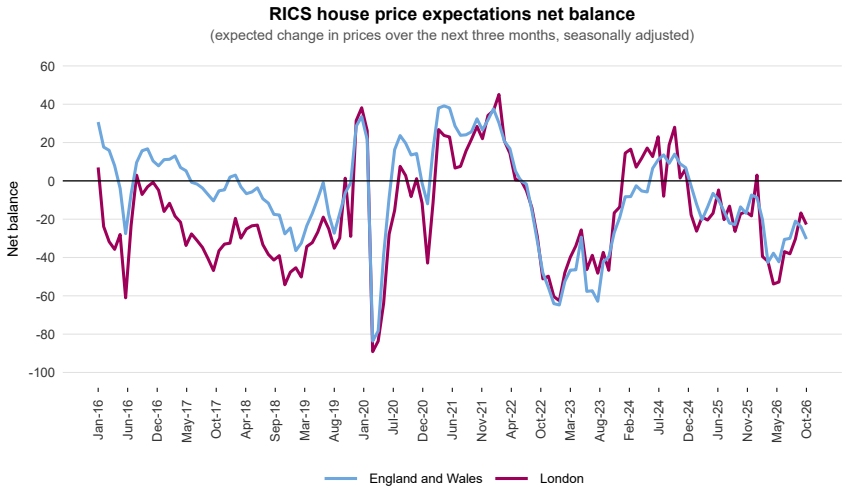
Source: Royal Institution of Chartered Surveyors
Latest release: November 2026, Next release: December 2026



In October, property surveyors in London continued to expect house prices to fall over the next three months

- The net balance of house price expectations in London was -23 in October, worsening from -17 in September.
- The index for England and Wales was -30 in October, and was -24 in September.
- The net balance index measures the proportion of property surveyors expecting a rise in prices minus those expecting a decline.

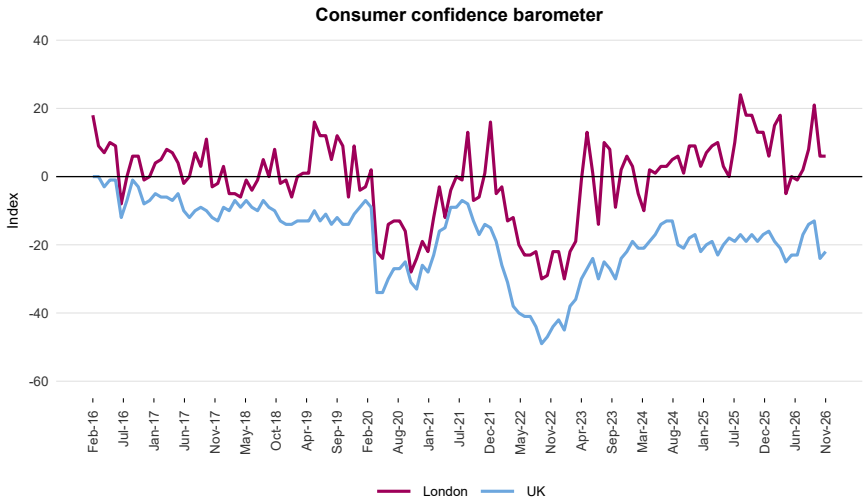
Source: Royal Institution of Chartered Surveyors
Latest release: November 2026, Next release: December 2026



Consumer confidence in London was unchanged in November

- The consumer confidence index in London was 6 in November 2026, and it was 6 in October.
- The sentiment for the UK improved from -24 in October to -22 in November. The UK has not seen a positive index score since January 2016.
- The GfK index of consumer confidence reflects people's views on their financial position and the general economy over the past year and in the next 12 months. A score above zero suggests positive opinions; a score below zero indicates negative sentiment.

Source: GfK
Latest release: November 2026, Next release: December 2026



The 2026 Budget: Overview and potential implications

By **Adam Yousef**, Senior Manager



On 28 October 2026, Chancellor John Healey delivered the 2026 Budget within a context characterised by fiscal constraints, cost-of-living pressures and growing uncertainty. This supplement presents some of the Budget's key announcements and potential implications for London and Londoners.

Macroeconomic outlook

The Budget echoed existing concerns about the UK's challenging fiscal environment, as did the Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook (EFO).

The OBR projects that real GDP will grow by 1.25% in 2026, before dropping to 1.0% in 2027. This drop is a consequence of higher global energy prices and interest rates weighing on economic activity. Over the forecast period (2026-2031), GDP growth is expected to average 1.48%, 0.3 percentage points faster than was projected in March 2026. This reflects the UK economy's resilience to macroeconomic pressures until the effect of higher prices and interest rates sets in.

GLA Economics' most recent growth forecast for London's economy estimates that growth will be 1.7% in 2026. That said, year-on-year productivity growth in London has been lagging that of other UK regions in recent years, and with London contributing almost a quarter of national income, the national productivity slowdown is in part a result of London's productivity slowdown. This represents a medium-term risk for both London and the UK's real GDP growth.

The OBR also projects that welfare spending is forecast to rise this year by £19bn (5.7%) to £353bn or 11.1% of GDP. It is then forecast to rise in nominal terms by an average of £16bn annually over the rest of the forecast period, reaching £431bn or 11.3% of GDP in 2031-32. It also notes that while welfare spending as a share of GDP this year (11.1%) is relatively high by historical standards, it is below the 12.3% seen in 2012-13 around the height of the labour market downturn following the 2008 Global Financial Crisis. The EFO further notes that government receipts are projected to grow by 4.4% annually across the forecast period (compared to a 3.2% annual growth rate for total public sector managed expenditure). The tax-to-

GDP ratio is expected to surpass its historical high of 37.2% in 2027- 28 and continue increasing in every year of the forecast until it reaches 38.6% in 2031-32.

It is likely that a disproportionate percentage of this 38.6% would come from London. For example, in the 2024 to 2025 tax year, London residents contributed approximately 26% of all UK income tax. Meanwhile, London contributed approximately 21% of total UK public sector revenue in the financial year ending (FYE) 2025.

Moreover, the OBR slightly increased its trend productivity growth forecast (by 0.2 percentage points in 2030) because of higher business investment and capital deepening due to stronger-than-expected business outturns and overall output growth. This renders the challenge to raise productivity in London to 2% growth year-on-year until 2035 (as set out in the London Growth Plan) more imperative in the national context.

Cost of living measures

The Chancellor announced various measures to attenuate cost-of-living pressures. These could be grouped into the following categories.

Support with energy costs

The temporary removal of the 5% VAT on domestic electricity bills has been extended until July 2027, benefitting households in London and across the UK. It is worth noting that while the average annual electricity bill in London is roughly £875 (around £73 a month), savings depend heavily on total usage—meaning larger homes, or properties using electric heating/heat pumps and electric vehicles anywhere in the UK, receive a higher cash saving than smaller homes, regardless of whether they are in London or another region.

A novel measure is the scrapping of gas standing charges in 2027 or as soon as possible thereafter (similar reforms for electricity standing charges are to be announced in due course). The Chancellor noted that the removal of gas standing charges is expected to save 60% of households £45 per year on average. It is worth noting that densely populated areas like London have lower per-household grid maintenance and connection costs because infrastructure is shared among many more properties. Rural and remote areas (such as parts of Scotland, Wales, and the South West) face significantly higher daily standing charges because supplying energy across sparse populations costs network operators more. The Treasury's plan to scrap gas standing charges applies a uniform national removal rather than a scaling system. Because regions with higher baseline standing charges currently pay more per day, households in those areas stand to save a larger daily and annual nominal amount than Londoners, where daily standing charges are relatively lower.

Moreover, to support households with the higher energy costs, the Budget also includes a commitment to directly pay £100 to households residing in houses that fall in council tax bands A to D. This has been described as a "Council Tax cut" that is projected to cost £2.6bn in total and is projected to benefit 2.6 million to 2.8 million households in London (~70-75% of all households in the city). Meanwhile, £100m in additional funding was also announced for local authorities to provide targeted support to households affected by energy cost, and the Chancellor also committed to introducing a new Energy Debt Circuit Breaker to tackle energy debt starting in 2027. It is expected to save all bill payers around £30 by 2030.

Support with wider costs

The Budget also includes a commitment to suspend tariffs on over 100 supermarket goods; this is projected to save the average household £21 a year. The 5p cut to fuel duty has also been extended until July 2027. With regards to implications for London, Londoners are significantly less likely to benefit from a fuel duty cut than people in other UK regions due to lower car ownership rates (just under half of all London households do not own a car at all, which is a higher share than any other region), higher reliance on public transport and regional disparities in fuel spending. Data shows that drivers in regions like the South East and South

West spend considerably more on fuel duty (averaging over £680–£702 annually) due to higher driving rates and multiple-car ownership, whereas London captures a much smaller fraction of the aggregate savings.

Furthermore, a £15m fund has been introduced for organisations that provide books to children. According to UK survey data, children in London read more regularly and enjoy reading more than those in any other UK region. Data published by the National Literacy Trust consistently shows that London leads the UK in both youth reading enjoyment and daily reading frequency.

Support for working households

Both the National Minimum Wage and National Living Wage have been increased by 3.9%, with no equalisation for 18-20 year olds. This could benefit between 574,000 to 600,000 workers in London that earn less than the London Living Wage. In addition, expanded parental pay is to be introduced from April 2029 and will include self-employed fathers, partners and adopters. There are approximately 1 million self-employed individuals in London with men making up 61% of the solo self-employed workforce. The Trades Union Congress (TUC) and The Fatherhood Institute estimate there are around 150,000 self-employed dads and same-sex partners across the UK who face specific gaps in statutory paternity pay. Because London has a younger demographic but a much higher baseline rate of overall self-employment compared to the rest of the UK (16.9% in London vs. 13.5% nationally), London is likely to have a slightly higher representation in this demographic than other UK regions, and therefore more of those benefitting could be Londoners.

Local Government Finance and Business Rates

In a London-related announcement, the Budget included a commitment that the government will legislate to enable the Mayor of London to establish a successor to the Elizabeth Line Business Rates Supplement (BRS) with ballot arrangements no more restrictive than the general ballot provisions in the Business Rates Supplements Act 2009 as originally enacted. This will potentially allow the Mayor to continue the BRS (which currently raises ~£300m a year) to fund other transport projects once the Elizabeth line debt is repaid in the late 2030s or early 2040s.

Moreover, London's business rates retention shares will remain at 67% in 2027-28 - pending a review from 2028-29 - with the GLA's share staying at 37%. Other Mayoral Strategic Authorities (MSA) will get a minimum 20% share so there will be 70% retention in most MSAs but the 100% pilot areas (West of England, Liverpool, West Midlands and Greater Manchester) will remain in place. The aim is to have 100% retention across all local and regional authorities before the end of the decade, with local authorities receiving at least a 70% share. In other words, there's no change to current arrangements and retention shares in London in 2027-28, but that may change by 2030.

The government has also set out its intention to take forward the first wave of new Mayoral Strategic Authority Business Rates Retention Zones in Greater Manchester, East Midlands, Hull and East Yorkshire, Liverpool City Region, Tees Valley, West of England, North East, and York and North Yorkshire Strategic Authorities and the Greater London Authority, subject to Full Business Case approval and legislation. This will unlock commercial development, support the delivery of Mayors' Local Growth Plans and projects in areas such as Stratford, Derby and Selby, and enable more tax to be spent where it is raised. With regards to London, a Business rates retention zone at Stratford (including Stratford International Station) to address capacity at the main station and support development of the international station to support international services stopping there is likely to boost economic activity in a borough (Newham) that is one of the most deprived local authorities in England (on a 1-to-10 deprivation scale (where 10 is the most deprived), the Stratford ward typically scores around 7 out of 10, placing certain parts of it above average for disadvantage). That said, a key challenge resulting from any boost in development in Stratford is socioeconomic inequality, with modern Stratford featuring shiny high-rises, expensive new developments (like East Village), and vibrant commercial zones sitting alongside older social housing estates, high density,

and local economic challenges. Broad patterns of East London poverty continue to intersect with rapid gentrification.

The Budget also provides an uplift to capacity and capability funding directly to Strategic Authorities, worth £150m in 2027-28. This will support local leaders to continue building the resource and expertise required to manage greater powers, fiscal devolution and Good Growth Funds. Capacity and capability funding for Strategic Authorities will be incorporated into fiscal devolution baselines, which will be set at the spending review in 2027 alongside the transfer of responsibilities from departments so Strategic Authorities can have certainty that the funding provided in 2027-28 will continue in future years. It remains unclear if and by how much the GLA will benefit as it is an established MSA with capacity.

Subject to a full business case developed by the GLA and the London Borough of Camden, a Tax Increment Financing mechanism at Euston, based on a business rates retention zone, will be implemented. This will primarily fund London Underground upgrades, while the government continues to work with the Mayor of London to maximise the wider growth and development opportunity.

In addition, the Budget included a commitment to explore the extension of the legislative framework that permits Mayoral Community Infrastructure Levy (MCIL) revenues to support borrowing and debt repayment for strategic infrastructure projects. This change to the 2010 Community Infrastructure Levy (CIL) regulations (i.e. secondary legislation) would allow the GLA and other MSAs to borrow against MCIL receipts. Currently, only the GLA can borrow against MCIL receipts to fund the Elizabeth line debt (and only until 2043). Having this capability could potentially allow the GLA to fund other strategic transport schemes in the future using London wide taxes (in addition to having the local business rates retention zones).

The Chancellor also announced that a relief will be introduced for the pooling of Local Government Pension Scheme (LGPS) debt assets, situated in England and Northern Ireland, to support LGPS reforms, applying to transactions from 28 October 2026 and before 1 April 2032. This will be introduced through the 2026-27 Finance Bill.

With respect to business rates, a key announcement is increasing the small business rate relief (SBRR) threshold (below which they get a 100% discount on bills) from £12,000 to £18,000. This is expected to benefit 70,000 firms nationally, part of which would be funded by higher taxes on gambling and vaping businesses. The measure also includes a tapering scheme whereby the upper limit at which the SBRR ends rises from £15,000 to £21,000 as well. While only the 33 billing authorities (i.e., the boroughs and City of London) can confirm precise numbers for those who will benefit in London, the benefit is likely to be more limited in inner and central London, where rateable values are higher than the national average (e.g., currently only 1-2% of firms in the City of London or Westminster get the SBRR compared to 30% or more in some outer London boroughs). Adult gaming centres and vape shops, however, are not to benefit from the announced measures.

In addition, pubs and live music venues with rateable values below £1m will benefit from an extra 20% in business rate relief. This is in addition to the support introduced earlier in 2026, bringing the total relief to 35%. This support will be provided in 2027-28 and 2028-29. Some of London's large venues (e.g., the O2 Arena) will therefore not benefit from this higher relief (their relief stays at 15%).

Innovation and Artificial Intelligence (AI)

Several announcements targeted innovation and AI more broadly. For example, the Chancellor announced a new 'Funders' Relief'; this is a new relief giving qualifying founders and early investors in companies with a proven record of growth and innovation a 10% capital gains tax rate on up to £10m of lifetime gains, from 6 April 2027. Eligibility depends on the size of the shareholding and length of ownership, and a technical consultation on the detailed design was launched at the Budget. The lifetime limit for Business Asset Disposal Relief (an 18% rate for owners selling a business) halves from £1m to £500,000. London is

home to a large share of UK founders and venture-backed firms (about three-quarters of UK venture capital investment in 2025), so this is likely to benefit the capital more than other UK regions.

Meanwhile, both the National Wealth Fund and the British Business Bank will receive additional funding to boost investment. For example, the British Business Bank's financial capacity will be boosted by £5bn, funding more commercial equity investment, a new venture debt product for innovative firms (including defence and dual-use technology companies) and more support for community lenders. On that point, London took about three-quarters of UK venture capital investment in 2025, with historical trends suggesting this predominant share is the norm. This is much more likely to benefit London-based scale ups and since London generally attracts more FDI and scale-ups, this is likely to also boost job creation and productivity growth in the capital, in line with much of what the London Growth Plan proposes.

The Budget also includes £285m of transitional seed funding in 2027-28 for mayors and local leaders in England to invest flexibly in local growth priorities. Mayoral Capacity Funding also rises by £150m in 2027-28. Allocations, including London's, have not been set out. The Chancellor also announced a new 'Data Centre Covenant' that sets tests for new strategic data centres to meet in order to be approved for construction, including their contribution to local communities and to the UK's economic interests. All data centres are encouraged to meet the tests, and those seeking enhanced government support must do so, in return for a stronger offer of support on grid connections. While no mention was made of how many of these will be in London, it is likely that many of these centres will be located in Greater London or nearby regions to permit greater connectivity and access at a time when the UK's electricity grid and energy infrastructure requires upgrading and cannot yet support remote connectivity and energy transmission. A YouGov survey for Cavendish Consulting found that 69% of adults support new data centres nationwide, but support drops to 56% when asked about developments in their own local area. No reliable data exists for London or other regions, but as London has the lowest median age of any region in the United Kingdom (36 years in 2025) and younger people show lower local backing for data centres in general, this could pose challenges to strategic and local authorities keen on promoting AI and data centre activity.

Furthermore, a 'Young Entrepreneurs Allowance' was also announced, which is a pilot scheme that gives successful applicants support towards their living costs during the first year of their business. The Treasury's Red Book gives no funding figure, age limit or start date, but it was announced as part of the wider effort to boost innovative activity and enterprise in general. With London experiencing greater cost-of-living pressures than other regions and having more young, highly skilled entrepreneurs, its young entrepreneurs are likely to benefit disproportionately from this. Additionally, £1bn of funding will be provided through UKRI on "big bets" in priority clusters aligned with the UK Industrial Strategy. This funding would be disbursed under the Local Innovation Partnership Fund, whose settlements will be devolved to established mayoral authorities from 2028. London already has a £30million allocation from the fund, with the GLA as a lead bidder. Another £500m has also been committed to ensure that AI use is secure and to protect UK interests (for example, investing in strategic UK AI-related firms).

Taxation, Enterprise and Investment

A key taxation-related announcement made by the Chancellor is a further 2 percentage point increase on tax rates for savings income, starting from 6 April 2027. This builds on a previous 2 percentage point hike planned from the 2025 Budget, bringing the total increase to 4 percentage points above current levels. On average, Londoners hold more total savings than residents in other parts of the UK, driven by higher average incomes. This change is likely to disproportionately impact Londoners, who may respond by reducing their savings. Other things equal, lower savings could lead to lower aggregate investment, and by extension, lower growth.

Other tax announcements impact corporations and enterprises. One example is the tax surcharge on banks, where the surcharge on banks' profits above £100m rises from 3% to 6% for 15 months (from January

2027 to March 2028), then returns to 3% from April 2028. The money raised from this increase is meant to support households with cost-of-living pressures. It is projected to raise about £1.5bn in total (£305m in 2026-27, £950m in 2027-28 and £220m in 2028-29 fiscal year (FY)). In the 2024-25 FY, London accounted for 44% of UK bank levy receipts.

In addition, the annual tax deduction businesses claim for the depreciation of plant and machinery that isn't covered by full expensing will fall from 14% to 12% from April 2027. The main rate first-year allowance rises from 40% to 50% for spending from 1 January 2027. Overall, this raises about £1.1bn in 2030-31 and other things equal is likely to dent business investment at a time when both London and the UK have lower business investment rates than their G7 counterparts. The Chancellor also announced that the 2024 Corporate Tax Roadmap commitment has been maintained. The headline rate stays capped at 25% and full expensing is maintained. A consultation was launched on simplifying corporate tax to support investment as well as a call for evidence on modernising Corporation Tax administration. Following that, the Advance Corporation Tax will be abolished from April 2031. London accounted for 36% of UK onshore corporation tax receipts in 2024-25 FY.

There was also a commitment to reform the tax treatment of distributions (payments from a company to its shareholders) from April 2028. Capital treatment is protected for changes of ownership, including families passing down their business. Draft legislation follows for technical consultation in 2027. It raises about £775m in 2030-31. Meanwhile, from April 2027, eligible businesses will be exempt from the indirect costs of renewables government schemes on their electricity bills. Applications are already open, with a backdated payment in 2027. The fiscal cost is about £1.2bn in 2027-28, dropping to £420m by 2030-31.

The Chancellor also announced the launch of Enterprise Management Incentives 2 (EMI2), which will double the generosity of the Company Share Option Plan, so more companies can hire and retain top talent as they grow. Other things equal, this is likely to reinforce London's national and global competitive advantage in retaining talent, as will the announced reforms to non-compete clauses and skilled worker visas (so people can switch jobs more easily).

Another measure announced was the 'Founders' Relief'- a new relief in Capital Gains Tax (CGT) for business founders. The 10% CGT rate will apply to lifetime gains of up to £10million, in a bid to support the founders of successful firms.

Labour Market

According to the OBR Economic and Fiscal Outlook, labour market conditions continue to loosen as vacancies and the number of payrolled employees fall, while private sector pay growth has eased. Non-Labour Force Survey (LFS) measures of employment point to a subdued labour market, in contrast to the continued growth in LFS employment. Survey evidence, such as the latest Bank of England Decision Makers Panel, also points to broadly flat employment growth over the past year. HMRC administrative data suggest this continues to be driven by lower inflows into employment rather than higher outflows from employment.

The OBR projects that the Employment Rights Act 2025 (ERA) will weigh on the labour market, in addition to previously announced policies including the increases in employer national insurance contributions (NICs) and the National Living Wage. The general trend in the LFS unemployment rate matches this picture of a loosening labour market, rising from its post-pandemic trough of 3.6% in 2022 to 5.2% in the final quarter of 2025. While the unemployment rate in the LFS fell to 4.9% in the second quarter of 2026, other evidence – such as the number of vacancies, the KPMG and REC UK Report on Jobs, and the employment component of the UK PMI – signal ongoing weakness in labour demand. The OBR expects the unemployment rate to rise marginally from its current level, peaking at just above 5% in the second quarter of 2027.

In terms of policy announcements, the Chancellor stated that the minimum wage for 18–20-year-olds and the main adult minimum wage rate will both rise by 3.9% in April 2027. That is £11.27 per hour for

18- to 20-year-olds and £13.21 per hour for adults. In London, less than 10% of 18–20-year-old full-time employees earned less than £11.95 per hour in April 2026 and less than 10% of all full-time employers in London earned less than £15.15 per hour, so these changes will directly impact a modest share of Londoners.

The Chancellor said that the government will move forward on pay transparency as consultation on job adverts ends to support action to reduce the gender pay gap. Over the summer, the government consulted on new rules for all job adverts to provide salary details. Generally speaking, London has a higher full-time gender pay gap than the UK average, though it is closely matched or slightly behind the South East depending on the specific worker breakdown. According to the Office for National Statistics, the full-time gender pay gap is historically higher in London, the South West and the South East than in the rest of the UK. In recent regional data compiled by Ciphr UK Gender Pay Gap Statistics, London recorded a full-time gender pay gap of approximately 10.7%, compared to an English regional average of 7.7% and lower figures in Scotland (3.5%), Wales (1.9%), and Northern Ireland (1.1%). Main drivers in London include high-skilled industry concentration (where men are disproportionately represented in top-quartile executive positions) and other factors common to other regions (e.g., parenthood and progression). According to research by Warwick University, the gap in London is particularly pronounced in the top one-third of the wage distribution and in high-earning sectors like finance, legal, and professional services.

Housing

The Budget included several housing-related announcements. With regards to the so-called Mansion Tax, there does not appear to be a major change to the original plans except for a 100% premium on properties left empty and unoccupied for 12 or more months and confirmation it will introduce a deferral scheme and a series of discounts and exemptions. Bands and thresholds are unchanged - so only properties above £2million will pay the surcharge which will be levied on property owners - not occupiers. London is expected to account for at least 50% of the properties liable to pay the tax (potentially 85,000 out of 165,000 pending valuations to be issued in late 2027 by the Valuation Office). Due to higher multiplies on more expensive homes, London is likely to pay an even bigger share of the expected £430m in revenues the tax will generate.

The Chancellor also announced a further 2 percentage point increase on tax rates for property (rental) income, starting from 6 April 2027. This builds on a previous 2 percentage point hike planned from the 2025 Budget, bringing the total increase to 4 percentage points above current levels. As Londoners are more likely to have higher savings income, they are likely to pay disproportionately more tax (on aggregate) than residents of other UK regions. According to official HMRC Property Rental Income statistics, the Greater London region generates 28% of the total property rental income declared by unincorporated landlords across the UK (£58.99bn in total property rental income), solidifying its position as the largest rental income market by a significant margin. Landlords based in the Greater London region account for £16.52bn of that total. They key drivers of London's rental income dominance is landlord versus income share discrepancy (while London accounts for 28% of all rental income, it is home to only 17% of the UK's individual landlords. This indicates that the average rental intake per landlord in the capital is exponentially higher than the national average).

The Budget also introduced the 'Your First Home Scheme' (YFH), which aims to support first-time buyers to purchase new-build properties, with £4.7bn of government funding for equity loans. This will help ordinary people afford to become homeowners, while ensuring developers can rely on sales to build much-needed new homes. YFH is expected to support thousands of first-time buyers in London. Regional caps on household income ensure that all but the 10% highest-earning Londoners can access the scheme, while target property price caps for inner and outer London boroughs, and a 15% cap on deposits, will help reduce the risk of inflating house prices, avoiding worsening affordability.

Additional funding was also announced to prevent rough sleeping. £432m has been dedicated across 2027-28 and 2028-29 to extend this off-the-streets offer, ensuring that people sleeping rough have a route off the streets, not just this year but every year. London level share of this funding remains unknown, but official data from the Ministry of Housing, Communities and Local Government Rough Sleeping Snapshot and reports from the House of Commons Library show that rough sleeping is heavily concentrated in the capital. London consistently records the highest single-night and annual totals of people sleeping rough compared to any other region. Combined, London and the South East account for roughly 43% to 45% of all rough sleepers recorded on a single autumn night in England. According to Shelter, London accounts for more than half of all people experiencing homelessness (including temporary accommodation) in England, with roughly 1 in 45 Londoners affected.

The government is also providing a further £1.5bn in funding for the Social and Affordable Homes Programme, taking total capital investment in social and affordable housing to more than £40bn over 10 years. This will complement the £9.6bn allocated earlier this year and support delivery of around 10,000 additional homes. The London level share is still unknown. In addition, the government is introducing a licensing regime in 2027-28 to enforce national standards for supported housing in England while extending the preferential Public Works Loan Board (PWLB) rate for a further year, to 2027-28, at 40 basis points below the PWLB normal rate.

With respect to housebuilding regulations, the government will not make major changes to building regulations for the remainder of this Parliament – except to continue improving building safety, including implementing the recommendations from the Grenfell Inquiry. In addition, the government will continue to consider how to amend regulations where doing so would support development, by being more proportionate. Other things equal, this is likely to benefit residents in disadvantaged areas of London and the UK, where building safety regulations have come under scrutiny following the Grenfell tragedy.

Furthermore, residential brownfield developments on sites up to 1.5 hectares in England are being exempted from Biodiversity Net Gain (BNG) requirements, reducing costs and ensuring the government's 'brownfield-first' ambitions directly support the delivery of more homes. The full government response to the consultation and impact assessment will be published in due course. This will also set out the timeline for implementing the new exemption. In parallel, BNG will become mandatory for Nationally Significant Infrastructure Projects from November 2026, ensuring the country's largest developments make a strong contribution to nature's recovery.

Moreover, to enable adoption of AI planning tools, the government will mandate Local Planning Authorities to digitise and publish key planning documents as open data by the end of 2027 and confirm its commitment to make MHCLG's PlanAssist frontier AI tool available to all councils in England by the end of 2027, subject to further testing.

Skills and Education

With regards to skills and education, the Chancellor announced a commitment of £100m over 2027-28 and 2028-29 to expand Mayoral Apprenticeship Brokerage Pilots from 7 to 14 strategic authorities. Based on mid-year 2025-26 data, London continues to have the lowest rate of apprenticeship starts and achievements relative to its population size amongst all English regions. Following a successful bid, the GLA secured £10m to deliver the Apprenticeship Brokerage Programme, supporting efforts to expand apprenticeship opportunities and increase starts across the capital.

The government will also re-establish the Union Learning Fund in England. The scheme will have a budget of £15m per year from 2027-28 to allocate to projects put forward by unions to support learning and training among workers, supporting upskilling to the changing needs of the economy. The impact is likely to be limited in London given the scale of investment, but it complements other apprenticeship measures and is a positive step.

Meanwhile, the government will make sure that jobs and skills in local communities are at the heart of their procurement model, with a target of at least 3% for apprenticeships on large government infrastructure and construction projects. Complementing the Apprenticeship Brokerage Programme, this announcement should help expand apprenticeship opportunities in London, particularly in priority sectors and for underrepresented groups.

The government will also introduce legislation in the Finance Bill 2026-27 so that an employer's payment of an Immigration Skills Charge or Certificate of Sponsorship fee is not treated as a taxable benefit in kind. The change will apply to payments made on or after 28 October 2026. It is worth noting that London has the largest share of sponsored workers. The measure makes sponsoring slightly cheaper and simpler for London firms, which are exposed to skilled-worker shortages. The charge still goes to central government, with no link to London skills investment.

Transport and Infrastructure

With respect to transport and infrastructure, legislating to enable the Mayor of London to establish a successor to the Elizabeth Line Business Rates Supplement (BRS), which is scheduled to end by 2041, could help the GLA finance future transport schemes such as the West London Orbital and the Bakerloo Line Extension. In addition, the government also announced a commitment to work with MSAs, including the GLA, on approaches that ensure value for money and a reliable pipeline of bus orders, and which support British manufacturing in the process.

Green Book

The Budget also addresses reforms to the Treasury's so-called Green Book, with place-based business cases (PBBCs) at the heart of these reforms. The Treasury published guidance on PBBCs, a coordinating mechanism through which stakeholders agree a shared, evidence-based understanding of the challenges and objectives for a place, and a portfolio of interventions to deliver those objectives. The guidance is an action from the 2025 Green Book Review, which found that individual appraisals miss the interactions between projects which can mean their value is more than the sum of their parts. PBBCs could prove useful in major regeneration areas such as Opportunity Areas and Broad Locations for Growth in the Draft London Plan and new town locations, where packages of interventions are needed in housing, land, transport, skills, etc. They remove the need for a Strategic Outline Case to be developed in a three-stage business case and introduce economic potential analysis, which identifies the 'size of the prize' if an area can address binding constraints.

The Treasury also formalised the reduction in the Green Book Discount Rate from 3.5% to 3%. The discount rate is used in economic appraisals to enable benefits and costs that occur in the future to be given in present value terms. The discount rate reflects social time preference and the cost of capital and was subject to an independent review. The impact in London would be the same as in any part of the country: longer term ('transformational') projects that deliver benefits further in the future could have more favourable Benefit-Cost Ratios because longer term benefits will be discounted less heavily.

There was also guidance provided on the concept of 'proportionality' in business case development. This was another action from the Treasury's 2025 Green Book Review that responds to feedback that the business case guidance could be onerous and costly for stakeholders to implement. The guidance could help the GLA and other MSAs adopt and apply the five-case business case model on a more proportionate basis: the strategic, economic, financial, management and commercial cases form a useful framework for appraising projects and informing decision-making.

Pensions and ISAs

Regarding pensions and ISAs, the Budget included several announcements. There was a statement to end surplus sharing in coal pension schemes. The government is changing the surplus sharing arrangements in

the Mineworkers' Pension Scheme and British Coal Staff Superannuation Scheme, so the members receive 100% of the surpluses generated from the schemes' performance. The government will work with the trustees toward full transfer of the remaining Guarantor's Fund. Londoners are generally unlikely to benefit directly from the ending of surplus-sharing arrangements in the coal pension schemes. The Mineworkers' Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS) apply specifically to former coalminers and staff who worked in historical mining communities (such as in parts of Yorkshire, the Midlands, the North East, and Wales). The 100% surplus transfer goes directly to scheme members and their families—not to general taxpayers or regional municipal budgets in London. While former mineworkers or beneficiaries living in London would individually benefit as scheme members, the policy is geographically targeted at former mining areas rather than London residents as a group.

Furthermore, the tax-free allowance is to increase with the annual state pension level for those above the retirement age. From April 2027, if a person is above the state retirement age and their total income is no more than the full annual value of the new State Pension, they will receive the full Pension Tax Allowance and will not be brought into paying tax because of State Pension uprating in this Parliament. The government will introduce the Pension Tax Allowance (PTA), ensuring that pensioners whose total income is up to the value of the full new State Pension do not have the administrative burden of paying small amounts of tax. The value of the PTA is calculated by applying the basic rate of income tax (20%) to the difference between the full new State Pension and the Personal Allowance. Individuals over State Pension age are eligible for the automatic tax deduction if their income, regardless of source, is below or at the value of the full new State Pension. For those with incomes just above the value of the full new State Pension, the allowance will be gradually withdrawn through a taper. The allowance will apply from 6 April 2027 until 5 April 2030 and will be uprated in line with the full new State Pension across this Parliament. It will be legislated for in the Finance Bill 2026-27 and the government will consider arrangements beyond April 2030 in the usual way.

Approximately 1.04 million to 1.05 million Londoners are aged 65 and over (about 11% to 12% of London's total population). Meanwhile, approximately 12.5 million to 13.2 million people are aged 65 and over or claiming the state pension across the UK (about 18% to 19% of the total population). In London, around 170,000 people (1.9% of London's population) are just receiving state pensions, but not any other type of occupational/private pension or other employment earning (this figure does not control for other state benefits income and is a three-year smoothed average). In the UK as a whole this number stands at 1.36million (1.9% of the UK's population – so relatively similar to London's percentage).

The so-called 'Triple Lock', a rule that guarantees the State Pension increases every April by whichever of inflation, average earnings and 2.5% is the highest, will also be adjusted from 2030. This means that over time, the State Pension is set to rise in line with average earnings. Adjusting the Triple Lock is estimated to reduce State Pension spending by £15bn a year by the late 2030s, and by £50bn a year by the late 2040s.

Moreover, the total ISA limit is set to stay at £20,000 per annum and will not be reduced from April 2027 as previously announced. On average, Londoners hold more total savings than residents in other parts of the UK, driven by higher average incomes. This change is likely to benefit Londoners more as individuals more likely to save.

To support first-time homebuyers, a first-time buyer ISA is to be introduced from April 2029. This will replace the existing Lifetime ISA. The product will retain the generosity of the Lifetime ISA, allowing contributions of up to £4,000 a year with a 25% government bonus (capped at £20,000). The bonus will be paid on the value of the account balance when funds are withdrawn for a qualifying first home purchase, up to the value of £450,000, so avoiding the need for any withdrawal charge. The new product will have no upper age restriction.

In recognition that some Lifetime ISA holders may wish to purchase a property above the £450,000 property price cap, the government will from 29 October 2026 allow Lifetime ISA funds to be withdrawn for such purchases which otherwise meet the qualifying rules, with a reduced withdrawal charge of 20%, ensuring the value of individual contributions is protected if the value of the property is above the price cap. It is worth noting that Londoners face major hurdles with the Lifetime ISA (LISA) because of the scheme's £450,000 property price cap; meaning they do not necessarily use it more or more successfully than people in other parts of the UK—and many struggle to use it at all. Because average property prices in the capital often surpass £450,000, many first-time buyers cannot use their savings for a home purchase. Data shows that unauthorised withdrawals across the UK outnumber authorised house-purchase withdrawals (with many affected users trapped or losing money to withdrawal penalties), a problem felt acutely in expensive regions like London.

Last but not least, a new ISA scheme to incentivise investment in stocks and shares was also announced but little detail has been provided, except that the government will work with industry to explore a new ISA incentive for people investing in a stocks and shares ISA for the first time. The detailed design will be developed with industry and announced in due course.

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London's workforce jobs (WFJ) are projected to grow by 0.5% in 2026, 0.8% in 2027, and 1.0% in 2028.
Household spending is expected to grow by 1.0% in 2026, 1.2% in 2027, and 1.4% in 2028.
Household income is expected to grow by 1.2% in 2026, 1.3% in 2027, and 1.5% in 2028.

Download the full publication.

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

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