

Weekly policy update from London Chamber of Commerce and Industry

A round-up of key policy changes from the past seven days

Interest Rates

Bank of England Governor Andrew Bailey hinted at aggressive interest rate cuts in the upcoming November 7th meeting, with the current rate at 5.25%, following the pound's drop to a two-week low at \$1.3125 after his comments. Bailey noted easing cost of living pressures, with private sector wage growth declining by 0.3% to 4.1% and labour demand easing, indicating a potential reduction in cost. For SMEs, anticipated rate cuts could lower borrowing costs and create refinancing opportunities, although rising oil prices from geopolitical tensions remain a concern that could affect inflation.

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Economic Growth

The UK economy grew less than expected in the spring, raising concerns about the overall economic outlook. GDP growth was 0.2% in Q2 2024.

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New Data Shows Slowing Wage Growth

New data reveals that the cooling UK labour market has contributed to a decline in private sector median pay growth, which fell to 4.1% in the three months to August, down from 4.4% in July, while public sector pay growth stabilised overall pay growth at 4%. As job competition reaches a three-year high and inflation decreases, SMEs may benefit from a more stable hiring environment, potentially leading to reduced wage pressures.

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House Price Growth

UK house prices increased by 3.2% in September compared to the previous year, marking the fastest growth rate in nearly two years. The average house price now stands at £286,000. This rise may affect commercial property values and rental costs, posing challenges for businesses considering expansion or relocation. Additionally, the surge in housing prices could impact employee housing

affordability, potentially influencing retention and recruitment strategies.

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Increased Capital Spending in Upcoming Budget

Chancellor Rachel Reeves has proposed significant increases in capital spending. She asserts that maintaining this year's investment levels would require an additional £24 billion annually by 2028-29, exceeding Labour's manifesto projections. She also announced a £22 billion commitment to carbon capture projects over 25 years, emphasising the need to unlock fiscal space for capital initiatives. This increased investment could lead to enhanced infrastructure and growth opportunities for businesses.

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Plan for Significant Infrastructure Cuts

Ministers are preparing to implement billions in cuts to infrastructure and capital investments, with the Treasury requesting a 10% reduction in annual budgets. Economists warn that these cuts could impede economic growth and strain the UK's infrastructure, which may lead to challenges for SMEs in securing funding and accessing essential services. The situation emphasises the need to adapt their financial strategies by businesses and explore alternative funding sources to navigate the uncertain landscape.

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New Compliance Penalties for Businesses

Companies House has introduced a new regime to enhance compliance, with penalties for non-compliance set to take effect soon, encouraging registered companies to meet their responsibilities, such as timely filing of confirmation statements. Serious violations could result in financial penalties, civil action, or even criminal prosecution for directors. For SMEs, this increased scrutiny may lead to higher compliance costs and necessitate more robust governance practices while also aiming to improve the overall integrity of the corporate register, potentially fostering a more transparent business environment.

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Fraud Rules

UK banks are debating a proposal to charge scam victims a £100 reimbursement fee under new fraud rules. In 2023, financial fraud losses in the UK amounted to £1.2 billion. Implications: This highlights the growing importance of fraud prevention measures and the need for businesses and consumers to adopt robust cybersecurity practices. The potential introduction of reimbursement fees could also have significant financial implications for companies and their customers.

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Starling Bank Fine

The Financial Conduct Authority (FCA) fined Starling Bank £28.96 million due to inadequate financial crime controls. This case underscores the importance of adhering to financial regulations and implementing measures to prevent financial crime.

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