

Has London continued to export taxes in 2003/04?

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Previously, GLA Economics has estimated public expenditure and tax receipts in London since the late 1980s¹. In April 2005, Her Majesty's (HM) Treasury published regional public expenditure data for 2003/04. Following the same methodology outlined in GLA Economics' *Working Paper 6*², this note updates GLA Economics' estimates of London's public expenditure and taxes in 2003/04.

GLA Economics' most recent estimates of London's tax export, the difference between taxes and public expenditure, are in the range £0.9 billion - £7.3 billion. When pay costs associated with non-identifiable expenditure in London are used to refine the estimates, London's tax export is calculated to be between £0.8 billion and £6.7 billion. Hence when rounded to the nearest whole billion both methods suggest London's tax export in 2003/04 was £1 billion - £7 billion.

The magnitude of London's tax export depends on economic growth and UK fiscal policy³. In the early 1990s when London's economy experienced recession, London's tax export narrowed and indeed recorded a deficit despite a recovery in growth in the London economy. This reflected the impact of the then UK government's policy to run large public sector financial deficits which peaked at £51 billion (or close to eight per cent of GDP) in 1993/94. Similarly between 2002/03 and 2003/04 the negative impact on London's tax export of higher public spending and higher public borrowing outweighed the positive impact of growth in the London economy. Between 2002/03 and 2003/04 the UK government increased its net borrowing by around £11 billion from £25.0 billion to £35.7 billion. Overall, London's tax export narrowed from a revised estimate of £3 billion - £9 billion in 2002/03 to £1 billion - £7 billion in 2003/04.

1. Introduction

Since the late 1980s London has tended to pay more in taxation than it has received in public expenditure. The exception was the years 1992/93 to 1994/95 when public spending in London exceeded estimated tax receipts. This reflected the impact of national government fiscal policy as it was a period when the then UK government ran very large public sector fiscal deficits.

¹ GLA Economics, 2005, *Growing Together: London and the UK economy*, London

² GLA Economics, 2004, *Working Paper 6: Calculating London's Tax Export*, London

³ GLA Economics, 2005, *Growing Together: London and the UK economy*, London

In April 2005, HM Treasury published regional public expenditure data for 2003/04. This note updates GLA Economics' estimates of London's public expenditure and taxes to 2003/04, following the same methodology outlined in GLA Economics' *Working Paper 6*.

2. Public expenditure and taxes

Public expenditure on services is divided into identifiable and non-identifiable expenditure. Identifiable expenditure is the spending which is recognised as incurred on behalf of a particular population and allocated to regions/countries in the UK. The non-identifiable expenditure is that part which is incurred on behalf of the UK as a whole such as defence or overseas aid.

Total public expenditure in London is calculated by adding two components:

- a) Identifiable expenditure on services in London
- b) The estimated proportion of remaining UK public expenditure that has not been classified to any region.

For the first component, HM Treasury published in *Public Expenditure Statistical Analyses (PESA) 2005*⁴ the most recent data on identifiable expenditure by region and for the UK. For the second component, it is necessary to calculate first the public expenditure not classified to any region. This calculation is shown in Table 2.1.

Table 2.1: UK public sector expenditure (£ billion)

	2002/03	2003/04
Total UK managed expenditure (a)	418.0	455.2
Total identifiable expenditure in the UK (b)	334.6	367.1
(a) minus (b) is public expenditure not classified to any region	83.4	88.1

Source: HM Treasury, *PESA 2005*

Part of this public expenditure that is not classified to any regions by HM Treasury has to be allocated to London. Two alternative mechanisms are used:

- a) London's share of identifiable public expenditure
- b) London's share of UK population.

Table 2.2 shows estimates of public expenditure in London for 2002/03 and 2003/04. In both approaches, public expenditure in London has increased over this period. Total expenditure in London calculated using mechanism (a) rose by 11 per cent in 2003/04. Using mechanism (b), public expenditure in London rose ten per cent in 2003/04. This increase was in line with growth in UK identifiable public expenditure in 2003/04 (ten per cent), however this increase was much stronger than the increase of UK identifiable public expenditure in 2002/03 (seven per cent).

⁴ HM Treasury, 2005, *Public Expenditure Statistical Analyses 2005*

Table 2.2: Public expenditure in London, 2002/03 and 2003/04 (£ billion)

2002/03	(A)	(B)
Identifiable expenditure on services in London	47.4	47.4
Plus estimated proportion of other spending classified to London	11.8	10.4
Total public expenditure in London	59.3	57.8
2003/04	(A)	(B)
Identifiable expenditure on services in London	52.9	52.9
Plus estimated proportion of other spending classified to London	12.7	10.9
Total public expenditure in London	65.6	63.8

Source: GLA Economics. Numbers have been rounded.

UK taxes were allocated to London following the same methodology as outlined in GLA Economics' *Working Paper 6*. A detailed summary of the mechanisms used to allocate the different taxes to London is given in Appendix A of this note.

Taxes can be calculated on the basis of where individuals live (residence basis) or where they work (workplace). Table 2.3 (p.4) provides tax receipts in London on both residence and workplace bases.

In April 2005, the Office for National Statistics (ONS) published figures for household income at regional level for 1995-2003. Since the most recent figures on household consumption are for 1999, London's share of household income has been used as a proxy for its share of household consumption.

Tax receipts in London increased by around five per cent in 2003/04 on both residence and workplace bases. This is faster growth than seen in recent financial years.

Table 2.3. Tax receipts in London, 2002/03 and 2003/04 (£ billion)

	2002/03		2003/04	
	Residence basis	Workplace	Residence basis	Workplace
Income tax plus tax credits	18.2	20.5	19.6	22.0
Council tax	2.4	2.4	2.9	2.9
Vehicle tax	0.7	0.8	0.8	0.9
Social contributions	9.9	10.6	10.8	11.5
Valued added tax	9.5	9.5	10.3	10.3
Corporation tax	4.8	5.4	4.5	5.1
Stamp duty	0.9	0.9	0.9	0.9
Total customs and excise duties excluding value added tax	6.8	6.9	7.0	7.0
Petroleum tax and oil royalties	0.2	0.2	0.2	0.2
Capital gains tax and inheritance tax	0.6	0.6	0.7	0.7
Business rates	3.5	3.5	3.5	3.5
Other taxes and royalties	1.8	2.0	1.8	2.0
Interest and dividends	0.7	0.8	0.7	0.8
Other receipts	3.2	3.6	2.9	3.3
Total public sector taxes receipts	63.3	67.9	66.5	71.2

Source: GLA Economics' calculations based on HM Treasury, Budget 2005 and Office for National Statistics, the Blue Book.

3. London's tax export – the difference between taxation and public expenditure

The estimated difference between taxation and public expenditure in London for 2002/03 and 2003/04 are shown in Tables 3.1 and 3.2, using the two mechanisms for allocating public expenditure:

- a) London's share of identifiable public expenditure with taxes on a residence and workplace bases.
- b) London's share of the UK population with taxes on a residence and workplace bases.

Table 3.1: The difference between taxes and public expenditure in London, 2002/03 (£ billion)

	(a) Using share of identifiable expenditure		(b) Using share of London population	
	Residence level	Workplace	Residence level	Workplace
Tax receipts	63.3	67.9	63.3	67.9
Public expenditure	59.3	59.3	57.8	57.8
Difference between tax receipts and public expenditure	4.0	8.6	5.5	10.1

Source: GLA Economics. Numbers have been rounded.

Table 3.2: The difference between taxes and public expenditure in London, 2003/04 (£ billion)

	(a) Using share of identifiable expenditure		(b) Using share of London population	
	Residence level	Workplace	Residence level	Workplace
Tax receipts	66.5	71.2	66.5	71.2
Public expenditure	65.7	65.7	63.9	63.9
Difference between tax receipts and public expenditure	0.9	5.5	2.6	7.3

Source: GLA Economics

London continued to export taxes to other regions, though London's tax export narrowed further in 2003/04. This was due to much higher public expenditure that outstripped a recovery in tax receipts in London.

GLA Economics' most recent public expenditure estimates for 2002/03, using PESA 2005 figures, revised down the previous public expenditure estimates for the same financial year which used PESA 2004 data. Tax receipts estimates for 2002/03 have not been revised to

the same extent. As a result of the downward revision to public expenditure estimates, the estimated London tax export in 2002/03 has been revised up from £3 billion - £10 billion to GLA Economics' current estimate of £4 billion- £10 billion, using the methodology followed in *Working Paper 6*. Using the new information on pay costs available for 2002/03 (and now 2003/04) gives a revised tax export figure of only £3 billion – £9 billion compared to £2 billion - £9 billion previously.

Using pay costs data for 2003/04

New data on pay costs across the regions for 2003/04 have been published in PESA 2005. London's tax export estimates using the standard method and pay costs data are displayed in Table 3.3. The latter method produces very similar estimates compared to those using the standard method. London's tax export is estimated to be between £0.8 billion and £6.7 billion.

Table 3.3: Comparisons of estimates of London's tax export (£ billion), 2003/04

	Method used in GLA Economics' <i>Working Paper 6</i>		Using information on pay costs associated with non-identifiable spending in London	
	(A)	(B)	(A)	(B)
Tax receipts (at residence level)	66.5	66.5	66.5	66.5
Public expenditure	65.7	63.9	65.8	64.3
Difference between taxes and public expenditure	0.9	2.6	0.8	2.2
Tax receipts (at workplace level)	71.2	71.2	71.2	71.2
Public expenditure	65.7	63.9	65.8	64.3
Difference between taxes and public expenditure	5.5	7.3	5.4	6.90
Estimated tax export (range)	£0.9 – 7.3		£0.8 – 6.7	

Source: GLA Economics' own calculations, based on HM Treasury PESA data and Budget 2005

4. Conclusions

This note sets out GLA Economics' most up-to-date estimates of London's tax export, using both the methodology outlined in *Working Paper 6* and using information on pay costs associated with non-identifiable expenditure in London. When rounded to the nearest whole billion, both methods indicate London's tax export in 2003/04 was £1 billion - £7 billion. This is a decline from GLA Economics' updated estimate for 2002/03 which showed a tax export of £3 billion - £9 billion. This estimate uses information on pay costs across regions, which is available for 2002/03 and 2003/04 only. This is GLA Economics' preferred method for calculating London's tax export as it uses all available regional public expenditure data.

The behaviour of London's tax export depends on two main factors, economic growth in London and the UK government's fiscal policy. There is a positive relationship between economic growth and London's tax export.

In the early 1990s when London's economy experienced recession, London's tax export narrowed and indeed recorded a deficit despite a recovery in growth in the London economy. This reflected the impact of the UK government's policy to run large public sector financial deficits which peaked at £51 billion (or close to eight per cent of GDP) in 1993/94. Similarly between 2002/03 and 2003/04 the negative impact on London's tax export of higher public spending and higher public borrowing outweighed the positive impact of growth in the London economy. Between 2002/03 and 2003/04 the UK government increased its net borrowing by around £11 billion from £25.0 billion to £35.7 billion. Overall the impact of these two opposing forces was to reduce London's tax export further to £1 billion - £7 billion in 2003/04.

Appendix A

Table A1: Mechanisms used to estimate public taxation in London

Tax receipts	Mechanism used
1. Income tax (gross of tax credits)	Compensation of employees at residence level and workplace level
2. Council tax	London figures available
3. Vehicle excise duties	Compensation of employees at residence level and workplace level
4. National insurance contributions (employees and employers)	Part using employment and part using compensation of employees (on alternatively a residence and workplace basis)
5. Value added tax	Household income
6. Corporation tax	GVA residence and workplace bases
7. Stamp duty	Population
8. Tax credits (includes personal and corporate)	GVA residence and workplace bases
9. Fuel duties	Household income
10. Tobacco duties	Household income
11. Spirits duties	Household income
12. Wine duties	Household income
13. Beer and cider duties	Household income
14. Betting and gaming duties	Household income
15. Air passenger duty	Household income
16. Insurance premium tax	Compensation of employees at residence level and workplace level
17. Landfill tax	GVA residence and workplace bases
18. Climate change levy	GVA residence and workplace bases
19. Aggregates levy	GVA residence and workplace bases
20. Customs duties and levies	Household consumption
21. Petroleum revenue tax	GVA residence and workplace bases
22. Oil royalties	GVA residence and workplace bases
23. Capital gains tax	GVA residence and workplace bases
24. Inheritance tax	Population
25. Business rates	London figures available
26. Other taxes and royalties	GVA residence and workplace bases
27. Interest and dividends	GVA residence and workplace bases
28. Other receipts	GVA residence and workplace bases

Source: HM Treasury, Budget 2005

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