GLAECONOMICS

London's Economy Today

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London accelerates ahead of UK in latest growth data

By **Gordon Douglass**, Supervisory Economist, **James Watson**, Economist, and **Jasmine Farquharson**, Project Management apprentice

Output growth in London was the fastest in the UK, according to the latest regional GDP figures from the Office for National Statistics (ONS). And while the data only run to Q3 2022, more recent figures suggest the capital continues to grow ahead of the rest of the country.

London's GDP was growing at a pace of 6.8% year-on-year in autumn 2022, by far the fastest pace of any region in England or UK nation. In a sharp contrast, the wider UK economy contracted in Q3 2022. And London's output has now recovered to 4.4% above its pre-pandemic levels, while national GDP was still nearly 1% below its Q4 2019 levels (Figure 1). Taking an average across the year to Q3 2022, London's growth was close to 10%, again by far the fastest of any region or nation.

The biggest contributions to London's quarterly growth came from IT, Retail and Restaurants & hotels, while Real estate, Education and Finance dragged on output. Despite the cost of living crisis, London's consumer-focused services continued to recover strongly late last year. And some of London's core business-focused sectors were also performing well, with even the drop in Finance output coming after strength in previous quarters. Meanwhile, goods sectors and Real estate are struggling for momentum as interest rates rise and costs for inputs and building materials remain very high.

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Datastore

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

Figure 1: Post-pandemic recoveries for London and UK GDP

Source: GLA Economics, Office for National Statistics

London is a very unequal city, and the poorest Londoners are still facing stark challenges from the rising cost of essentials. Yet, it always seemed likely that London would be more resilient than the rest of the UK to the cost of living crisis. At the macroeconomic level, higher average incomes, lower average spending on energy, a robust labour market and more confident consumers and businesses have kept the capital growing. The wider UK economy has seen low, but positive, growth in the quarters since. Data released this month showed UK GDP rising 0.1% for the second quarter in a row in Q1 2023.

Meanwhile London data for the months since last autumn are also encouraging. The city's workforce jobs have continued to grow ahead of the national average (see below). Consumer confidence in London has consistently been less pessimistic than the national average. Indeed, May's figure saw Londoners push into positive territory for the first time since December 2021, so consumer-facing sectors should remain more resilient in London than at the UK level. More broadly, businesses are also expecting continued growth, with the May Purchasing Managers' Index (PMI) surveys showing London as the fastest-growing region.

Looking forward GLA Economics will release fresh forecasts for London's economy next month with our next London's Economic Outlook report.

Bank of England and IMF raise growth projections, but expect higher inflation for longer

At the May meeting of the Monetary Policy Committee (MPC), the Bank of England revealed it now expects the UK to avoid a recession. But this positive news was tempered by projections that inflation will now stay higher for longer, and markets now expect higher interest rates.

The Bank of England raised the official policy interest rate to 4.5% in May, from 4.25% in March. In their Monetary Policy Report, policymakers cautioned that while they see inflation falling rapidly this year, they expect price growth to hold above the 2% target until 2025. But still-climbing food inflation and strong wage growth are starting to feed through into medium-term inflation forecasts. Based on their 'fan chart' of probabilities around the central forecast, the Bank thinks there is nearly a one in three chance that inflation will be above 4% by the end of 2024. And policymakers estimated a nearly 50% probability of inflation staying above 2% by mid-2026.

Two members of the MPC, Swati Dinghra and Silvana Tenreyro, disagreed with the decision. They voted to hold rates at 4.25%, observing that the effects of previous rate rises will not have had their full effect on the economy yet. In this light, further hikes now could risk squeezing the economy too far.

Even the improved news on the Bank's output projections looks weaker on close inspection. The Bank expects the UK economy to expand just 0.4% on average this year, followed by 0.7% and 0.8% in 2024 and 2025 respectively. And the latest projections place the Bank quite close to average forecaster expectations for next year. This is a troubling sign of wide agreement that the cost of living crisis, and the delayed effects of higher interest rates, may yet drag on the UK's medium-term prospects.

The International Monetary Fund (IMF) also released new, stronger growth forecasts for the UK economy this month. Releasing their annual UK country report, the IMF projected that the UK would now avoid recession and see positive growth across 2023. In annual terms, the IMF expects 0.4% growth this year, then 1% in 2024 and averaging 2% growth in 2025 and 2026. While offering a more optimistic medium-term growth forecast than the Bank of England, the IMF echoed their concerns around higher inflation. At the same time, the IMF cautioned that "elevated uncertainty about the macroeconomic outlook and inflation persistence merits continuous review of the pace and magnitude of monetary tightening".

Pace of inflation down, but food concerns come to the fore

Inflation decelerated to single digits in April, but the cost of living crisis is far from over. ONS figures showed Consumer Price Index (CPI) inflation slowing to 8.7% year on year last month, down from over 10% in March. Under the headline, many important drivers of inflation are now easing, with prices for energy, food and hotels & restaurants all posting slower growth in April. However, some core parts of the spending basket are still accelerating, with inflation excluding food and energy reaching a new 31-year high of 6.8%.

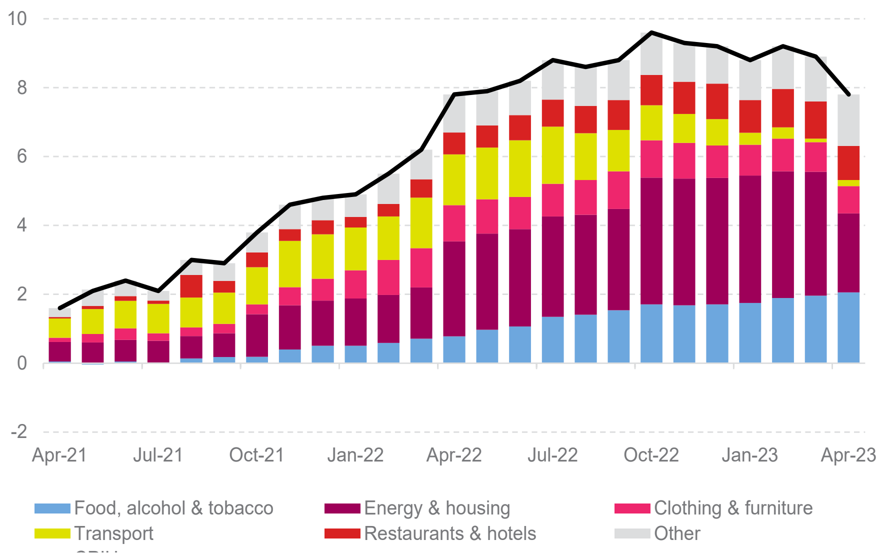


Figure 2: Contributions to CPIH inflation

Source: Office for National Statistics; Note: chart uses CPI including owner-occupied housing costs (CPIH), which usually runs slightly slower than overall CPI.

The contribution from energy shrank abruptly, but this was because the annual comparison is now the much higher April 2022 Ofgem price cap. While household energy costs are still the same as last October, they are set to fall later this summer. Ofgem confirmed today that the price cap will fall to levels consistent with average household annual bills of just under £2,100. Analyst projections suggest that the cap may remain close to this level in October, but wholesale gas prices have fallen to levels not seen since summer 2021.

Even as the energy squeeze loosens, the pace of food inflation is a stark reminder of the pressure still faced by households. Prices for food grew 19.3% year on year in April, ticking down only slightly from 19.6% in March. While several core staples such as bread, milk, cheese and eggs saw inflation slow, the squeeze from food bills is still tight. And across the UK, recent ONS polling shows that more households may now be concerned about paying their food bills than energy costs. Indeed, the Resolution Foundation recently released modelling analysis suggesting that by Q3 2023, 16 million households (56%) are set to face a bigger food than energy cost shock since 2019-20.

These trends will hit the poorest households the hardest, as food and energy both make up larger shares of spending at the bottom of the income distribution. As a result, the same analysis also found that "inflation is currently more bottom heavy than at any point on record". Most troublingly, ONS polling has also found that 61% of the poorest fifth of the UK population are cutting back on food and other essentials – compared to 35% in the richest fifth. GLA-commissioned polling shows that just under one in ten Londoners (9%) are going without essentials. But this rises to one in four (25%) among Londoners who are 'financially struggling'. For as long as the price of core essentials remains so high, the cost of living crisis will still take a toll on the poorest Londoners.

Global central banks continue to raise interest rates

Internationally interest rates have also continued to rise in both the Eurozone and US over the past month. The European Central Bank (ECB) increased rates in the Eurozone by 0.25 percentage points (pp) to 3.25% in May, although this was a smaller increase than previous increases in the rate. However, Christine Lagarde, the president of the ECB, indicated that rate rises would continue with her noting that "we have more ground to cover and we are not pausing, that is extremely clear". The Federal Reserve in the US also increased interest rates in May. Its Federal Open Market Committee increased its target rate by 0.25pp to a new target range of between 5% and 5.25%. However, the Fed softened its messaging around future rate rises. Thus, after this increase it observed that it was "determining the extent to which additional policy firming may be appropriate", whereas after the previous increase in March it had said it "anticipates that some additional policy firming may be appropriate". This was supported by the Fed's chair, Jay Powell, who said that "there is a sense that we're much closer to the end of this than to the beginning".

The recent problems at banks also continued into late April and the beginning of this month with another bank, First Republic, getting into trouble before it was taken over by JPMorgen. Looking at these recent banking sector problems the Federal Reserve has warned that they could lead to banks cutting back on credit which would slow the economy. They observed that "a sharp contraction in the availability of credit would drive up the cost of funding for businesses and households, potentially resulting in a slowdown in economic activity" in the US.

Mixed signals in London's labour market

Data published by the ONS this month showed a mixed picture for London's labour market. Thus, in positive news the capital's inactivity rate was down on both the year and the quarter, while the employment rate is up. London's inactivity rate (the measure of those not looking and/or not available to work) was estimated at 20.9% in the three months to March 2023. This was down 0.5pp on the previous quarter and down 0.2pp on the previous year, and is similar to the UK-wide estimate of 21.0%. The employment rate in London was estimated at 75.4% for the three months ending March 2023, up 0.3pp on the previous quarter and up 0.1pp on the same period in the previous year. Although, London's employment rate remained lower than the UK average (75.9%).

However, other measures of London's labour market showed a more concerning picture with the unemployment rate estimated at 4.7%, which was up 0.2pp on the quarter although unchanged from a year earlier. London's unemployment rate remains above the UK's which stood at 3.9%. Payrolled employees also fell sharply in the capital between March and April 2023 after growing for the previous 26 months (Figure 3). Thus, payrolled employees decreased by around 44,600, or 1.0%, in London between March and April 2023 but still saw an increase of 1.4% on the year. Further, although all UK regions recorded a decline in this measure London saw the largest fall of all regions, and the number of employees living in the capital is now below the count recorded in October 2022. It should however be noted that this measure is often subject to sizeable revisions by the ONS so this decline may later be reversed to some extent.

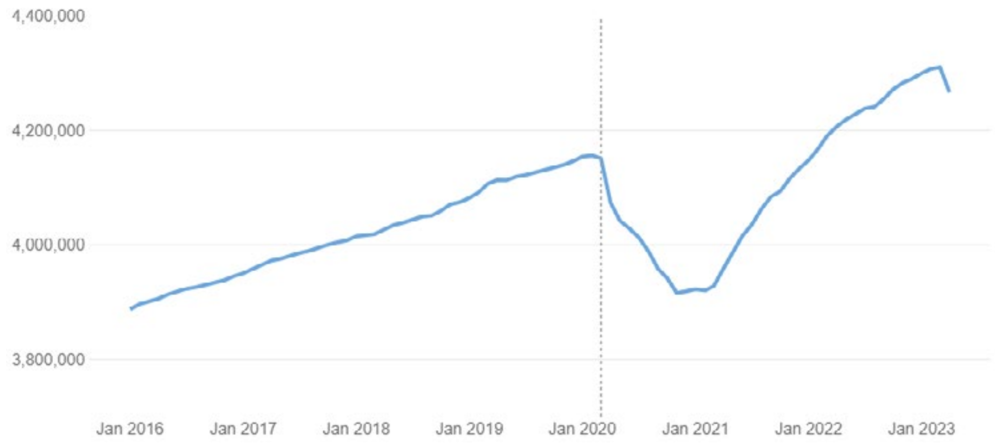


Figure 3: Payrolled employees in London
Latest data for April 2023

Source: HM Revenue and Customs Pas As You Earn Real Time Information; Note: Estimates are based on where employees live. March 2020 indicated by dotted line.

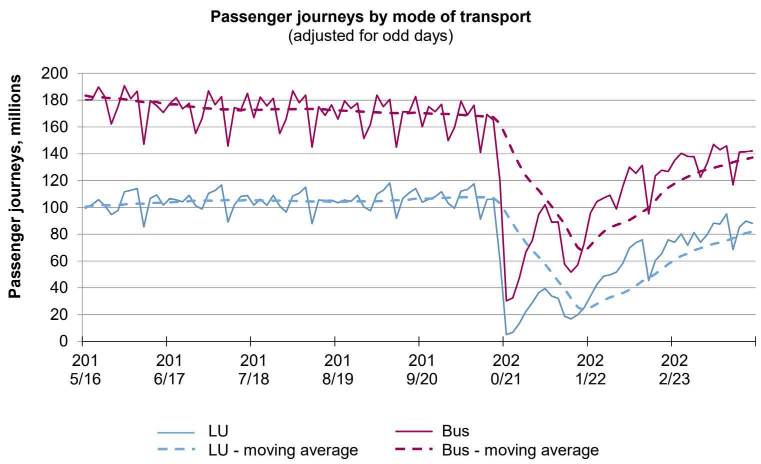
GLA Economics will continue to monitor London's economy over the coming months in our analysis and publications, which can be found on our publications page and on the London Datastore.

Economic indicators

The underlying trend in passenger journeys on London public transport remains marginally upward

- 230.2 million passenger journeys were registered between 5 March 2023 and 31 March 2023, 1.2 million journeys less than in the previous period. 231.4 million passenger journeys were registered between 5 February 2023 and 4 March 2023.
- In the latest period, 88.1 million of all journeys were underground journeys and 142.2 million were bus journeys.
- The 13-period-moving average in the total number of passenger journeys rose from 216.9 in the previous period to 219.0 in the latest period.

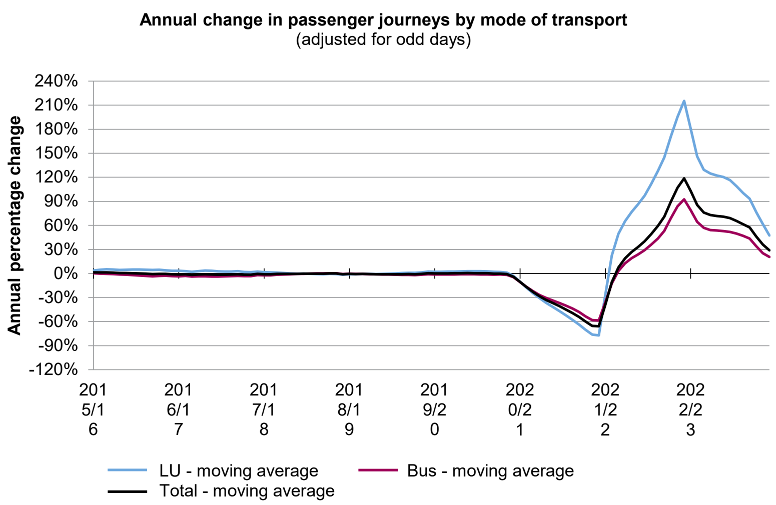
Source: Transport for London
Latest release: May 2023, Next release: June 2023



Annual growth in passenger journeys remained strongly positive, if slowing

- The 13-period moving average annual growth rate in the total number of passenger journeys was 28.9% between 5 March 2023 and 31 March 2023, down from 36.1% between 5 February 2023 and 4 March 2023.
- The moving average annual growth rate of bus journeys decreased from 25.4% to 20.6% between the above-mentioned periods.
- Likewise, the moving annual average of underground passenger journeys decreased from 61.7% to 47.4% between those periods.

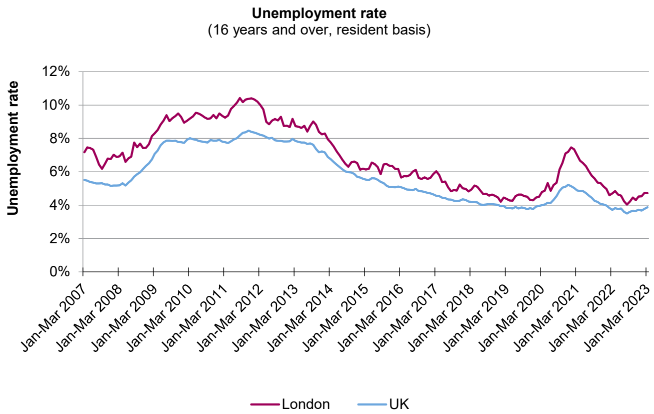
Source: Transport for London
Latest release: May 2023, Next release: June 2023



London's unemployment rate remained low but increased in Q1 2023

- Around 241,000 residents 16 years and over were unemployed in London in January – March 2023.
- The unemployment rate in London was 4.7% in that period, higher than in the previous quarter October – December 2022 at 4.5%.
- The UK's unemployment also increased from 3.7% in October – December 2022 to 3.9% in January – March 2023.

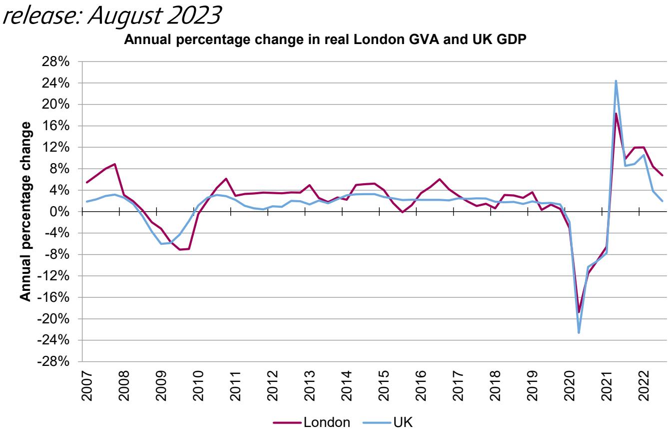
Source: ONS Labour Force Survey
Latest release: May 2023, Next release: June 2023



London's economy had surpassed pre-pandemic levels of output by Q4 2021, and continued to grow in Q3 2022

- By Q3 2022 London's GVA was 4.4% above its pre-pandemic level (Q4 2019), and UK GDP was 0.7% below.
- London's real GVA increased by 0.9% in Q3 2022 - compared with Q2 2022 - after increasing by 1.4% in the previous quarter.
- The UK's real GDP growth rate fell by 0.1% in Q3 2022 – compared with Q2 2022- after increasing by 0.1% in the previous quarter.
- While GDP and GVA are different measures in output their trends have been comparable. UK GDP estimates incorporate a broader range of data than GVA estimates, and so is more robust.
- London's real GVA quarterly estimates for the period Q1 1999 to Q4 2012 have been produced by GLA Economics. Estimates for the intervening period are outturn data from the ONS, which does not publish quarterly estimates for London's real GVA prior to 2013.

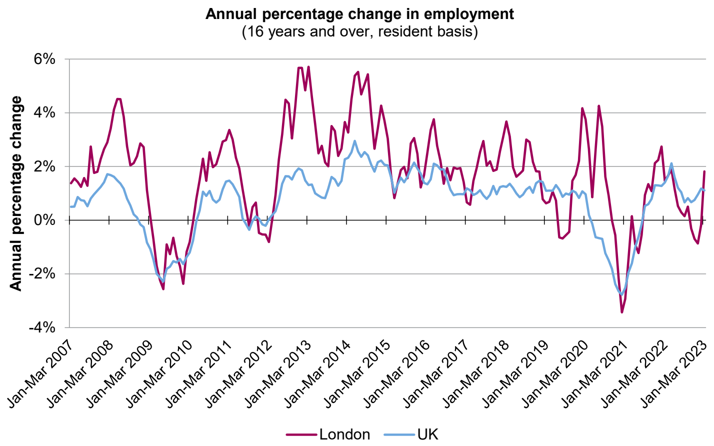
Source: ONS and GLA Economics calculations
Latest release: May 2023, Next release: August 2023



London's employment growth turned positive in Q1 2023

- Around 4.8 million London residents over 16 years old were in employment during the three-month period of January – March 2023.
- The rate of employment growth was 1.8% in the year to this quarter, higher than in the previous quarter to December 2022 of -0.7%.
- The change in the UK's employment annual growth rate was 1.1% in the most recent quarter, slightly faster than the rate of 0.8% in the previous quarter.
- London's labour market remains a conundrum. The latest administrative data suggests that jobs numbers have started to fall contrary to the survey data reported here.

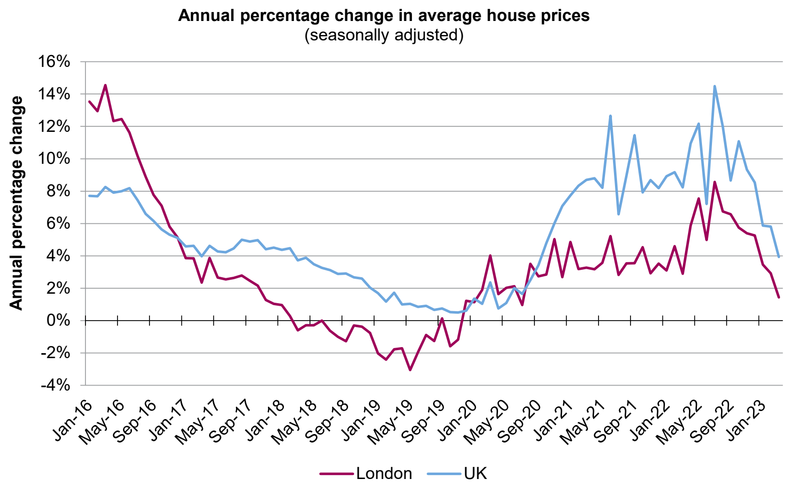
Source: ONS Labour Force Survey
Latest release: May 2023, Next release: June 2023



Annual house price growth in London remained positive, but continued to slow in March

- In March 2023, the average house price in London was £525,000 while in the UK it was £286,000.
- Average house prices in London rose by 1.4% year-on-year in March, less than the rate of 2.9% in February.
- Average house prices in the UK rose by 3.9% in March on an annual basis, lower than the rate of 5.8% in February.

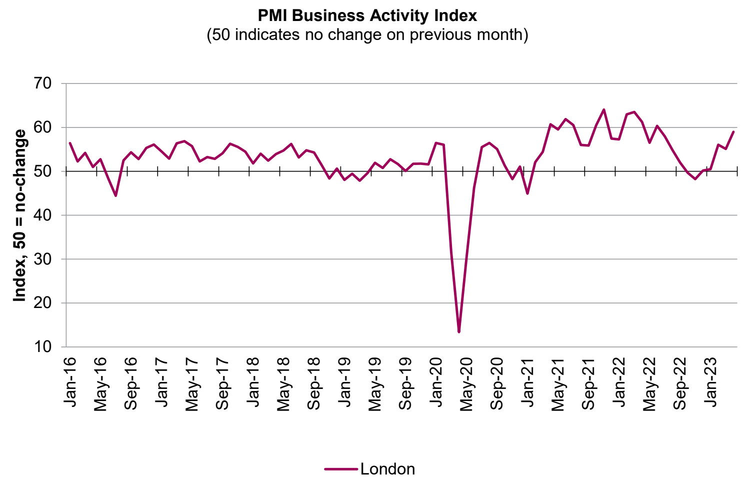
Source: Land Registry and ONS
Latest release: May 2023, Next release: June 2023



In April, the sentiment of London's PMI business activity index remained positive and improved

- The business activity PMI index for London private firms increased from 55.1 in March to 59.0 in April.
- 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.

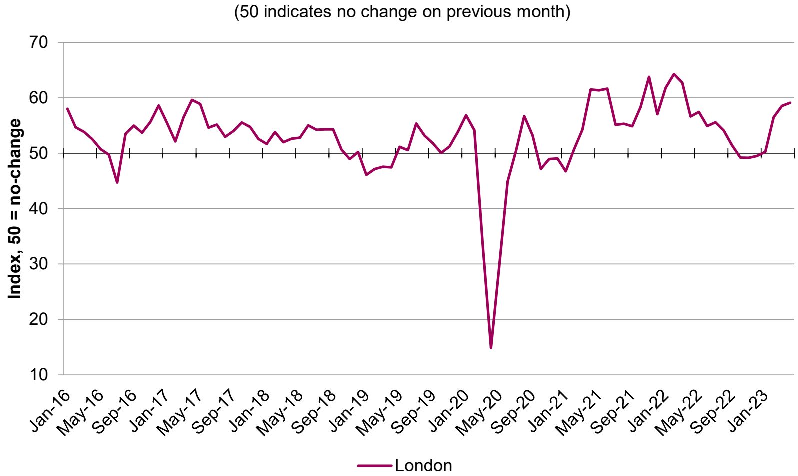
Source: IHS Markit for NatWest
Latest release: May 2023, Next release: June 2023



In April the sentiment of London's PMI new business activity index remained positive and improved

- The PMI new business index in London increased from 58.6 in March to 59.1 in April.
- An index reading above 50.0 indicates an increase in new orders on average across firms from the previous month.

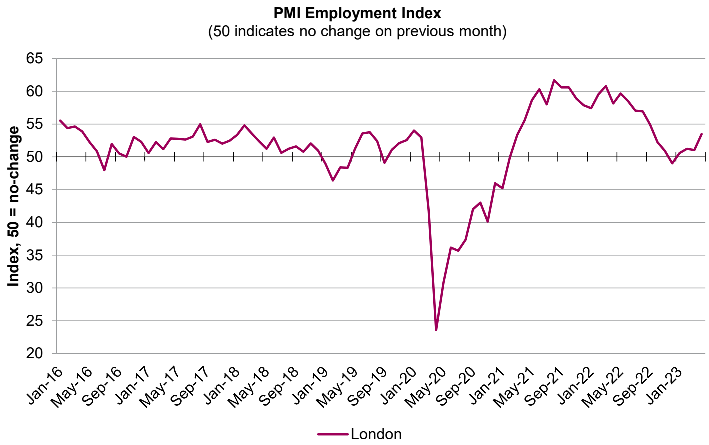
Source: IHS Markit for NatWest
Latest release: May 2023, Next release: June 2023



In April, the sentiment of the PMI employment index in London remained positive and improved

- The Employment Index for London increased slightly from 51.0 in March to 53.5 in April.
- The PMI Employment Index shows the net balance of private sector firms of the monthly change in employment prospects. Readings above 50.0 suggests an increase, whereas a reading below 50.0 indicates a decrease in employment prospects from the previous month.

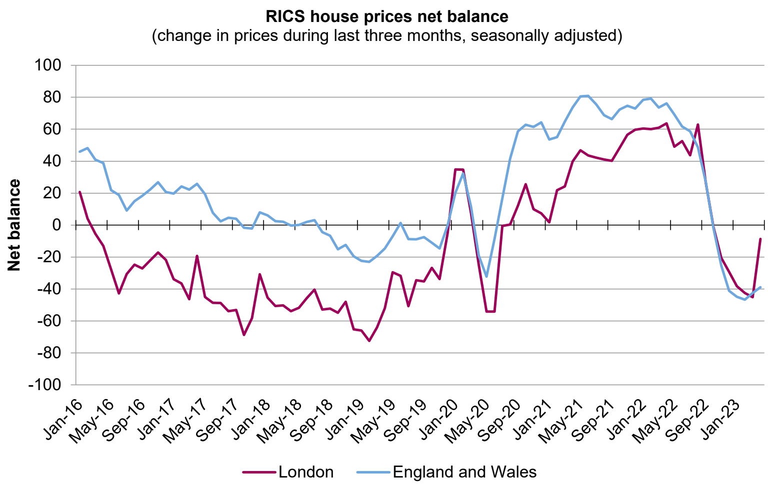
Source: IHS Markit for NatWest
Latest release: May 2023, Next release: June 2023



The number of property surveyors in London reporting house price falls in April decreased significantly but remained negative

- In April 2023, more property surveyors in London reported falling prices than rising prices. The net balance index was -9 and in March 2023 it was -47.
- For England and Wales, the RICS house prices net balance index improved slightly from -43 in March to -39 in April.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

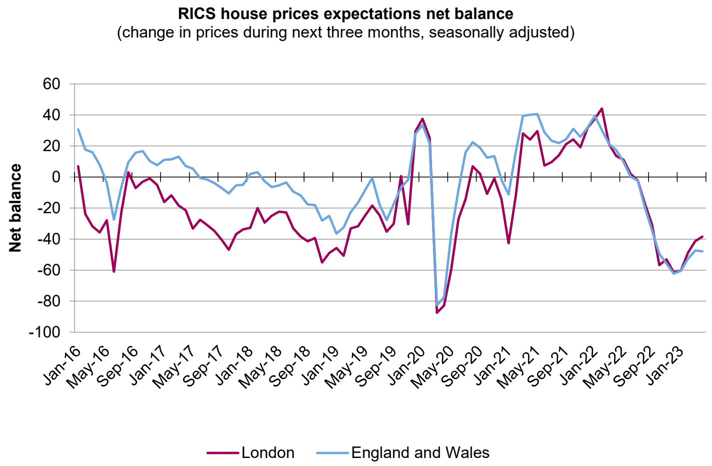
Source: Royal Institution of Chartered Surveyors
Latest release: May 2023, Next release: June 2023



In April, net expectations for house prices in London for the next three months improved slightly but remained highly negative, according to surveyors

- The net balance of house prices expectations in London was -38 in April 2023, up from -41 in March 2023.
- The index for England and Wales was -47 in March and -48 in April.
- The net balance index measures the proportion of property surveyors reporting a rise in prices minus those reporting a decline.

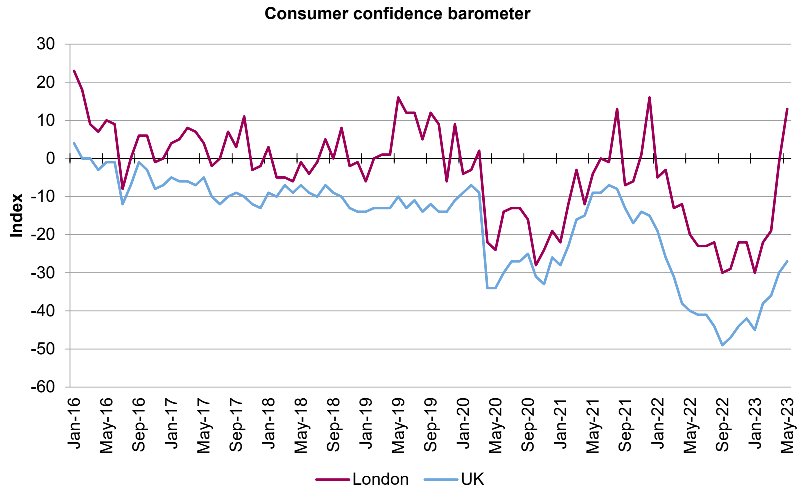
Source: Royal Institution of Chartered Surveyors
Latest release: May 2023, Next release: June 2023



Consumer confidence in London improved noticeably in May and became positive

- The consumer confidence index in London improved from -1 in April to 13 in May.
- The sentiment for the UK improved from -30 in April to -27 in May. 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: May 2023, Next release: June 2023



Updated London Finance Commission tables

Mike Hope, Economist

In its 2017 report[1], The London Finance Commission (LFC) concluded that a broader tax base for local government, with stronger fiscal controls at the local level, would support growth through the delivery of more integrated and efficient services and increased infrastructure investment. More devolved governance structures might support the development of the strategically important Central Activities Zone[2]. Rebalancing the UK economy cannot be achieved by constraining London's growth, but rather by increasing productivity and competitiveness across all regions[3].

Analysis by the Organisation for Economic Cooperation and Development (OECD) has highlighted the importance of providing adequate funding for devolved powers[4]. 52 of the 81 countries it studied had boosted regional powers and responsibilities over the last five decades. According to the analysis, regional and local government expenditures have risen to reach 40% of total government expenditure across the OECD. Previous analysis had found that devolution across OECD countries had had mixed results in improving economic performance. The latest analysis concludes that unfunded mandates, where additional powers for subnational governments are not accompanied by the resources to deliver, lie behind lower economic growth. These losses may exceed any benefits from devolving powers to lower tiers of government.

1 London Finance Commission (2017), Devolution: a capital idea
2 GLA Economics (2022), Devolution and economic growth – a rapid evidence review
3 GLA (2019), London and the UK – a declaration of interdependence
4 Rodriguez-Pose A and Vidal-Bover M (2023), When finance doesn't follow function: unfunded mandates and their impact on economic growth, OECD

The LFC published a set of tables and figures on London's tax and spending, mostly for the 2014/15 fiscal year[5]. This note provides an update of this data (using information mostly for 2021/22), and some general comparisons with the previous set of published tables. This is done in general terms, as the data is not strictly comparable. Some estimates have been revised, and there have also been some methodological changes. Further, 2021/22 figures have been distorted by the extraordinary fiscal support put in place during the pandemic.

Public expenditure

UK Government total managed expenditure after inflation doubled between 1990/91 and 2019/20. It rose by another 17% in 2020/21 when the pandemic struck before falling by 4% in 2021/22 to remain 13% above its level in 2019/20 (Figure A1). As a share of GDP, public expenditure rose from 35% in 1990/91 to 39% in 2019/20, 52% in 2020/21, and dropped to 45% in 2021/22. The path of public sector current expenditure is extremely similar to that of total expenditure, as it made up 90% of expenditure over the period. Public sector net investment fell to 28% of its 1990/91 level in 1996/97, before rising to 466% in 2019/20, 752% in 2020/21 and dropping to 671% in 2021/22. Expenditure has been rising strongly over time, but as with the pandemic, there was a significant increase during the 2008 recession.

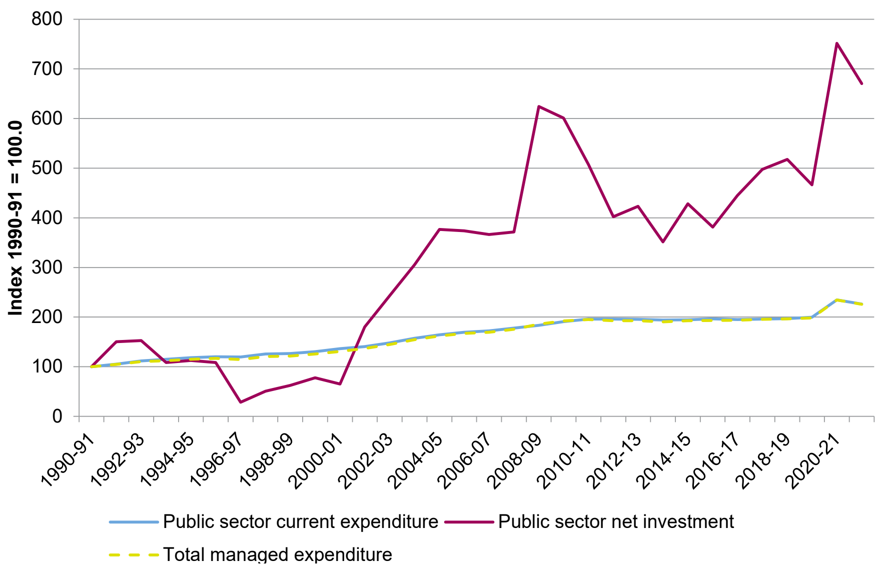


Figure A1: UK Government capital investment and expenditure after inflation 1990/91 to 2021/22, index 1990/91 = 100.0

Source: HM Treasury Public Expenditure Statistical Analyses

Taxation had been the main source of revenue to pay for additional spending. Public sector net borrowing remained at £50 billion or less in cash terms prior to the financial crisis. The increase in borrowing at that time had been reduced back to previous levels by 2018/19 before an even larger increase as a result of the pandemic. In comparison, local government net borrowing has remained close to zero since 1990/91 (Figure A2).

The LFC wanted the full range of property taxes to be devolved to London's government. "Property taxes are suitable for local control because of their immobile bases, the fact that they are easy to collect and enforce, and insofar as they relate to land, they are economically efficient. In the international cities we have reviewed, property taxes are largely devolved to sub-national government."[6] Table A1 illustrates the funds that might be raised in London if this proposal were implemented.

5 London Finance Commission (2017), Devolution: a capital idea, Annex 3
6 London Finance Commission (2013), Raising the capital

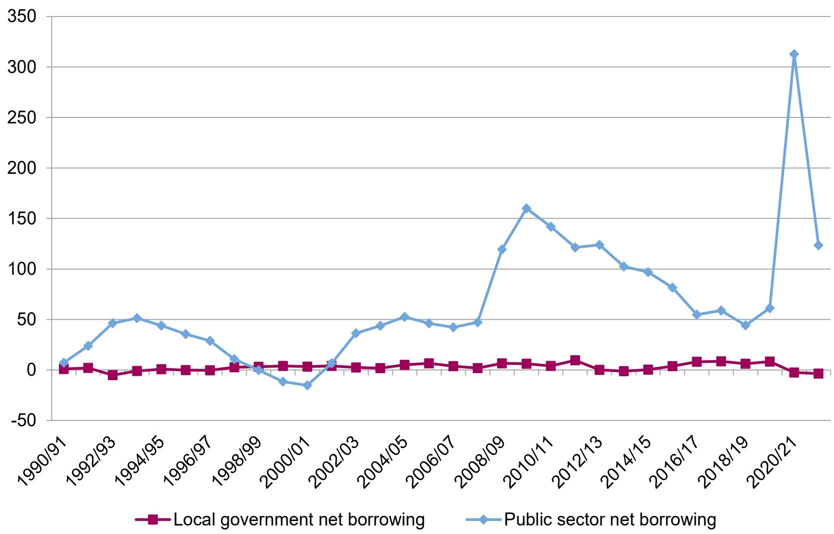


Figure A2: Annual UK public sector and local authority borrowing, 1990/91 to 2021/22, £ billion

Source: Office for National Statistics (ONS) Public Sector Finances

Note: Public sector net borrowing excludes public sector banks

Table A1: Selected tax yields in London and the UK, 2021/22, £ million

Tax	London	UK	London %
Council tax	5,030	39,970	13%
Business rates	6,871	22,357	31%
Stamp duty land tax	5,085	15,417	33%
Annual tax on enveloped dwellings	101	119	85%
Capital gains property disposal tax	3,181	10,036	32%

Source: GLA Economics calculations of ONS Public Sector Finances, Department for Levelling Up Housing and Communities (DLUHC) National Non-Domestic Rates Returns, HM Revenue and Customs (HMRC) data

Note: UK data is from ONS public sector receipts for 2021/22, except ATED from HMRC statistics

Note: London estimates for council tax and business rates from DLUHC local authority revenue expenditure and financing and national non-domestic rates collected by councils in England statistics respectively for 2021/22. Other estimates drawn from HMRC data for 2021/22 unless otherwise stated. Capital gains property disposal tax take in London is estimated as a share of total capital gains tax (CGT) using 2019/20 (last available data) share of CGT from disposal of residential assets

Since 2015/16, and in comparison with the corresponding table in the second LFC report, the fastest growth in tax yields amongst the major taxes in Table 1 has been in business rates. The yield has doubled in cash terms for both geographies, although the increase has been greater for the UK as a whole.

One other form of fiscal devolution would be a tourism levy[7]. Other GLA Economics research has considered how some taxes might be reformed, and the costs and benefits of devolving them to London[8].

UK public expenditure totalled £958 billion in 2021/22, £936 billion of which was within the UK – 85% of this (£797 billion) was attributable to the regions of the UK[9]. £121 billion of total expenditure was in London, or a little under 13% of all expenditure, which is slightly lower than the capital's population share. Consequently, expenditure per capita was slightly lower in London than it was nationally. That being said, expenditure per head was higher in London for all functions of expenditure other than social protection (Table A2).

7 Daley M (2017), Options for a tourism levy for London, GLA Economics
8 Wingham M (2017), Council tax in London, Christie E (2017), Stamp duty in London, Morrill F (2017), Devolving other national taxes to London, GLA Economics
9 Including £22 billion outside the UK

Table A2: Public expenditure by function in London, the UK and rest of the UK, £ per capita 2021/22

	Public order & safety	Enterprise & employment policies	Transport	Health	Education & training	Social protection	Total identifiable expenditure on services
Greater London	854	981	1,212	3,812	1,637	4,214	13,724
UK	593	670	665	3,245	1,484	4,485	14,288
Rest of the UK	553	623	582	3,159	1,461	4,526	14,374

Source: GLA Economics calculations of HM Treasury Country and Regional Analysis and ONS population estimates for 2019
Note: figure for London is identifiable expenditure, for the UK is all expenditure, and for the rest of the UK the remainder

In contrast with the corresponding table in the second LFC report, for 2014/15, expenditure per head was higher in London than nationally.

In relation to economic activity or output, as measured by Gross Value Added (GVA), London receives a much smaller share of public expenditure than the UK. Expenditure represented 20% of the capital's output in 2017/18 (compared to 36% for the UK), rising throughout the pandemic for both geographies. They were at 24% for London in 2021/22, and 41% for the UK (Table A3).

Table A3: Public expenditure as a percentage of London and UK GVA, 2017/18 to 2021/22

	London	UK
2017/18	20%	36%
2018/19	20%	35%
2019/20	20%	36%
2020/21	31%	49%
2021/22	24%	41%

Source: GLA Economics calculations of HM Treasury Country and Regional Analysis and ONS Annual and Quarterly Regional GDP data
Note: public expenditure figures are for financial years, and output figures for calendar years

London's economy in 2021 was 24% of the size of the UK economy[10]. The taxes paid by the capital, and its relatively small claim on public expenditure relative to output, have meant that since 2009/10 the capital has been a net contributor to the UK's public finances[11]. There was a fiscal surplus of £40.5 billion in 2019/20, equivalent to £4,500 per person. Only the South East and East of England made an additional positive (albeit smaller) fiscal contribution. During the first year of the pandemic, 2020/21, there was a deficit in London of £7.2 billion, or £800 per person. While this represented the largest year-on-year change in fiscal balance across UK regions, London exerted a smaller burden on UK public finances relative to the other regions.

In terms of the components of fiscal expenditure, social protection is the largest element of expenditure, accounting for 31% of spending both in London and nationally (although it makes up 7.3% of output in London and 12.9% nationally). The next largest element is health, which makes up 28% of spending in London, and 23% nationally (the respective proportions in relation to output are 6.6% in London and 9.3% nationally). Where London receives comparatively more in relation to output is on transport, reflecting the city's disproportionate reliance on the public transport system. This represents 9% of expenditure in London and 5% nationally, and relative to output is 2.1% in London, and 1.9% nationally (Table A4).

10 ONS (2023), Regional economic activity by gross domestic product, UK: 1998 to 2021
11 Hope M and Farquharson J (2022), London's Economy Today, GLA Economics

Table A4: Public expenditure on selected services in London, the Wider South East and the UK in 2021/22: total, current, and capital expenditure (£ million) and as a percentage of regional or national GVA

		London		Wider South East		UK	
		Level	% of GVA	Level	% of GVA	Level	% of GVA
Public order & safety	Total	7,512	1.5%	14,227	1.5%	39,734	1.7%
	Current	6,888	1.4%	13,202	1.4%	36,868	1.6%
	Capital	624	0.1%	1,025	0.1%	2,866	0.1%
Enterprise & employment policies	Total	8,632	1.7%	18,490	1.9%	44,927	1.9%
	Current	9,276	1.8%	19,676	2.0%	46,284	2.0%
	Capital	-644	-0.1%	-1,186	-0.1%	-1,357	-0.1%
Transport	Total	10,661	2.1%	20,419	2.1%	44,577	1.9%
	Current	4,739	0.9%	9,040	0.9%	18,910	0.8%
	Capital	5,922	1.2%	11,378	1.2%	25,667	1.1%
Health	Total	33,533	6.6%	78,828	8.1%	217,484	9.3%
	Current	32,394	6.4%	75,596	7.7%	208,272	8.9%
	Capital	1,139	0.2%	3,232	0.3%	9,212	0.4%
Education & training	Total	14,403	2.8%	35,979	3.7%	99,472	4.3%
	Current	12,917	2.5%	32,333	3.3%	90,333	3.9%
	Capital	1,486	0.3%	3,647	0.4%	9,138	0.4%
Social protection	Total	37,065	7.3%	99,500	10.2%	300,620	12.9%
	Current	36,960	7.3%	99,226	10.1%	299,789	12.8%
	Capital	105	0.0%	274	0.0%	831	0.0%

Source: GLA Economics calculations of HM Treasury Country and Regional Analysis and ONS Annual and Quarterly Regional GDP data
Note: public expenditure figures are for financial years, and output figures for calendar years

Since 2014/15, and due to the pandemic, expenditure has risen in relation to GVA across all these components of expenditure. The exception, perhaps surprisingly, is social protection where it has fallen for each of London, the wider South East, and the UK.

Funding of expenditure

Across the functions of government, there is a division of responsibilities between central government, local government, and the GLA. For some areas of public spending there is little identifiable spending by area – defence being an example. Spending on health and social protection is mainly provided by central government, while in the case of general public services, expenditure is predominantly incurred by local government[12]. Expenditure by the GLA is principally devoted to public order and safety, and economic affairs. This is principally on transport. Over half of the funding for expenditure by the GLA and the boroughs[13] comes from central government grants (including around £3.4 billion in retained business rates) (Tables A5 and A6).

12 Much of this is central services such as IT, which is not attributed to public facing services
13 The figures for the boroughs are for the 32 boroughs and the City of London

Table A5: Sources and uses of funding in London local government 2021/22, £ million

Capital & Net Current (Revenue) Expenditure					
	Central Government	GLA	London Boroughs	Total London sub-national Government	Total Public Expenditure
Defence	-	-	14	14	14
Economic affairs	15,875	3,575	135	3,711	19,586
o/w Transport	6,105	3,252	-86	3,166	9,272
Education	6,662	348	7,393	7,741	14,403
Environment protection	285	784	287	1,071	1,356
General public services	325	105	1,046	1,151	1,476
Health	32,696	4	832	837	33,533
Housing and community amenities	96	441	943	1,383	1,479
Public order and safety	3,027	4,309	176	4,484	7,512
Recreation, culture and religion	837	33	561	594	1,431
Social protection	26,584	106	10,375	10,481	37,065
Total	**86,388**	**9,704**	**21,764**	**31,469**	**117,857**
Funded by:					
Council Tax	-	1,167	3,862	5,030	5,030
Grants (inc government and other contributions)	-	5,699	11,240	16,939	16,939
Capital Receipts	-	250	1,065	1,316	1,316
Revenue Contributions	-	1,431	1,263	2,694	2,694
Borrowing: Supported	-	42	194	236	236
Borrowing: Unsupported	-	1,115	4,139	5,254	5,254
General Taxation	86,388	-	-	-	86,388
Total	**86,388**	**9,704**	**21,764**	**31,469**	**117,857**

Source: GLA Economics calculations of HM Treasury Country and Regional Analysis and DLUHC capital and revenue outturn reports

Notes: (1) The categorisation of spending on services by local authorities has been mapped onto the classification of functions used by HM Treasury. It has not been possible to do a full reconciliation. Reported total sub-national government expenditure is consistent with HM Treasury estimates.

(2) Table excludes identifiable expenditure on London by the Bank of England, and Public Corporations, and on public sector pensions

In comparison with 2014/15, central government expenditure is higher, but expenditure by the GLA and London boroughs is lower in cash terms.

Table A6 extends the analysis of the previous table to record the income that might be raised under some of the options to extend London's tax base. Making use of the full range of property taxes could raise significant sums in their own right.

Table A6: Comparing public expenditure with devolved tax options, £ million, 2021/22

		Central government	London government	Total
Expenditure		£86,388	£31,469	£117,857
Defence		-	£14	£14
Economic affairs		£15,875	£3,711	£19,586
o/w Transport		£6,105	£3,166	£9,272
Education		£6,662	£7,741	£14,403
Environmental protection		£285	£1,071	£1,356
General public services		£325	£1,151	£1,476
Health		£32,696	£837	£33,533
Housing and community ammenities		£96	£1,383	£1,479
Public order and safety		£3,027	£4,484	£7,512
Recreation, culture and religion		£837	£594	£1,431
Social protection		£26,584	£10,481	£37,065
Income		£86,388	£31,469	£117,857
Devolved taxes		**-**	**£8,465**	**£8,465**
Council tax		-	£5,030	£5,030
Retained business rates		-	£3,436	£3,436
Other income		**-**	**£23,004**	**£23,004**
Grants		-	£13,504	£13,504
Capital receipts		-	£1,316	£1,316
Revenue contributions		-	£2,694	£2,694
Borrowing (supported and unsupported)		-	£5,490	£5,490
Income from central government		**-**	**-**	**£86,388**
General taxation		£86,388	-	£86,388
Potential income from other devolved taxes		-	£19,957	£19,957
Remainder of business rates		-	£3,436	£3,436
Stamp duty land tax	100% of London's tax take	-	£5,085	£5,085
Annual tax on enveloped dwellings	100% of London's tax take	-	£101	£101
Capital gains tax on property	100% of London's tax take	-	£3,181	£3,181
Income tax	10p in the pound of London's taxable income	-	£5,795	£5,795
VAT	10% of London's tax take	-	£2,359	£2,359

Source: GLA Economics calculations of HM Treasury Country and Regional Analysis, DLUHC capital and revenue outturn reports and National Non-Domestic Rates Returns, ONS Country and Regional Public Sector Finances, Office for Budget Responsibility public sector finances databank, ONS Public Sector Finances, and HMRC data

Notes: (1) The categorisation of spending on services by local authorities has been mapped onto the classification of functions used by HM Treasury. It has not been possible to do a full reconciliation. Reported total sub-national government expenditure is consistent with HM Treasury estimates.

(2) Table excludes identifiable expenditure on London by the Bank of England, and Public Corporations, and on public sector pensions

In comparison with 2014/15, lower expenditure by London government is met with lower grants from central government, more borrowing, and greater income from the devolved taxes of council taxes and retained business rates.

Conclusion

A broader tax base for local government, with stronger fiscal controls at the local level, might support growth through the delivery of more integrated and efficient services and increased infrastructure investment. London receives a low share of public expenditure relative to its economic contribution, receives less per person than the rest of the country, and consistently made net financial contributions to the exchequer (pre-pandemic). The capital's spending priorities are different from the rest of the country, and yet it continues to rely significantly on central government to fund its spending choices.

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The cost of living crisis in London threatens to widen existing inequalities, halt the economic recovery from the pandemic and leave many unable to afford necessities.

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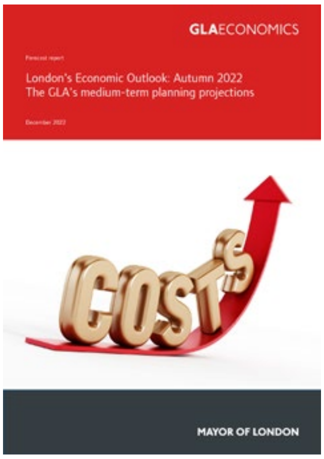

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GLAECONOMICS

City Hall
Kamal Chunchie Way
London E16 1ZE

Email glaeconomics@london.gov.uk
Internet www.london.gov.uk

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