10 years of tax

How cities contribute to the national exchequer

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About Centre for Cities

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We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

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All views expressed in this report are those of Centre for Cities. All mistakes are the authors' own.

Executive Summary

- The recession, nature of the recovery and income tax policy decisions over the decade have resulted in a more polarised 'fiscal map' of Britain than 10 years ago and as a result, the national exchequer is becoming more and more reliant on certain parts of the country to generate tax revenues.
- Cities have consistently generated the lion's share of national taxes over the decade but **this masks significant variation in patterns of taxes generated between different cities over time**, reflecting in part the clear geography of economic performance between places.
- Understanding how and where taxes are generated is important and has implications for the country's national finances; for how public services like health and education are funded and what money is available to invest in transport, infrastructure and housing.
- This report analyses 10 years of tax data – a timespan which covers two governments and a global recession – to shed light on the relationship between economic performance and tax generation. Centre for Cities has consistently highlighted that there is a clear geography to the performance of British city economies. **But how this economic activity has translated into tax revenues over time tends to be ignored in policy making and discussions about the national finances.**

The report highlights five key trends:

1. **Many British cities generate less in economy taxes[1] than they did 10 years ago**. The total amount of economy tax generated in cities has risen from £283 billion in 2004/05 to £317 billion in 2014/15 but some cities are actually generating less than they were a decade ago: almost a third of British cities (20 out of 62) have experienced a real-terms decrease in the level of taxes generated in their area.
2. **Cities are still more 'tax productive' than elsewhere but most have become less so over time**. Workers in cities have generated on average £2,682 more economy tax per job than non-city areas over the decade but this masks differences between cities: 40 out of 62 British cities are generating less tax per job than they were a decade ago.
3. **Smaller cities have seen larger increases in their tax take but big cities remain crucial**. London aside, tax revenues generated in small

1 Economy taxes are the sum of labour taxes including income tax and national insurance contributions, consumption taxes including VAT, land and property taxes including council tax and business rates, and capital taxes, including corporation taxes. Full details available in the online appendix to this report.

and medium sized cities have grown more than in larger cities. However, Manchester, where tax receipts grew by only 1 per cent over the decade, added only slightly less tax into the national pot over that period than the fastest growing small and medium sized cities combined.

4. **The reliance on London has increased over time.** London in particular has seen its share of the urban tax take increase considerably: in 2004/05 London generated as much economy tax as the next 24 biggest cities, while in 2014/15 London generated almost as much as the next 37 cities.

5. **The 'great recession' had a significant and lasting effect on the levels and patterns of taxes generated in cities.** The recession caused a two year dip in tax revenues generated in cities: between 2007/08 and 2008/09 revenues generated in British cities fell from £319 billion to £300 billion (6 per cent) and then by a further 8 per cent the next year to a low of £277 billion.

    - Nearly all cities (56 out of 62) have seen economy taxes generated in their area increase since their lowest point in 2009/10. Only Exeter, Nottingham, Preston, Bradford, Swindon and Gloucester are generating less tax today than they were even in 2009/10.

    - **But only 15 out of 62 cities are generating more tax than they were at their pre-recession peak**. And in two-thirds of cities, the average rate of growth of the tax base in the post-recession period (2009/10 to 2014/15) is lower than it was pre-recession (2004/05 to 2007/08).

    - The story is the same when looking at tax productivity. Most cities have improved levels of economy tax per job since the lowest point of the recession. Only in Bradford, Wigan, Luton and Nottingham are average levels of tax generated per job lower now than in 2009/10. **But only three out of 62 cities are today more productive in terms of tax than they were before the recession,** suggesting a significant long-term impact on productivity.

- **The way the 'jobs miracle' and income tax policies have played out across cities helps to explain the changes and patterns observed.** The majority of cities (43) generate less income tax today than a decade ago, and of these, the majority (33) have more jobs commanding lower individual wages, suggesting that wage levels have had a more significant impact on tax revenues than employment levels. In addition, reforms to income tax policy, such as the increase in personal allowance, have impacted on the levels of tax generated across different British cities.

- These trends point to the need for policy to focus on supporting the creation of high quality and high paying jobs. More of these types of jobs in cities will not only boost prosperity of those individuals living and working there, but they will also produce higher tax receipts for the exchequer.

Introduction

Overall, the British economy has grown over the past 10 years. But while there are more jobs now than there were 10 years ago, salaries have stagnated and, crucially for the national exchequer, national tax receipts have also been lower than expected in recent years.[2]

There are many factors at play in the complex relationship between employment, wages and tax revenues. But despite their importance to the national finances – cities account for 59 per cent of jobs and 64 per cent of economy-led taxes (see Box 1 below) - the nature and geographic spread of employment and economic activity, and how this translates into tax revenues, is rarely considered.

Understanding how and where taxes come from is important: tracking tax revenues can highlight important trends about the contribution of different parts of the economy to the national finances, and this is all the more true in an uncertain political and economic context.

Centre for Cities' research consistently shows a clear geography of economic performance across the country. And last year, our analysis showed that patterns of tax and spend reflect this geography: cities generate the lion's share of national revenues and are also more 'tax productive' than non-city areas[3]. But there are significant differences between places and until now, we have had little idea of how this has changed over time.

In the 10 years from 2004/05 to 2014/15 the UK economy had two governments and underwent one of the deepest recessions it has experienced. In the UK, the recovery from the 'great recession' has been driven by what has been called a 'jobs miracle'. But this jobs miracle has also been accompanied by concerns about stagnant wage levels, the quality of jobs created and the geography of the recovery, with some places not seeing economic growth and prosperity levels recover.

At the same time, reforms to the personal allowance (the threshold at which individuals start to pay tax on income) have reduced the tax burden for many on low wages, with the parallel effect of reducing tax revenues for the exchequer.

The focus of government policy to date has been to increase the number of people in work in order to keep the economy going after the recession. But given continuing concerns over productivity and disappointing tax returns, it is important to understand what the impact of the recession alongside later policy reforms have had on where and how taxes are generated across the country.

2 Giles C, (November 20, 2015), 'UK public finances much worse than expected', Financial Times, accessed 05/07/16 https://next.ft.com/content/3c92a3ec-8f6b-11e5-a549-b89a1dfede9b

3 Swinney P and McGough L, (2015), *Mapping Britain's public finances*, Centre for Cities: London

This report explores what a decade of data on taxes can tell us about the economy of British cities and their impact on the public purse. Building on the analysis of tax revenues and public spending Centre for Cities produced last year, this report provides a first look at the breakdown of economy taxes by city over the past 10 years, from 2004/05 to 2014/15, which allows a better understanding of the long-term performance of tax receipts generated in cities and the impact of external and policy shocks on those revenues.

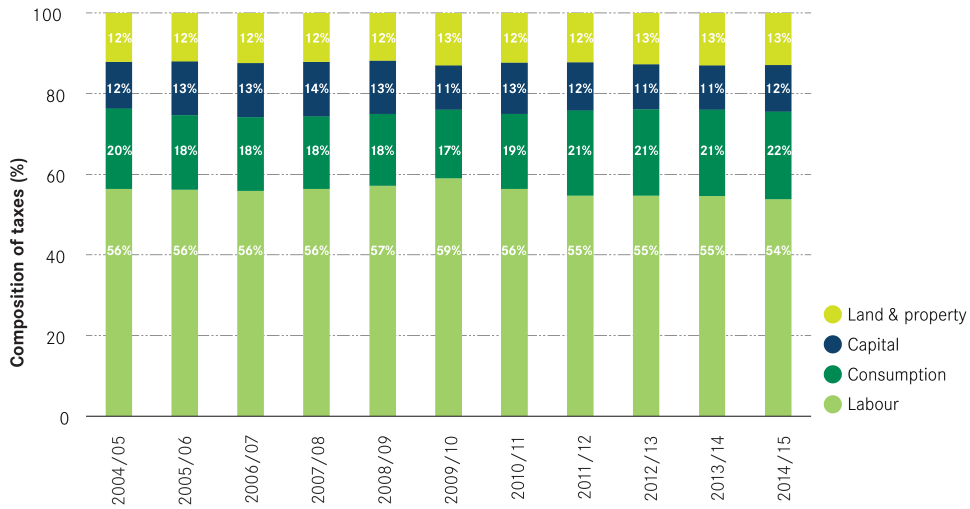
First it explores how the levels and patterns of taxes generated in cities over the decade have changed, looking at how 'tax productive' different cities are and how the distribution of revenues has evolved across urban Britain, including the impact of the 'great recession' on the economy related taxes generated in British cities. The report then sets out how the patterns and trends observed in the data reflect the impact that the recession, the nature of the recovery, and policy reforms have had on different cities.

Box 1: What are economy taxes?

As in our previous report,[4] the analysis focuses on the levels of 'economy taxes' generated in British cities. These taxes, which include income tax, VAT and corporation tax for example, are dependent on the growth of the economy.[5]

Broadly speaking the relative contribution of the different tax types has remained constant over the decade, with labour taxes contributing over half and VAT about a fifth of all economy taxes – see Figure 1 below. In 2014/15 labour taxes fell to their lowest share of 54 per cent while VAT accounted for its highest over the decade, at 22 per cent of total economy taxes generated. This suggests that while labour taxes were highly sensitive to the effects of the recession, VAT is less so: while people are likely to spend less during recession, there is a minimum amount of consumption on essential goods that will continue even in recession.

Figure 1: Composition of economy of taxes in Britain, 2004/05 to 2014/15



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

4 Swinney P and McGough L, (2015), *Mapping Britain's public finances,* Centre for Cities: London

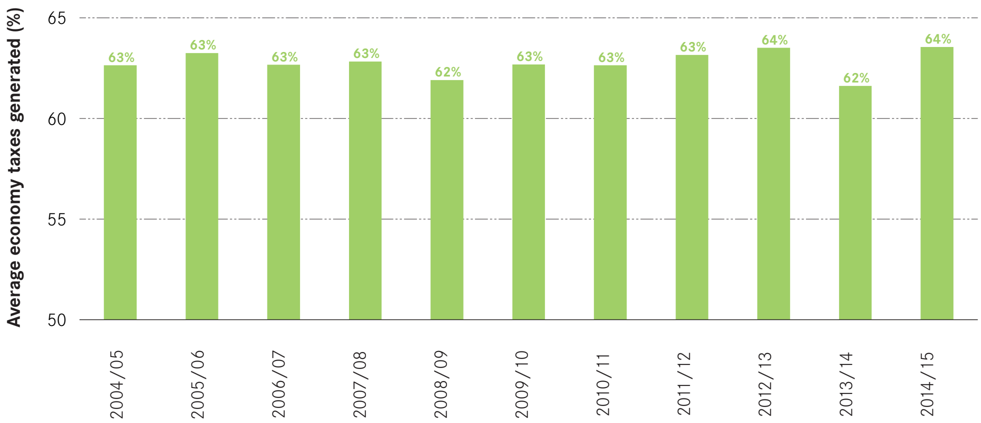
5 Economy taxes are the sum of labour taxes including income tax and national insurance contributions, consumption taxes including VAT, land and property taxes including council tax and business rates, and capital taxes, including corporation taxes. Full in the online appendix to this report.

What does the data show?

This section explores 10 years of economy tax data to show where taxes are generated across British cities and how this has changed over time. All data shown is in 2014/15 prices.

Cities have consistently generated the lion's share of Britain's tax revenues over the decade, see Figure 2 below. While cities account for only 8 per cent of the land mass and 59 per cent of jobs, **they generated 64 per cent of all economy taxes** in Britain in 2014/15. And they are also more productive, **generating £2,682 more per year per job** in economy taxes more than non-city areas (average over the decade).

Figure 2: National contribution of economy taxes generated in cities, 2004/05 to 2014/15



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

The exchequer is reliant on revenues generated in cities both for the amount of revenues generated in urban areas and the efficiency with which those revenues are created (i.e. more tax per job). But while **the contribution and composition of urban taxes to the total economy tax take has remained relatively stable over the decade**, this masks significant variation in patterns of taxes generated between different cities over time.

Five key findings emerge from the data:

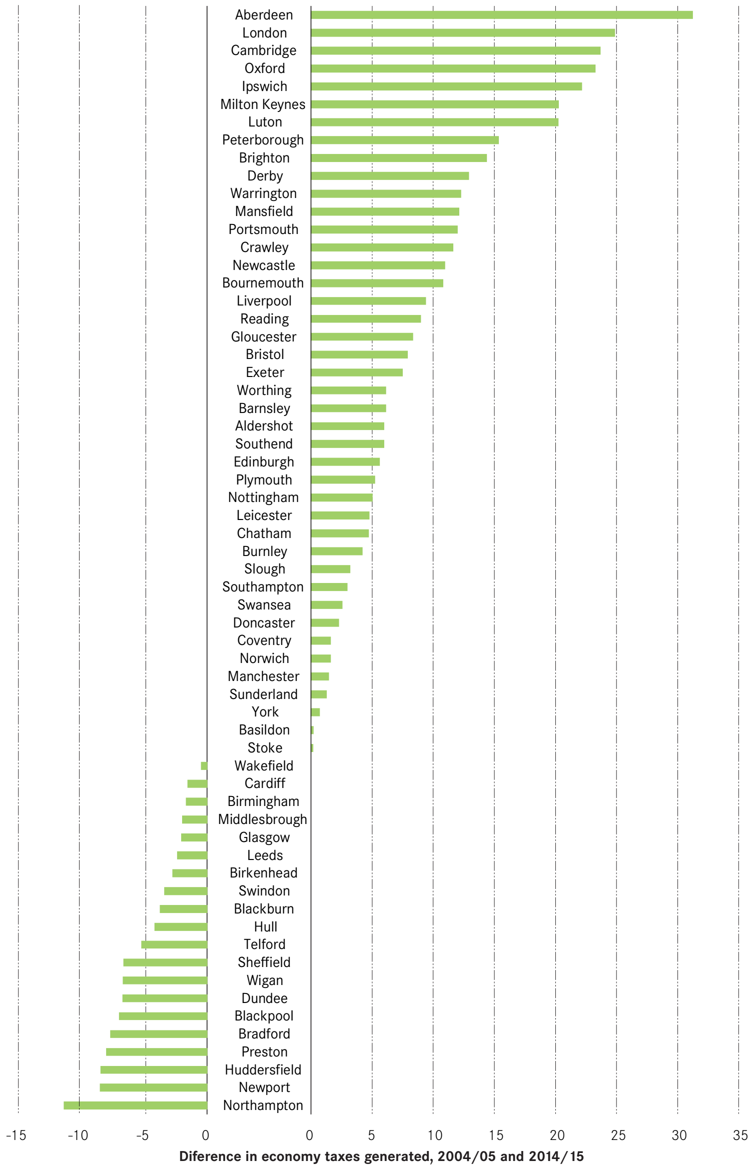
1. British cities generate less tax than they did 10 years ago
2. Cities have become less productive over time
3. Smaller cities have increased their taxes more but big cities remain crucial
4. The reliance on London has increased over time
5. The 'great recession' had a significant and long-term effect on levels and patterns of taxes generated across British cities.

1. Almost a third of cities have experienced a real-terms decrease in the level of taxes generated in their area

Although the amount of taxes generated in cities has risen by 12 per cent over the decade, from £283 billion in 2004/05 to £317 billion in 2014/15, **20 out of 62 British cities are actually generating less than they were 10 years ago**.

Figure 3 below shows the change in total revenues collected in different cities in the past 10 years and the variation between different cities. Total revenues have increased the most in cities such as Aberdeen (32 per cent increase) and London (25 per cent increase), while in others the change is less significant in real terms. In York and Sunderland, the amount of economy taxes generated today is only 1 per cent greater than it was a decade ago (in real terms). The sharpest declines in tax revenues were in cities such as Northampton (12 per cent decrease) and Newport (9 per cent decrease), while in Wakefield and Cardiff revenues are less than 1 per cent lower (in real terms) that they were 10 years ago.

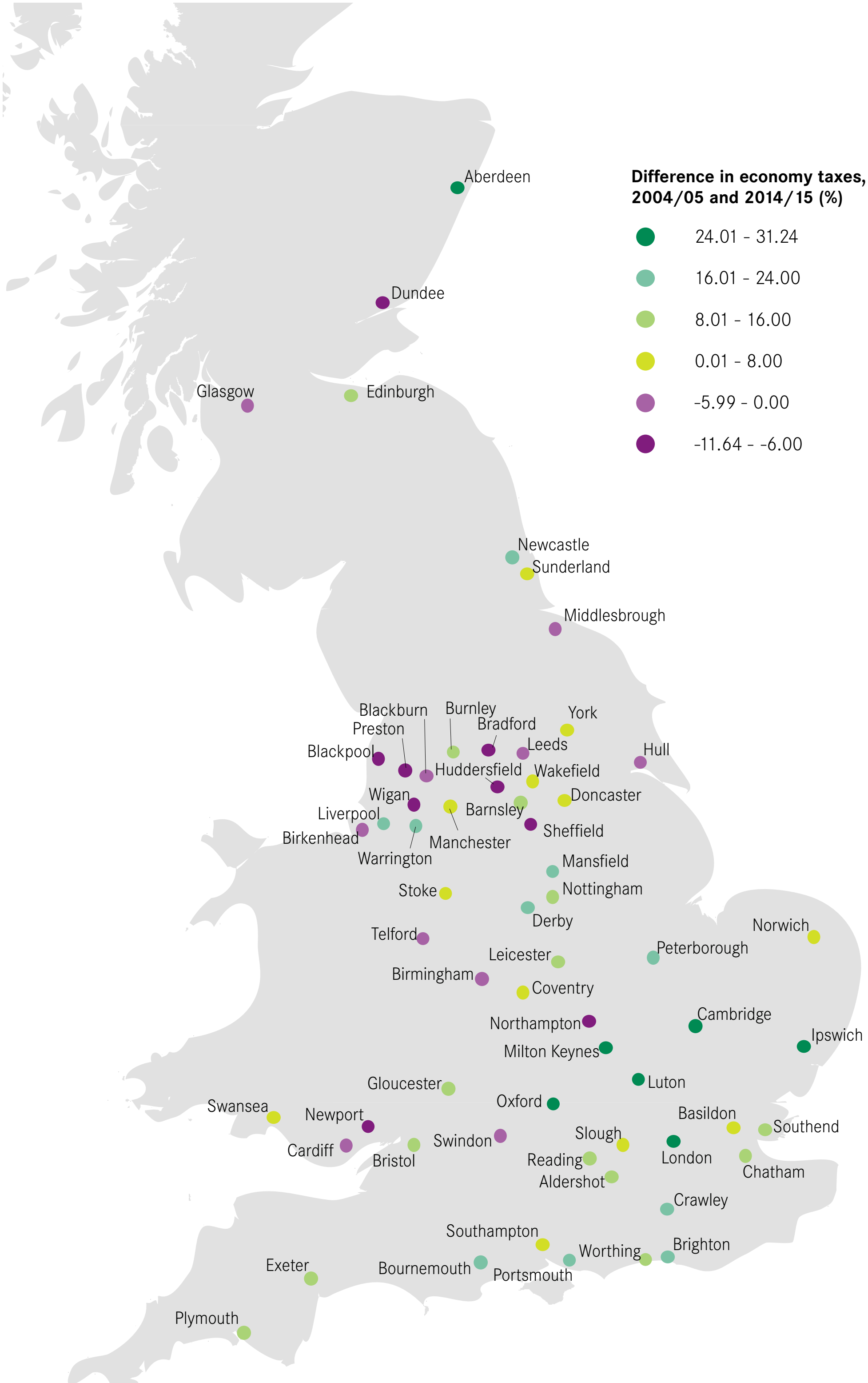
Figure 3: Difference in economy taxes generated in cities, 2004/05 and 2014/15



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

Figure 4 shows that the cities where taxes generated have fallen over the decade are located in the Midlands and the North. But there is not a simple North-South divide: not all cities in the South have seen their tax base grow while cities like Aberdeen, Derby and Liverpool have seen increased tax generation over the decade.

Figure 4: Difference in economy taxes generated in cities, 2004/05 and 2014/15



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

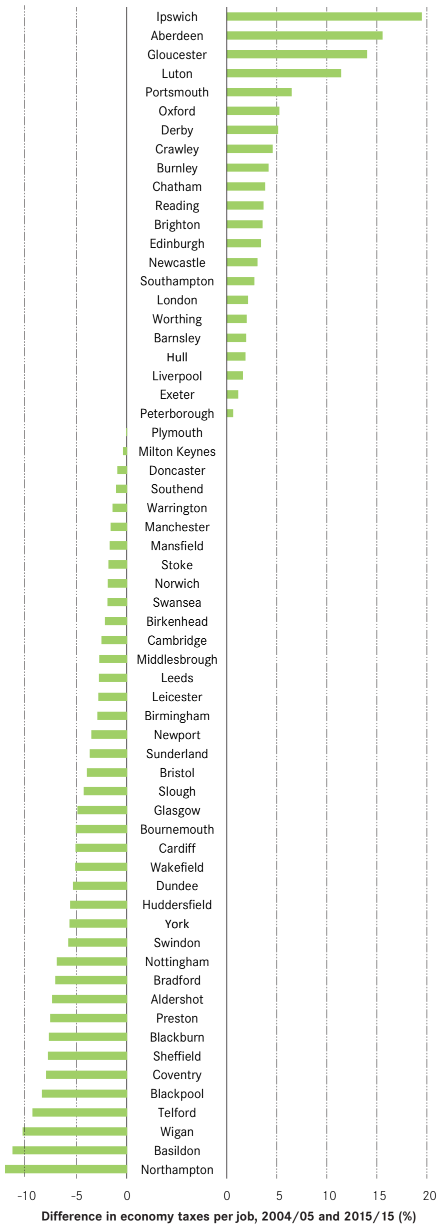
2. Cities are more 'tax productive' than elsewhere but have become less so

Cities are more 'tax productive' than elsewhere in terms of the amount of tax generated per job. Over the decade workers in cities have generated on average £2,682 more economy tax per job than non-city areas. The amount of tax generated per job has also risen in cities, from £18,305 per job in 2004/05 to £18,657 per job in 2014/15.

But this overall increase masks the fact that **the majority of British cities (40 out of 62) are actually generating less tax per job than they were a decade ago** and ignores the significant gains made in some cities relative to others – see Figure 5 below. Tax generated per job has fallen the most over the decade in Northampton, Basildon and Wigan, while in Plymouth and Milton Keynes the change is close to zero.

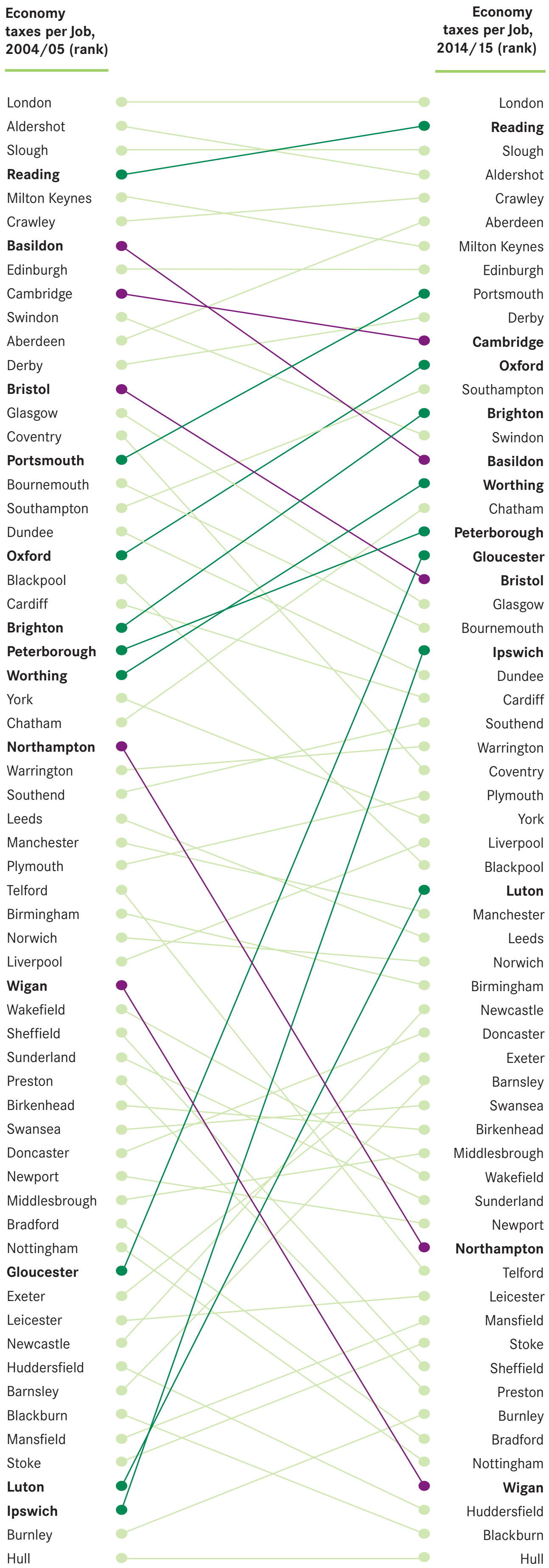
In Ipswich and Aberdeen the average amount of tax generated per jobs has increased by 19 and 16 per cent respectively between 2004/05 and 2014/15, but in the majority of cities where tax per job has increased (18 out of 22), the change has been less than 5 per cent.

Figure 5: Difference in economy taxes per job, 2004/05 and 2014/15



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details

Figure 6: Economy taxes generated per job, rank 2004/05 and 2014/15



3. Smaller cities have increased their taxes most but big cities remain crucial

London aside, small and medium cities sized cities have increased the amount of tax they generate the most over the decade. Of the cities that increased the amount of taxes they generated the most between 2004/05 and 2014/15, all except London were small and medium sized and with the exception of Aberdeen and Derby were located in the Greater South East – see Figure 7.

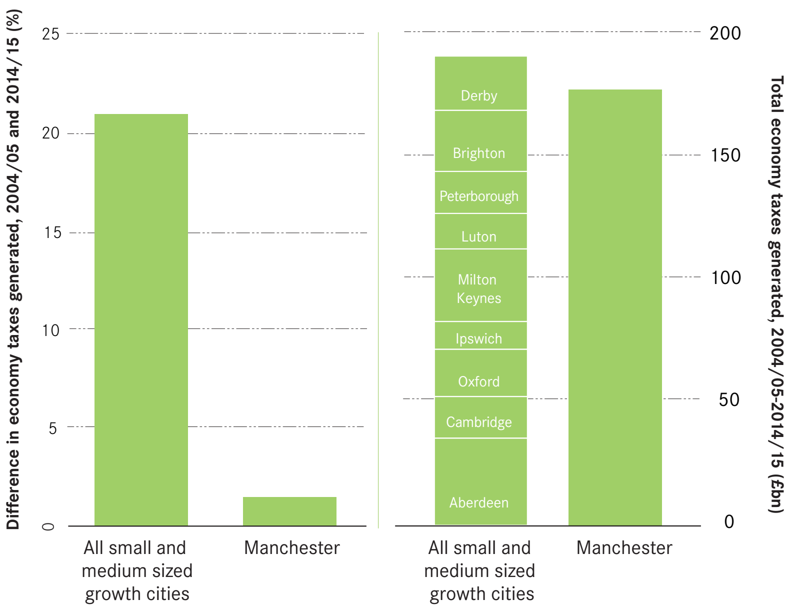
This increase reflects the strong economic performance of these cities over the decade and highlights the importance for policymakers of focusing on supporting the economic growth of these cities.

Figure 7: Cities with biggest difference in tax revenues, 2004/05 and 2014/15

	City	Difference in tax generated, 2004/05 and 2014/15 (%)
1	Aberdeen	32
2	London	25
3	Cambridge	24
4	Oxford	23
5	Ipswich	22
6	Milton Keynes	20
7	Luton	20
8	Peterborough	15
9	Brighton	14
10	Derby	13

However, it is also important to distinguish between the rates and levels of tax that different cities have generated over the decade, and how this translates into revenues for the public purse. Despite growing its tax revenues by only 1 percentage point over the decade, **Manchester contributed £178 billion to the national tax pot in that time, only slightly less than the top growth cities (excluding London) combined**.

Figure 8: Difference in economy taxes generated vs total economy taxes generated



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details. Note: small and medium sized growth cities are: Aberdeen, Brighton, Cambridge, Derby, Ipswich, Milton Keynes, Luton, Oxford, Peterborough.

4. The exchequer's reliance on London has increased over time

Although British cities are contributing almost the same share of taxes to the national pot than a decade ago, **these tax revenues are being generated by fewer cities**. In 2004/05 the top 10 largest cities[6] generated 66 per cent of all urban economy taxes, in 2014/15 this had risen to 68 per cent.

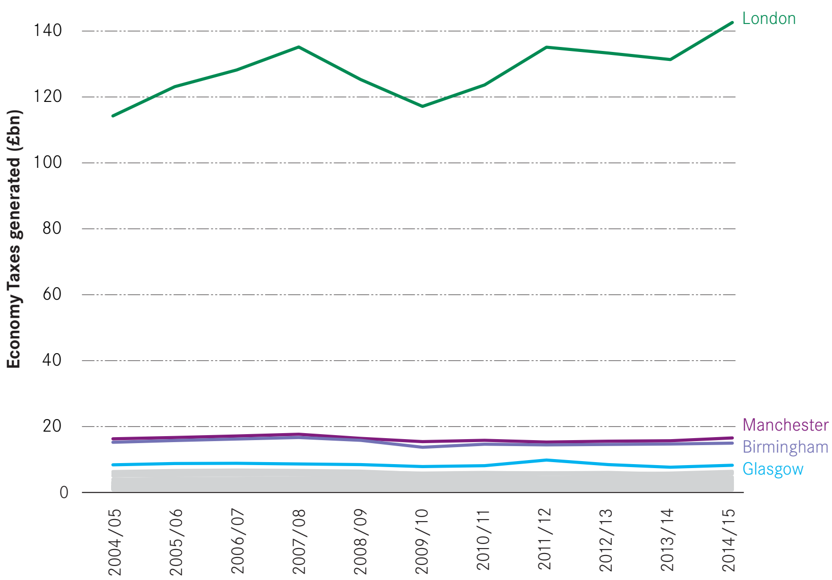
But the most significant shift has been the change in London's contribution to the national finances. In 2004/05, London generated as much economy tax as the next 24 largest cities combined (40 per cent of all economy taxes generated in cities). In 2014/15 the capital created almost as much tax as the next 37 cities (45 per cent of the urban total). This shift is even more staggering when looking specifically at labour taxes[7]. **10 years ago London generated more income tax and NICs than the next 34 largest cities, today the capital generates more of these taxes than the next 60 largest cities.**

5. The recession was a clear turning point for tax raising in British cities

Soon after the fall of Lehman Brothers in September 2008 in New York, the UK went into recession in the second quarter of 2008[8] and officially came out of recession in the fourth quarter of 2009. Prior to the recession, between 2004/05 and 2007/08, total tax revenues generated in cities grew by 13 per cent, from £283 billion to £319 billion (2014/15 prices). Nearly every city, except Derby, Blackpool and Blackburn, saw tax revenues generated in their area increase during this period.

The recession caused a two-year dip in taxes generated in cities. The impact of the recession, resulted in significantly lower levels of tax generated in the financial years 2008/09 and 2009/10. Between 2007/08 and 2008/09 revenues generated in British cities fell from £319 billion to £300 billion (6 per cent) and then by a further 8 per cent the next year to a low of £277 billion.

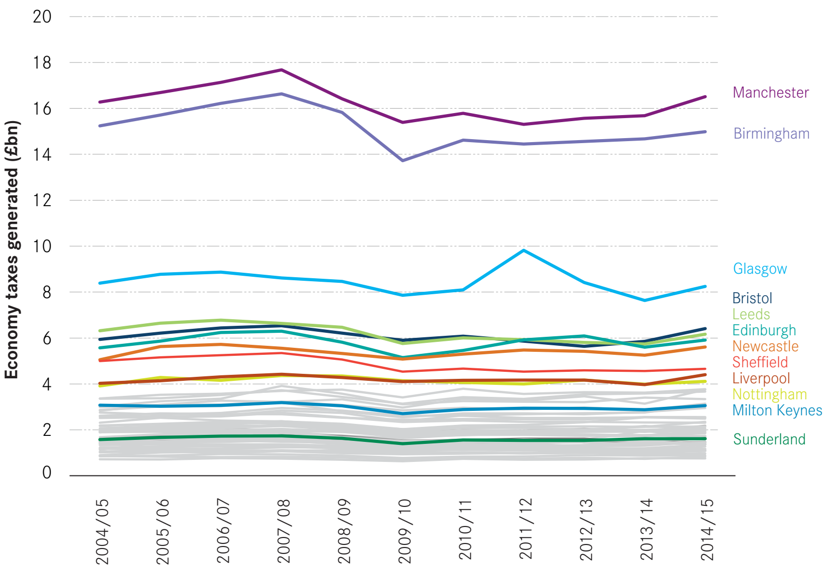
Figure 9: Economy taxes generated in cities, 2004/05 to 2014/15



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

6 In terms of economy taxes generated.
7 Labour taxes include income tax and national insurance contributions
8 Chamberlin G, Economic & Labour Market Review – Nov 2010, Office for National Statistics

Figure 10: **Economy taxes generated over time in cities (excluding London), 2004/05 to 2014/15**



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

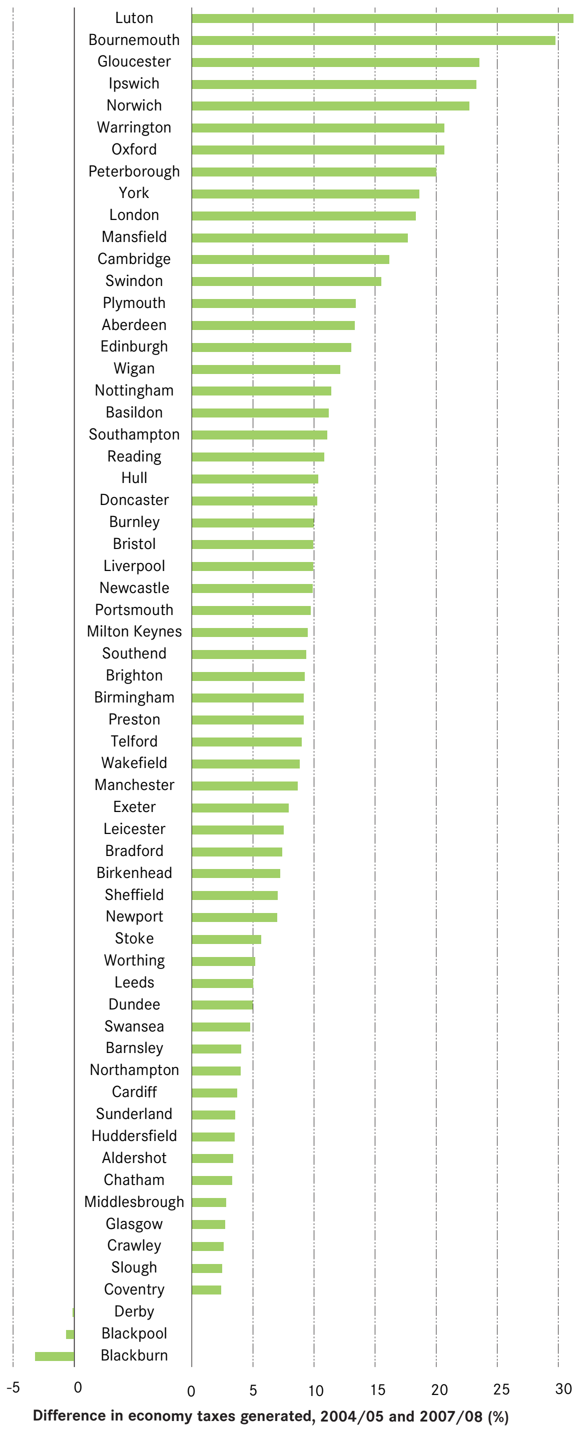
The immediate impact of the recession varied across cities. All cities but one saw their economy taxes fall between pre-recession peak in 2007/08 and the trough in 2009/10.[9] Figure 12 shows the change in revenues over the course of the two years in which the country was in recession. Tax revenues generated in Telford fell the furthest of any British city, decreasing by 23 per cent, followed by Norwich (-21 per cent), Bournemouth (-20 per cent), Peterborough (-20 per cent) and Southampton (-20 per cent), while in Exeter the amount generated at pre-recession peak was almost the same as in 2009/10.

However, **the biggest losses during this period were in London where revenues fell by £18 billion between 2007/08 and 2009/10**, followed by Birmingham (£2.9 billion), Manchester (£2.3 billion), Edinburgh (£1.1 billion) and Leeds (£871 million).

Looking at tax productivity, there is a similar trend. Prior to the recession, between 2004/05 and 2007/08, tax productivity increased in all but three cities (Blackpool, Blackburn and Derby). And during the recession, average levels of economy tax generated by worker fell by a total of 16 per cent over the period, or £3,207 per job in cities: from £20,394 in 2007/08 to £19,104 in 2008/09 and to a low of £17,184 in 2009/10.

9 Revenues in Exeter increased by a small amount in this period, close to 0 per cent.

Figure 11: Difference in tax revenues generated, 2004/05 and 2007/08



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

Figure 12: Difference in tax revenues generated, 2007/08 and 2009/10

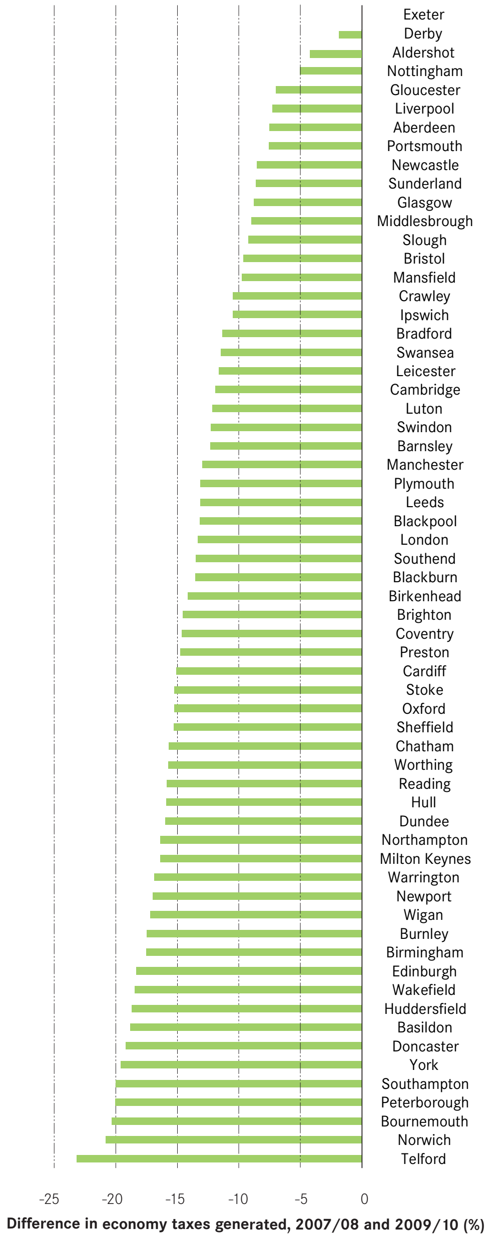
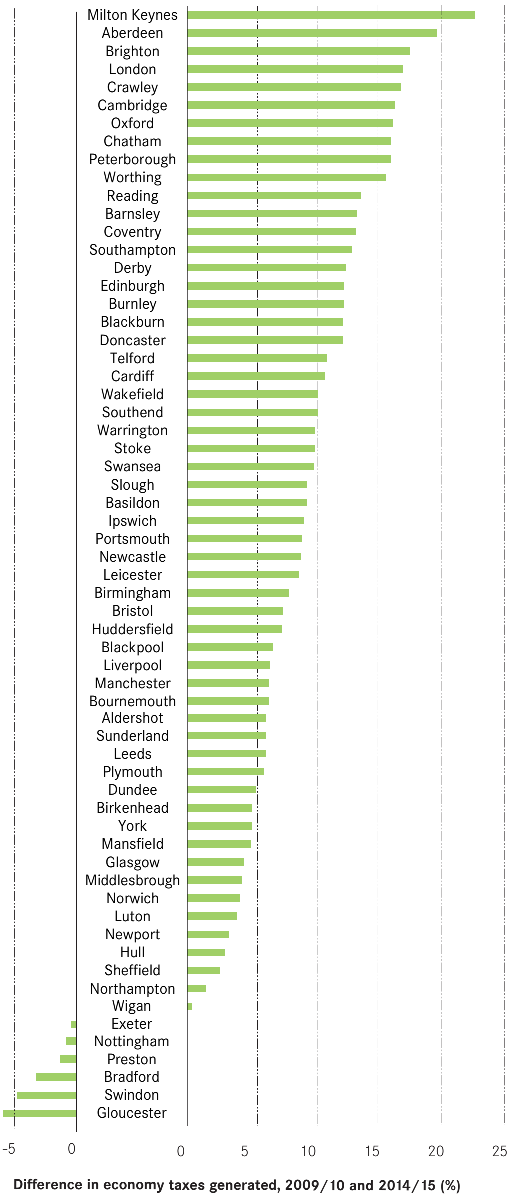


Figure 13: Difference in tax revenues generated, 2009/10 and 2014/15

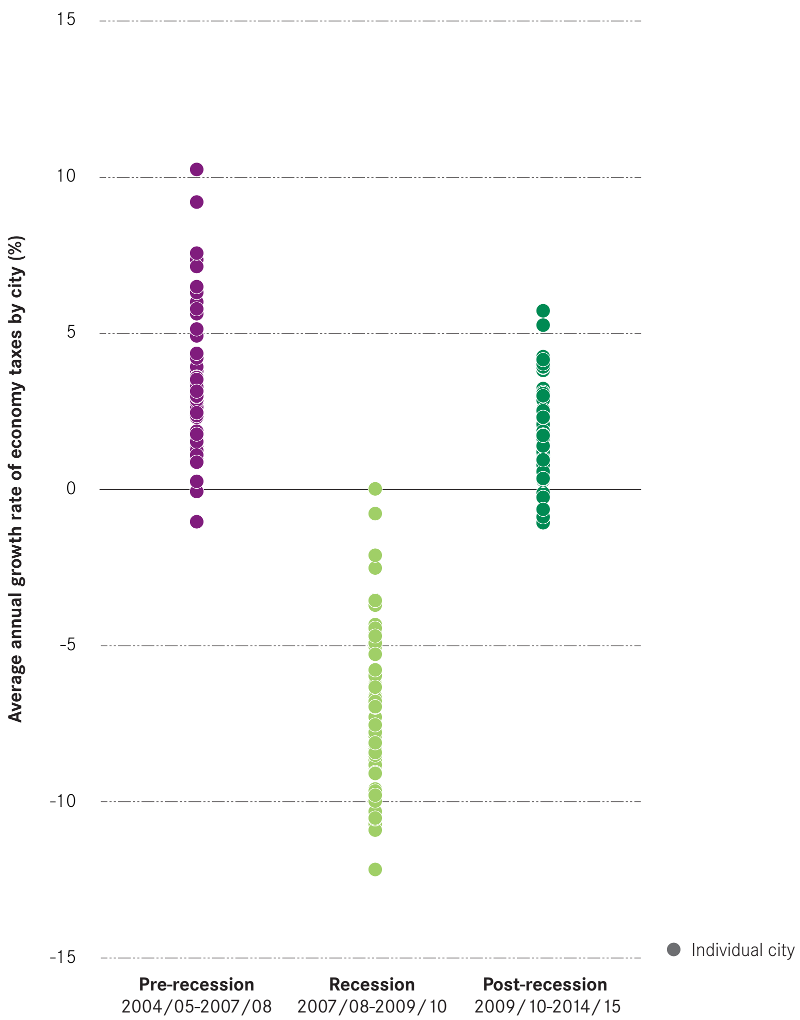


Sources: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

Most cities have not fully recovered from the recession. Post-recession, most cities (56 out of 62) have seen their tax revenues increase. Only Exeter, Nottingham, Preston, Bradford, Swindon and Gloucester are generating less tax today than they were in 2009/10.

However, only 15 out 62 cities are today generating more tax than they were at their pre-recession peak levels. And in most cities, tax revenues are increasing year on year at a slower rate than before the recession (see Figure 14): **in almost two-thirds of cities (41 out of 62) the average rate of growth in the post-recession period is lower than it was pre-recession.**

Figure 14: Average annual economy tax growth rate in cities, before, during and after the recession



The pattern is similar, if more pronounced, when looking at tax generated per job. Productivity has increased since the lowest point of 2009/10 in all cities except Bradford, Wigan, Luton and Nottingham. But few cities have returned to their pre-peak levels: only 3 out of 62 cities (Derby, Aberdeen and Crawley) are more productive in terms of tax today than they were before the recession.

Summary and implications

The data on 10 years of city taxes highlights the changing patterns of taxes generated across the country, and reveals a far more polarised 'fiscal map' of urban Britain at the end of the decade than at the start.

Despite cities generating more tax than before (and a similar share of the national total), almost a third of cities are actually generating less tax than they were 10 years ago and the average level of tax generated per job has gone down in real terms in two-thirds of British cities. As a result fewer cities are now playing a more important role in contributing to the national tax pot than was the case 10 years ago, with a particular turning point coming around the 'great recession', which hit cities hard and has changed the long-term trajectory of their economies.

In the face of political and economic uncertainty and potential shocks to the economy, **this growing reliance on fewer places to generate larger and larger tax revenues is more risky than a more diversified fiscal map.** If the recession in particular caused a divergence in tax raising power, how well prepared is the economy from a geographic perspective for potential future shocks?

It also raises questions about the **ability to generate tax from growth in the economy and specifically from the so-called 'jobs miracle'** that has powered the recovery since the 'great recession'. If the number of jobs has grown in almost all cities over the decade, why do we observe the patterns of city-level taxes that we do?

The next section goes on to explore this puzzle and the complex relationship between the level of taxes generated and the nature of the recovery at the city level.

What does the nature of the recovery tell us about tax raising power across British cities?

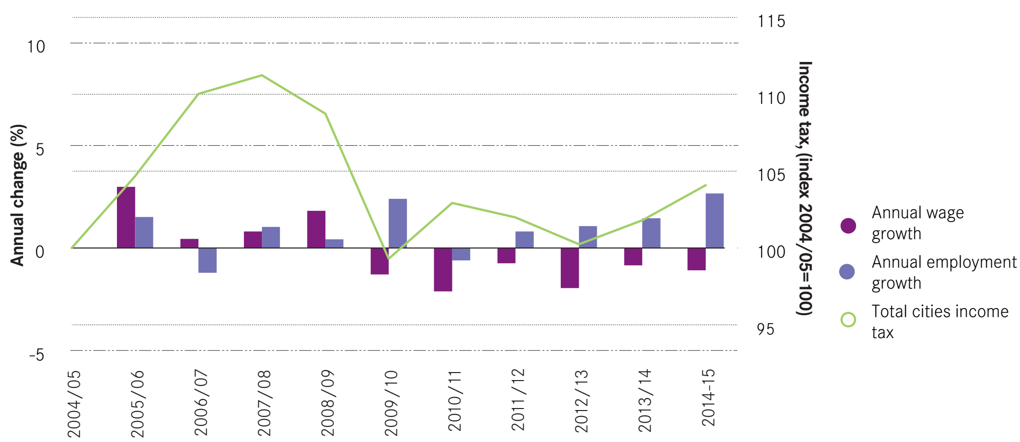
The data explored in the previous section illustrates the trends and changes in the fiscal performance of cities across the decade. In many ways, these trends reflect the economic performance across British cities observed over time.[10] But given the context of disappointing tax receipts in recent years and persistent questions regarding the 'productivity puzzle' and the 'jobs miracle' on revenues, there is a need to understand more about the relationship between wages and employment and the level of tax generated.

While the previous section looked at levels of economy tax generated in British cities, this section will focus on tax revenues from income tax specifically. Income tax revenues account for a majority of economy taxes generated: in 2014/15 income tax made up 32 per cent of the total economy tax take. And because income tax is more directly related to employment and wage performance than other tax streams, it provides a sharper analysis of the relationship between wages, employment and taxation.

1. How has the 'jobs miracle' played out across British cities?

Concerns about slowing productivity and stagnant wages, although amplified by the recession, are long-standing. But much of the debate on the 'productivity puzzle' tends to be focused on the national picture rather than what's happening at the city level: we know little about what the longer term relationship between of wages, employment and taxation looks like across and between British cities.

Figure 15: **Wage and employment growth and income tax in British cities**



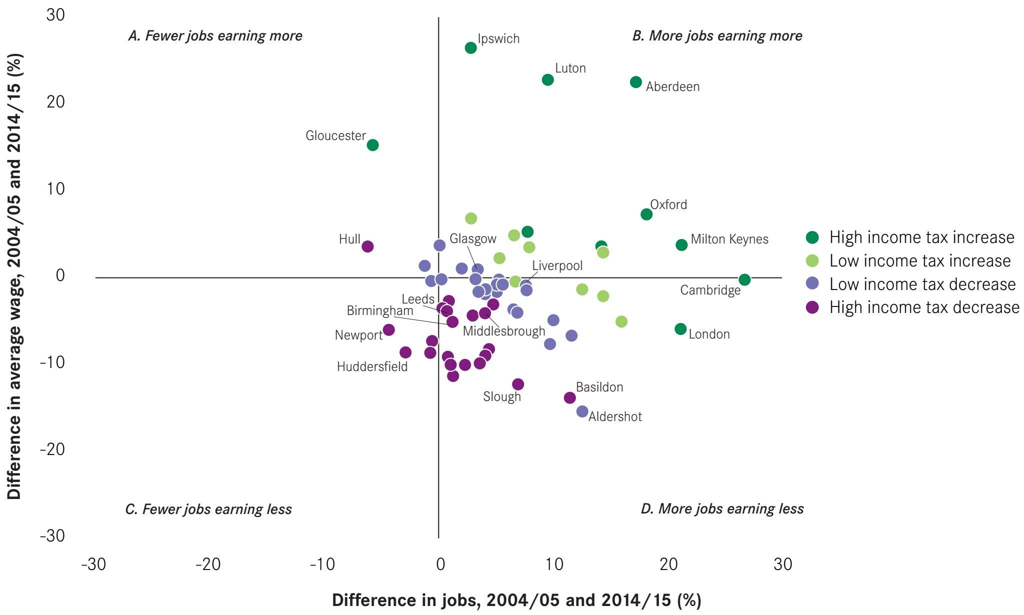
Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

10 Swinney P & Thomas E (2015) *A century of cities: urban economic change since 1911* London: Centre for Cities

Most cities have experienced a 'jobs miracle'. There are more people working in British cities than a decade ago but many earning relatively less. The average annual salary in British cities is £623 lower today than in 2004/05 and £2,494 lower than at their peak in 2008/09.

But the 'jobs miracle' has played out differently across cities. In most cities (39 out of 62) the general trend holds true: although people are individually earning less there are more jobs in these cities than there were 10 years ago (quadrant D in Figures 16 and 17). In a further 5 out of 62 cities, there are both fewer jobs and salaries are lower (quadrant C). Only in 15 out of 62 have both wages and the number of jobs grown over the decade (quadrant B). There are not clear geographic patterns, with the growing cities including both large and smaller cities, across the country.

Figure 16: Change in income tax, employment and wages



Source: CLG, HMRC, Land Registry, ONS, NOMIS, Scottish Government Statistics and Stats Wales. See appendix for full details.

Figure 17: Change in wages and employment at city level over the decade

A. Cities with fewer jobs earning more	B. Cities with more jobs earning more	C. Cities with fewer jobs earning less	D. Cities with more jobs earning less		
Dundee	Aberdeen	Birkenhead	Aldershot	Crawley	Reading
Gloucester	Derby	Bradford	Barnsley	Doncaster	Sheffield
Hull	Edinburgh	Huddersfield	Basildon	Leeds	Slough
	Exeter	Newport	Birmingham	Leicester	Southampton
	Glasgow	Preston	Blackburn	Liverpool	Southend
	Luton		Blackpool	London	Sunderland
	Mansfield		Bournemouth	Manchester	Swansea
	Milton Keynes		Brighton	Middlesbrough	Swindon
	Newcastle		Bristol	Northampton	Telford
	Oxford		Cambridge	Norwich	Wakefield
	Portsmouth		Cardiff	Nottingham	Wigan
	Stoke		Chatham	Peterborough	Worthing
	Warrington		Coventry	Plymouth	York

As Figure 16 shows, the relationship between wages, employment and levels of income tax is complex:

- **In almost all cities where employment levels are lower today than a decade ago, less income tax is being generated.** And very few cities where both wages and employment are higher have seen a decrease in income tax levels generated (exceptions include Dundee and Glasgow).
- **But for those cities where jobs have grown while salaries have decreased, there is less of a clear pattern**. In some cities in quadrant D, where employment is higher than a decade ago but wages are lower, levels of income tax generated have increased over time (Nottingham, Bournemouth and London for example), while in others (Cardiff, Birmingham, Blackpool) revenues are lower today than they were in 2004/05.

Nonetheless, the majority of cities (43) generate less income tax today than a decade ago, and of these most (33) have more jobs commanding lower individual wages, suggesting that wage levels have had a more significant impact on tax revenues than employment levels.

2. What impact have tax reforms had on the geography of tax generation?

While there have been many reforms to tax over the decade (e.g. changes to stamp duty, VAT, corporation tax, raising the higher rate threshold of income tax) one of the most high profile reforms has been the raising of the personal allowance - the threshold at which individuals start to pay tax on income. Alongside reforms to tax credits, this has taken some people out of income tax altogether and reduced the burden for many more. Intended to incentivise work and encourage more people into the labour market, this reform has also had the effect of reducing the revenues coming into the public purse.

The change in the personal allowance affected cities more so than elsewhere. The impact of reforms resulted in an increase the share of people who pay no tax in cities by 9 percentage points, compared to an increase of 7 percentage points in Britain overall. Interestingly, the total income tax generated in cities is 21 per cent lower today than would have been the case if the personal allowance threshold remained the same as in 2004/05[11] – see Figure 18 below.

There is also significant variation in the impact of personal allowance changes. Although the income tax revenue of all cities has been affected, some have been affected more than others. Figure 19 shows the difference between actual income tax levels generated in 2014/15 and the amount generated had the personal allowance remained at 2004/05 levels. Those cities where the reform has had most impact on tax generation are Wigan, Huddersfield and Burnley, while those where the effect has been smallest include London, Chatham and Slough.

11 This analysis also assumes that employment and wage levels were as actually observed over the decade, in other words that they would have been unaffected by a lower personal allowance policy.

Figure 18: Actual income tax levels vs estimate with personal allowance held constant at 2004/05

Source: Annual Survey of Hours and Earnings. Centre for Cities analysis.

Figure 19: Effect of personal allowance reforms on cities

	City	Difference in actual income tax, 2014/15 vs estimate with personal allowance held constant at 2004/05 (%)
10 cities with the smallest effect		
1	London	-16
2	Chatham	-16
3	Slough	-17
4	Aberdeen	-17
5	Reading	-18
6	Crawley	-18
7	Aldershot	-18
8	Milton Keynes	-19
9	Derby	-20
10	Edinburgh	-20
10 Cities with the largest effect		
53	Bradford	-33
54	Barnsley	-33
55	Newport	-33
56	Preston	-33
57	Birkenhead	-34
58	Hull	-35
59	Mansfield	-35
60	Burnley	-35
61	Huddersfield	-37
62	Wigan	-40

Source: Annual Survey of Hours and Earnings. Centre for Cities analysis.

Summary and implications

The so-called 'jobs miracle' has played out differently across cities, with most cities seeing job numbers increase over the decade. This combined with changes to the tax code – which have taken more people out of paying income tax altogether and reduced the burden for many more – helps explain the disappointing tax revenues received by the exchequer over the past few years.

Lower tax revenues are not in and of themselves a bad thing, particularly if policy has made an explicit trade-off between prioritising high levels of employment over higher wages for a smaller number of people.

The focus of Government policy to date has been to increase the number of people in work in order to keep the economy going after the recession. But in the context of stagnant wages and lower tax receipts, there is now a growing need to think about the quality of the jobs created. Focusing policy on supporting the creation of more high quality, high paid jobs in British cities is important for supporting long-term economic growth, but also for boosting the revenues available to re-invest in public services.

Conclusion

Cities are important to the national exchequer, they generate the majority of economy taxes and they are more productive than elsewhere. But despite cities overall generating more tax than a decade ago, **almost a third of cities (20 out of 62) are actually generating less tax than they were 10 years ago and the average level of tax generated per job has gone down in real terms in almost two-thirds (40 out of 62) of British cities.**

Reflecting these trends, the variation in tax raising power between different cities has grown with the result that **fewer cities are now playing a more important tax generation role for the exchequer than was the case 10 years ago,** with a particular turning point around 'great recession' which hit cities hard and has changed the long-term trajectory for many cities.

The way the 'jobs miracle' has played out across cities over the decade provides an insight into why the fiscal map has changed in the way it has. Cities where wages are lower than they were 10 years ago are almost all (33 out of 43) generating less income tax as well, suggesting that wages are a more important determinant of levels of income tax generated in these cities than employment.

Meanwhile, reforms to the personal allowance that have taken people on the lowest earnings out of paying income tax altogether and reduced the burden for many more, have further reduced the level of tax raised in those cities where real wages have decreased the most over time.

The more polarised 'fiscal map' of Britain should raise concerns for the national exchequer. In the face of political and economic uncertainty and potential shocks to the economy, the growing reliance on fewer places – and London in particular – to generate more revenues is a risky situation for the exchequer to be in compared to one where more cities are making a positive contribution to the national tax pot.

Supporting high quality and high paying jobs should be the policy priority in cities. This would not only boost prosperity in those cities but would also produce more tax receipts to the public purse, which could then be used to fund public services and to invest in growth related projects

The changing fiscal picture of Britain also raises questions about shifts towards more devolution of fiscal powers to cities in the future. Current proposals for fiscal devolution are limited to devolving business rates (which are included in economy taxes in this analysis), at the moment there is no discussion and little desire to devolve, for example, income tax. If and when these discussions occur the trends shown in this report highlight the issues around the difference in tax raising power of cities, with significant implications for the creation of a more devolved tax system.

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