Financial Services: contribution to the UK economy

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Author: Lucinda Maer and Nida Broughton

Section Economic Policy and Statistics

In 2011, financial and insurance services contributed £125.4 billion in gross value added (GVA) to the UK economy, 9.4% of the UK's total GVA. London accounted for 45.8% of the total financial and insurance sector GVA in the UK in 2009. The sector's contribution to UK jobs is around 3.6%. Trade in financial services makes up a substantial proportion of the UK's trade surplus in services. In 2010-11 the banking sector alone contributed £21.0 billion to UK tax receipts in corporation tax, income tax and national insurance.

This note sets out some key statistics on the financial services industry in the UK.

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1 Measuring the contribution of the financial sector

The Government has set out the need to rebalance the economy across sectors and to stimulate exports and inward investment.[1] The deputy Prime Minister has said that the Government's pro-growth agenda is about "rebalancing our economy away from an overreliance on one industry – financial services - and one area – London and the South East".[2]

The current size of the financial sector is therefore relevant to the question of how reliant the UK economy is on financial services. At the same time, the current trade surplus in financial services is relevant to the issue of how best to increase UK exports.

The following sections set out the value of the sector's goods and services, the employment associated with the industry, and its contribution to the trade balance and to the exchequer through tax returns.

Measures of the financial sector usually include the activities of wide range of firms, at the retail and wholesale level, including retail banks, building societies, investment banks and hedge funds, and are wider than the activities of financial services firms located in the City and Canary Wharf. Most measures of the size of financial services therefore also include, for example, bank branches in different areas of the country. In some cases, they also include activities related to insurance and pension funds.

These statistics usually measure the contribution of the financial services and/or related sectors on a stand-alone basis. To some extent they may under-estimate the sector's total contribution to the UK economy. This is because a well-functioning financial sector may have positive "spillover" effects for other sectors of the economy, for example, it may increase firms' access to credit and therefore help other sectors to grow.

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[1] BIS Priorities

[2] See, for example, the Deputy Prime Minister's Speech to MEDEF

2 Gross Value Added

Gross value added (GVA) measures the contribution of a sector to the economy, net of intermediate consumption (i.e. example, goods or services that are used in production, rather than final consumption). GVA therefore focuses on the value of a sector's goods or services to the economy.

GVA data for financial services should be used with some caution, as there is some debate as to how it should be measured, for example, what should be included and how to adjust the figures for risk.[3]

2.1 GVA changes over time

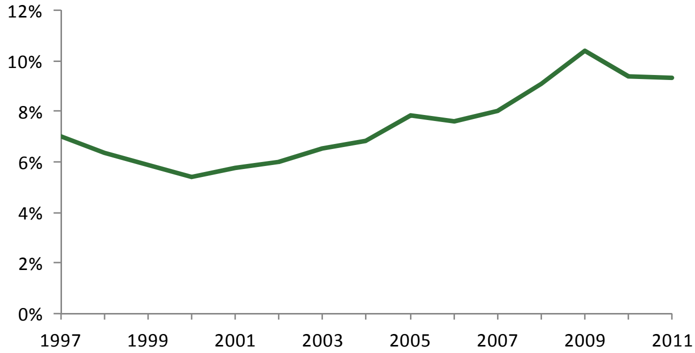
In 2011, financial and insurance services contributed £125.4 billion in gross value added (GVA) to the UK economy, 9.4% of total value added.

Table 1
GVA of the Financial and Insurance Services Sector, 1997-2011

	£bn, 2011 prices	% change	% of total UK GVA
1997	70.9	-	7.0%
1998	66.2	-6.5%	6.3%
1999	63.0	-4.8%	5.9%
2000	60.3	-4.4%	5.4%
2001	66.4	10.3%	5.8%
2002	71.0	6.9%	6.0%
2003	80.5	13.4%	6.5%
2004	86.7	7.6%	6.8%
2005	101.9	17.6%	7.8%
2006	101.7	-0.1%	7.6%
2007	111.3	9.4%	8.0%
2008	125.5	12.7%	9.1%
2009	139.0	10.8%	10.4%
2010	126.2	-9.2%	9.4%
2011	125.4	-0.6%	9.4%

Source: ONS, *Blue Book data*, Series ABML and KKK9
HMT, *GDP Deflator*

Chart 1: Percentage of GVA accounted for by financial and insurance services, 1997-2011



Financial and insurance activities grew as a proportion of total GVA between the late 1990s and 2009 to a peak of around 10.4%. Between 2009 and 2010, it dipped to around 9.4%. The same year, the GVA of the industry fell by 6.7%.

In 2011, the financial services and insurances sector contributed less gross value added to the economy than manufacturing industry (10.8%), wholesale and retail trade (11.3%).

2.2 GVA across the regions of the UK

There is a wide disparity in the financial sector's contribution to GVA across different regions of the UK. The ONS provides regional data on the financial and insurance sector. London accounted for 45.8% of the total financial and insurance sector GVA in the UK in 2009. It amounted to 21.6% of London's total GVA.

[3] See Economic and Labour Market Review, Improving the measurement of banking services in the UK National Accounts, 2007, and The Contribution of the Financial Sector: Miracle or Mirage, Bank of England, 2010

Table 2

Workplace based Financial and Insurance Activities GVA by region, 2009

	£billion, 2009 prices	% total regional GVA	% total UK financial and insurance GVA
London	58.2	21.6%	45.8%
South East	12.6	7.1%	10.0%
Scotland	9.2	9.0%	7.3%
North West	8.8	7.6%	7.0%
South West	7.7	8.1%	6.0%
East of England	7.5	7.0%	5.9%
Yorkshire and The Humber	7.0	8.1%	5.5%
West Midlands	6.2	6.8%	4.9%
East Midlands	3.8	4.8%	3.0%
Wales	2.3	5.2%	1.8%
North East	2.3	5.7%	1.8%
Northern Ireland	1.4	5.0%	1.1%
Total	**126.9**	**10.3%**	**100.0%**

Source: ONS, *Regional Gross Value Added,* December 2011

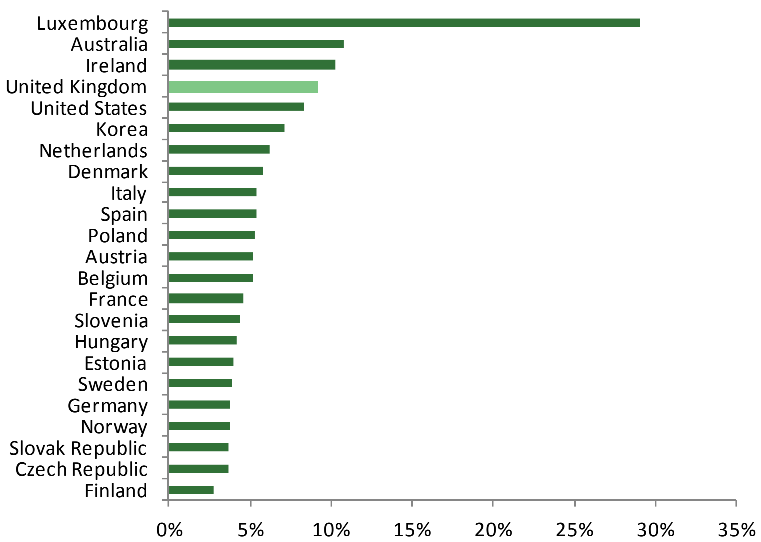
The financial services sector is often referred to as "The City", given the location of many financial services firms such as bank headquarters. Financial and insurance activities in Inner London, which includes both The City of London and Tower Hamlets (home to Canary Wharf), as well as other London boroughs accounted for £53.9 billion of GVA, 42.5% of the UK's total financial and insurance GVA.

2.3 GVA across EU countries

The OECD provides data on GVA across a selection of countries.[4] As shown in the chart below, the UK financial and insurance activities account for a large proportion of GVA compared to other countries.

Chart 2 Proportion of GVA accounted for by financial and insurance sector, selected OECD countries, 2008

OECD database and ONS Blue Book Data



[4] UK data is sourced from the ONS Blue Book and includes financial and insurance activities. Data from other countries is sourced from the OECD which provides data on "financial intermediation". The OECD definition includes financial intermediation, insurance and pensions and some auxiliary activities.

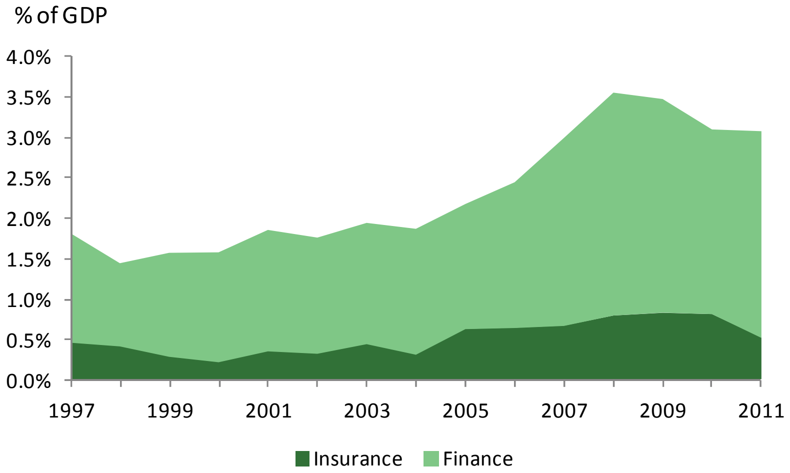
3 Workforce jobs

In March 2012 there were 1.1 million workforce jobs in the financial and insurance activities industry in the UK, 3.6% of all workforce jobs. The proportion of workforce jobs in the sector has not varied substantially over the period since 1997, peaking at 4.0% in March 2002. The number of workforce jobs in the industry has increased by 5.9% since March 1997.

4 Trade balance

The UK has a trade surplus in financial and insurance activities, i.e. exports exceed imports in the sector. The trade surplus has been growing as a proportion of GDP over the last two decades, although it dropped between 2008 and 2010.

Chart 3 Trade surplus in financial and insurance activites



5 Financial services taxation

5.1 Taxation of the financial service industry

In his Pre-Budget statement in December 2009, the then Chancellor, Alistair Darling, announced a new bank payroll tax. This would be a "special one-off level of 50 per cent on any individual discretionary bonus above £25,000" to be paid by the bank, not the bank employee.[5] In the March 2010 budget the Labour Government confirmed that the payroll tax would not be extended.

In the coalition agreement, the current Government stated that it would "introduce a banking levy".[6] In his first Budget speech in June 2010 the Chancellor, George Osborne, said that a new levy would be introduced from January 2011 to "apply to the balance sheets of UK banks and building societies, and to the UK operations of banks abroad".[7] Since the bank levy was first introduced, there have been a number of changes to the rates at which it is charged. It is now estimated that the levy will raise £2.2 billion in 2012/13 and £2.7-2.8 billion each year over the next four years.[8]

More detailed information is available in the Library Standard Note, *Taxation of Banking.*

5 HC Deb 9 December 2009 c367
6 HM Government, *The Coalition: our programme for government,* May 2010, p9
7 HC Deb 22 June 2010 c176
8 OBR, *Economic and Fiscal Outlook,* Cm 8303 March 2012, Table 4.7

5.2 Tax receipts

Her Majesty's Revenue and Custom's publishes details of the receipts from the banking sector from income tax, national insurance contributions and corporation tax (the statistics do not show figures on irrecoverable VAT, bank payroll tax or the banking levy).

Table 3

PAYE and corporation tax receipts from the banking sector

£billions

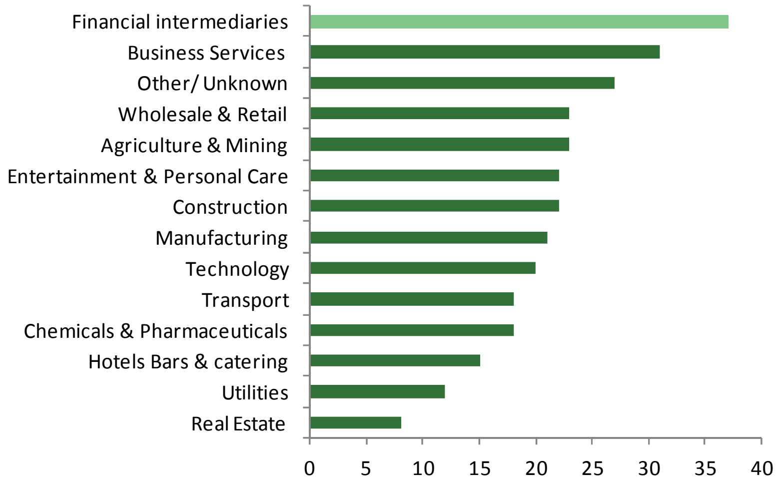
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
PAYE	13.6	15.9	16.7	14.0	15.2	17.5
Corporation tax	7.0	7.3	6.6	3.9	2.1	3.5
Total	**20.6**	**23.2**	**23.3**	**17.9**	**17.3**	**21.0**

Source: HMRC, *Pay As You Earn and Corporation Tax Receipts from the banking sector,* August 2011

The OBR has commented that the sectoral composition of the economy matters for the public finances since the tax burden varies between sectors, depending on factors such as productivity and profitability. The OBR has shown that in 2007-08 the effective tax burden from corporate and income tax, as a share of GVA, was the highest for financial intermediaries. This partly reflected relatively high profits in the sector compared to its contribution to GVA.

Chart 4 Effective tax burden by sector, income and corporate tax, as a share of GVA, 2007-08

OBR, *Fiscal Sustainability,* July 2011, Box 4.1

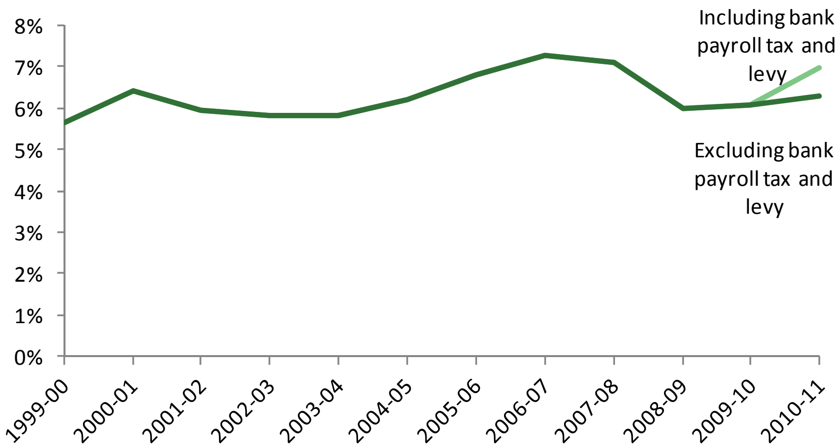


According to the OBR, in 2010-11, the financial sector accounted for around 7% or £35.7 billion of Government receipts once the bank payroll tax and bank levy were included. Without the bank payroll tax and bank levy, the figure was around 6% or £32.2 billion.[9] These figures include income taxes, national insurance contributions and corporation taxes.

[9] OBR, *Fiscal Sustainability Report,* July 2011, Box 4.1 Chart B

Chart 5 Financial sector tax receipts as a percentage of total receipts receivable

OBR, *Fiscal Sustainability,* July 2011, Box 4.1



The City of London has published estimates on financial sector tax receipts for 2010-11. This is based on research by PricewaterhouseCoopers (PWC), which collected data from financial services companies. The PWC research uses a broader measure of tax contributions compared to the OBR and HMRC. As well as income taxes, national insurance contributions and corporation taxes, this data includes VAT, business rates and other taxes. It includes both taxes paid by the sector and taxes collected on behalf of Government, for example, tax deducted from interest paid to customers by retail banks.[10] This measure suggests that the financial sector contributed £63bn or 12.1% of total government receipts in 2010-11.

[10] See The Total Tax Contribution of UK financial services, PWC, 2011 for more details.