

# Economic Impact of London Luton Airport

*1.1 Report produced by Halcrow in March 2010*

*1.2 Summary*

The total economic value of London Luton Airport to the economy is £1.05 billion for 08/09. Of this over 25% was returned to the government in a range of taxes including taxes on businesses, employees, business rates and air passenger duty.

A more detailed assessment is set out below.

## **1.3 Introduction**

The annual economic value of the operation of the London Luton Airport is calculated around two separate effects. The first is direct income injection into the local economy arising from the operations of the Airport, consisting of wages of the direct onsite and offsite workers; local income arising from direct business expenditure on goods and services; and business profits likely to be invested back into the local economy. A further impact of this direct injection is calculated using multiplier effects of the income generated through local spending of direct onsite and offsite businesses and workers into the local economy. This is considered through the supply chain effect of the local spending by businesses that receive direct income from the Airport's operations, and induced income effect (i.e. multiplier effect of the spending on local goods and services by those households which receive direct income from employment at the Airport).

The second is government revenues as a result of the Airport's operations. This includes proceeds to the central government such as business and personal taxes on the income generated by firms and workers. It also includes income generated for the local government through business rates received from firms operating within the direct on-site and direct off-site airport boundary. Revenue raised through airport tax incurred by passengers also contributes to income generated by the government.

## **1.4 Direct income injection**

## Wages and Salaries

The major element of this effect is wages and salaries of the workers. The sectoral adjusted employment estimate, based on ABI workplace data and the total employment levels stated in the London Luton Airport Annual Monitoring Survey (2008), forms the basis of this analysis. Annual per capita employee remuneration for the industrial classifications presented in the table below were originally derived from Experian's 2005 National Business Database results for on-site and off-site businesses at London Luton Airport. These wage rates have been uplifted to current levels by applying the average wage inflation parameters for Luton since 2005<sup>1</sup>.

Based on the adjusted employment and average per capita wage rate assumptions, the total annual employee remuneration, including income tax and employees' contribution to National Insurance, for workers at London Luton Airport is estimated in excess of £192 million. The injection into the local economy will be exclusive of tax and NI contributions, which are estimated at £44.1 million per annum. Therefore the direct injection into the local economy by wages and salaries is £147.6 million.

**Table 4-1: Wages and salaries in 2008/09**

Industry (Grouping of Standard Industrial Classifications)	LLA Employment by Sector (LLA, LBC, ABI)	Average Wage Rate for LLA businesses (Experian and Annual Survey of Hours and Earnings)	Total Employee Remuneration (£ million)
Manufacturing	908	£23,133	£21.01
Construction	3	£20,774	£0.06
Wholesale, Retail and Repair of motor vehicles, motorcycles and personal and household goods	393	£26,055	£10.25
Hotels, Restaurants and Leisure	290	£21,817	£6.32
Air Transport and Supporting Activities (including Training)	4,805	£25,256	£121.35
Other transport, storage and communication	31	£25,256	£0.78
Business Services, Public Administration and Other Services (including Health Services)	1,470	£21,705	£31.90

<sup>1</sup> Average wage increase in Luton between 2005 and 2008 is estimated at 8.5%. Source: Nomis Annual survey of hours and Earnings, Workplace Analysis.

<b>Total (including tax and NI)</b>	-	-	<b>£191.68</b>
<b>Total (excluding tax and NI)</b>	-	-	<b>£147.59</b>

Source: Luton Borough Council, Annual Business Inquiry, Experian, Annual Survey of Hours & Earnings and Halcrow

### Direct business expenditure

Business expenditure is an element of a firm's total output. The sectoral level employment estimate for LLA also forms the basis of assessing the total turnover of businesses at London Luton Airport. In addition, Experian's 2005 National Business Database provides estimates for annual per capita turnover for the industrial classifications presented in the table below<sup>2</sup>. As with the wage rates data outlined in the table above, the 2005 Experian per capita turnover data was uplifted to 2009 levels by applying the same inflation parameters of 8.5%, reflecting that the increase in employee productivity equals change in business productivity. The analysis suggests that businesses at London Luton Airport generate an annual turnover of approximately £1.1 billion.

**Table 4-2: Business Turnover in 2008/09**

<b>Industry (Grouping of Standard Industrial Classifications)</b>	<b>LLA Employment by Sector</b>	<b>Average Turnover Per Employee for LLA businesses</b>	<b>Total Turnover (£ million)</b>
Manufacturing	908	£105,590	£95.91
Construction	3	£43,096	£0.13
Wholesale, Retail and Repair of motor vehicles, motorcycles and personal and household goods	393	£202,307	£79.58
Hotels, Restaurants and Leisure	290	£94,135	£27.26
Air Transport and Supporting Activities (including Training)	4,805	£152,996	£735.13
Other transport, storage and communication	31	£41,164	£1.28
Business Services, Public Administration and Other Services (including Health Services)	1,470	£134,667	£197.92
<b>Total</b>	<b>7,900</b>	<b>-</b>	<b>£1,137.22</b>

<sup>2</sup> The analysis excludes output of government functions based at the airport such as Customs & Excise and Immigration Services. In addition, the turnover per employee estimate for Shell has been discounted from this analysis as it distorts the per capita outputs estimate for retail and wholesale sector.

Source: Luton Borough Council, Annual Business Inquiry, Experian, Annual Survey of Hours & Earnings and Halcrow

To calculate the direct business expenditure injection in to the local economy business turnover needs to be adjusted to exclude profits, taxes and remunerations. This is shown in **Table 4-3** which estimates the annual business expenditure in to the local economy is £425 million.

**Table 4-3: Direct business expenditure, £ million (2008/09)**

<b>Turnover of businesses at London Luton Airport</b>	<b>£1,137.22</b>
Average Pre Tax profit margin of sample businesses at LLA as a % business turnover (for which information is available)	5.7%
Pre tax profit for businesses at London Luton Airport	£64.82
<b>Total employee remunerations of workers at London Luton Airport</b>	<b>£191.68</b>
Average Social Security and VAT as a % of business turnover for sample businesses at London Luton Airport	2.7%
Employers contribution to Social Security and VAT	£30.70
Business Expenditure (excluding employee remuneration)	£850.01
% of business activities of firms at London Luton Airport that are within the core catchment area	50%
<b>Direct Business Expenditure in the local economy</b>	<b>£425.01</b>

Source: Luton Borough Council, Annual Business Inquiry, Experian, PACEC and Halcrow

Discounting estimates for pre-tax profit and contributions to social security and VAT will provide an estimate for business expenditure on goods and services. To avoid double counting, wages and salaries for workers has also been deducted to approximate the value of business expenditure incurred by organisation at London Luton Airport.

However, the input output model produced by PACEC suggests that 50% of business activities of organisations at the London Luton Airport are within the core catchment area. Hence, only 50% of all business expenditure of organisations at London Luton Airport can be accounted as direct income injection into the local economy. This annual direct business expenditure into the local economy is estimated at some £425 million.

## Direct profits

As mentioned in the table above, the combined annual pre tax profit of businesses at London Luton Airport is estimated at £64.8 million. The Experian data also suggests that tax payable for businesses at London Luton Airport is approximately 2.0% of their annual turnover; i.e. estimated at £22.7 million.

**Table 4-4: Direct profits, £ million (2008/09)**

<b>Approximate Pre Tax Profit generated at London Luton Airport</b>	<b>£64.82</b>
Average tax on profit as a % of turnover by businesses (for which information is available)	2.0%
Approximate Tax payable on profit generated at London Luton Airport	£22.74
Retained profits for businesses at London Luton Airport	£42.08
<b>Direct profits accountable to the local economy</b>	<b>£21.04</b>

Source: Luton Borough Council, Annual Business Inquiry, Experian, PACEC and Halcrow

Deducting the tax payable from business profits provides an estimate for retained profits. However, applying the findings of the input output model prepared by PACEC, suggests that only 50% of these retained profits can be considered as direct business profits accountable to the local economy. This form of direct income injection is estimated to have an annual value of £21 million.

## Multiplier Effects

Using the supply chain multiplier effect of 1.37<sup>3</sup> and applying this to annual estimates for direct business expenditure and direct profits accountable to the local economy, suggests an annual economic value of £165 million for the supply chain effect of business operations at London Luton Airport.

The induced multiplier of 1.27 applied to direct wages and salaries generates an annual value of £34 million for the income effect of the total employee remuneration (excluding income tax and employees' contribution to National Insurance) for workers at London Luton Airport.

The table below presents the summary of total income injection in to the local economy generated by LLA employees and businesses. In total it is

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<sup>3</sup> For consistency, both the supply chain and induced multipliers used are the same as those used in the 2006 report.

estimated that the current economic value of the airport to the local economy is £793 million per annum.

**Table 4-5: Total income injection in to local economy (2008/09)**

Wages and salaries of workers (excluding tax and NI)	£147,592,894
Direct business expenditure	£425,005,381
Direct profits accountable to the local economy	£21,038,496
<i>Supply chain multiplier effect (indirect effect)</i>	£165,036,235
<i>Induced income effect</i>	£33,946,366
<b>Total income injection</b>	<b>£792,619,372</b>

Source: Experian, Inland Revenue, PACEC, NOMIS and Halcrow

## 1.5 Government Revenues

As mentioned earlier this component includes income for central and local government e.g. business and personal taxes on the income generated by firms and workers. It also includes business rates payable by firms and airport tax incurred from passengers.

### Taxes paid by businesses

The table below provides estimates for tax on profit / corporation tax and employers' contribution to social security and VAT respectively. The combined value of these taxes is estimated at £53 million.

**Table 4-6: Taxes paid by businesses, £ millions (2008/09)**

Tax on profits / Corporation tax	<b>£22.74</b>
Employers contribution to Social Security and VAT	<b>£30.70</b>
<b>Taxes paid by businesses at London Luton Airport annually</b>	<b>£53.45</b>

Source: Luton Borough Council, Annual Business Inquiry, Experian, PACEC and Halcrow

### Taxes paid by workers

Applying the rate bands for income tax and employees' national insurance contributions suggests the tax payable by workers at London Luton Airport is approximately £44 million.

**Table 4-7: Tax paid by Workers (2008/09)**

Industry (Grouping of Standard Industrial Classifications)	LLA Employment	Per capita annual National Insurance	Per capita annual income tax	Total tax on wages and salaries
Manufacturing	908	£1,851	£3,470	£4,832,758

Construction	3	£1,662	£3,116	£14,800
Wholesale, Retail and Repair of motor vehicles, motorcycles and personal and household goods	393	£2,084	£3,908	£2,357,336
Hotels, Restaurants and Leisure	290	£1,745	£3,273	£1,453,227
Air Transport and Supporting Activities (including Training)	4,805	£2,020	£3,788	£27,910,889
Other transport, storage and communication	31	<del>£2,020</del>	£3,788	£179,925
Business Services, Public Administration and Other Services (including Health Services)	1,470	£1,736	£3,256	£7,337,254
<b>Total</b>	7,900	-	-	<b>£44,08,189</b>

Source: Luton Borough Council, Annual Business Inquiry, Experian and Halcrow

### Business Rates

The Valuation Office Agency, an executive agency of HM Revenue & Customs (HMRC), provides estimates for draft rateable values for individual properties as of 2010. The current rateable value for properties at London Luton Airport area is estimated at approximately £19.8 million. A detailed breakdown of this estimate by specific post codes is provided in the table below.

**Table 4-8: Rateable value of commercial premises within LLA (2009/10)**

Postcode	Draft Rateable Values as of 2010
LU2 9LU	£18,618,075
LU2 9NH	£329,150
LU2 9NL	£666,250
LU2 9PD	£55,000
<b>Total</b>	<b>£19,668,475</b>

Source: Valuation Office Agency

### Air Passenger Duty

Air Passenger Duty is levied by the UK Government, and collected by the carrier or agent issuing the ticket and charged to the customer at

the time of ticket purchase. The Civil Aviation Agency provides details of the passenger duty costs for different types of passengers, whilst the number of air passengers was obtained directly from London Luton Airport. The table below presents a detailed breakdown of air passenger tax incurred by passengers at London Luton Airport in 2008. Approximately £144 million was generated for central government through this tax.

**Table 4-9: Annual Air Passenger Duty generated at London Luton Airport (2008/09)**

Airline Category	Passenger Category	Air Passenger Duty (2008)
No Frills Airlines	EU Passengers	£63,430,717
	Domestic Passengers	£7,802,120
	Other International	£42,422,703
	<b>Total</b>	<b>£113,655,540</b>
Other Passenger Airline	EU Passengers	£16,945,063
	Domestic Passengers	£2,084,281
	Other International	£11,332,922
	<b>Total</b>	<b>£30,362,266</b>
<b>Total Air Passenger Duty</b>		<b>£144,017,806</b>

Source: Valuation Office Agency

### Summary: Government Income

In summary, the operations of the airport support an annual income of £261 million for central and local government functions.

**Table 4-10: Annual Government Income generated from London Luton Airport (2008/09)**

<b>Direct government income</b>	
Taxes from Businesses	£53,449,152
Taxes on wages (including Social Security)	£44,086,189
Business Rates	£19,668,475
Air Passenger Duty	£144,017,806
<b>Total</b>	<b>£261,353,622</b>

Source: Experian, Inland Revenue, PACEC, NOMIS and Halcrow

## 1.6 Summary

Combining the total direct income injection (**Table 4.5**) with the total government revenue (**Table 4.10**), the table below provides an overall annual economic value for London Luton Airport. It is estimated that

London Luton Airport generates an annual economic value of approximately £1.05 billion.

**Table 4-11: Estimated economic value of LLA to the regional economy (2008/09)**

<b><i>Direct income Injection</i></b>	
Wages and salaries of workers (excluding tax and NI)	£147,592,894
Direct business expenditure	£425,005,382
Direct profits accountable to the local economy	£21,038,496
<i>Supply chain multiplier effect (indirect effect)</i>	£165,036,235
<i>Induced income effect</i>	£33,946,366
<b><i>Direct Government Income</i></b>	
Taxes from Businesses	£53,449,152
Taxes on wages (including Social Security)	£44,086,189
Business Rates	£19,668,475
Air Passenger Duty	£144,017,806
<b>Annual Economic Value of London Luton Airport</b>	<b>£1,053,972,993</b>