Briefing Note: Fiscal Devolution and Economic Growth

- England is one of the most fiscally centralised countries in the OECD. This means that local areas have limited powers to raise funds, and the way that they spend money is also strictly controlled by central Government, with councils having only limited control over council tax and business rates.
- Since 2014, there has been some functional devolution to Combined Authorities, Metro Mayors and regional transport bodies, but this has been characterised as more akin to decentralisation and, crucially, has not entailed significant levels of fiscal devolution.
- Independent research carried out by Europe Economics for the LGA, sponsored by Barclays finds that greater fiscal devolution would benefit both local and central government, as increasing tax decentralisation by 10 percentage points is associated with around 0.09 percentage points more growth or, in the long run, with around 1.75 per cent higher GDP per capita.
- Fiscal devolution would also have other benefits, with research indicating local policymaking is more accountable, transparent, and responsive to individual conditions.
- The LGA is calling for greater fiscal devolution to be included as part of a wider devolution of powers and responsibilities to local government in the forthcoming English Devolution and Local Recovery White Paper.

Key LGA Publications

- The Impacts of Fiscal Decentralisation on Economic Growth in England and its Regions - Europe Economics: This paper looks at the economic impact of fiscal devolution and argues that if the UK moved to the OECD average for tax decentralisation, all regions of England could see a gain in GDP, with an average of 1.79 per cent increase. Currently only 4.9 per cent of taxes in the UK are set locally, whereas the OECD average is 15.1 per cent.
- A tourist levy: what, where and how – WPI Economics: One of the simplest local levies to introduce would be a tourist levy. This already exists in a number of other European countries – for example, Paris charges per person per night, with the rate depending on the star rating of the accommodation. Various cities in the UK (including Bath, Liverpool, Edinburgh, Birmingham and London) have all expressed interest in adopting a tourist levy. This briefing note sets out the practical considerations of introducing such a levy.
- Fiscal devolution: Adopting an international approach - Localis: This report compared levels of fiscal devolution between the UK and three other European nations (the Netherlands, Germany and Switzerland). It found that local governments in these countries have greater revenue raising powers and retain more of their funding locally. The report recommends that HM Treasury should launch a consultation with councils to identify the most popular options for local levies under fiscal freedom.
- The devolution parliament: Devolving power to England's regions, towns and cities, IPPR North: This recommends the creation of a ‘devolution parliament’ that would deliver a four-year programme, putting power and resources into towns, cities, and regions across England. This would involve setting up an inclusive devolution process, with a convention on devolution, a long-term devolution framework, joint devolution panel, and a coherent plan for the devolution parliament itself. It recommends that fiscal devolution should take place, with significant fiscal powers being devolved in phases, and that an inclusive growth and resilience fund should be built up.