



Spatial Economics Research Centre

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Should we give greater powers to City Councils?

The [City Finance Commission](#) has called for major reforms to the way councils are financed to help them drive growth and reduce their dependence on central government.

The commission calls for cities to be allowed to retain growth in business rates and council tax, for councils to be able to borrow against future local tax revenues and for a couple of trial councils to be given control of all employment, skills, adult education, health and housing spending.

It would be fair to say that I am not totally surprised by the conclusion: "Commission set up by Manchester, Birmingham [...] calls for more powers to be given to Manchester, Birmingham". Cynicism aside, I tend to favour more decentralisation of powers. I find the theoretical case (that it helps match local preferences to local provision) fairly compelling and there is some empirical evidence to suggest that this occurs in practice.

Similarly, international comparisons suggest that fiscal incentives from retention of local tax revenues probably does encourage development although do not know of any systematic evidence. The crucial question here will be how much the Treasury will allow local councils to retain and whether the public can accept the "postcode" lotteries that localisation of resources will imply. The devil will be in the detail. 100% retention would be a problem because it will lead to local resources becoming unbalanced too quickly. 100% retention for a limited period of time, with periodic rebasing seems to create all kinds of timing problems (why agree to developments when you know that you are about to be rebased?). The most likely option is to allow some fraction of the increase to be retained but this obviously has implications for the strength of the incentives offered. Regardless of the details, the system needs to be transparent, long term and sufficiently simple that it can be explained to local voters.

While there is evidence on the benefits of decentralisation in terms of public good provision and the positive effect on development of appropriate fiscal incentives, there is [no compelling evidence of a strong link between decentralisation of powers and improved economic performance](#). But there is no compelling evidence of a negative link either. In short, there are plenty of reasons to go for greater decentralisation but the idea that this would *ensure* greater economic growth isn't one of them.

Posted by [Prof Henry G. Overman](#) on [Tuesday, May 24, 2011](#)

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