

The impact of revenue centralisation on London's economic growth

Key information

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Context

Compared to other OECD countries, the UK remains one of the most fiscally centralised countries. This centralisation curtails London's ability to raise its own revenue to administer and fund local economic and social plans.

GLA Economics conducted a modelling exercise to assess the extent to which this centralisation of revenue-generating powers could have undermined London's growth between 2010 and 2019.

Key points

- The UK is one of the most fiscally centralised OECD countries, with less than 6% of total tax revenue raised locally as of 2021.
 - By comparison, the 38 OECD member-states raised just under 11% of their tax revenue locally (on average).
- According to the ONS, between 2010 and 2019, London's GVA grew by 2.39% annually (on average) after adjusting for inflation.
 - Comparable cities within OECD countries that have a unitary system of governance (i.e., just like the UK's), and that enjoy greater fiscal devolution, grew by 2.56% during that same decade on average.
 - If we include comparable cities within OECD countries irrespective of system of governance (federal, regional, or unitary) and that enjoy greater fiscal devolution, the average annual growth rate is 2.54%.

- If London's annual real GVA growth between 2010 and 2019 matched the average for comparable OECD cities in unitary states with greater devolution of revenue generation, then London would have generated at least an additional £38bn in GVA over the last decade.
 - This translates into just under an extra £460 per Londoner per year.
- If London's annual real GVA growth matched the average of comparable OECD cities irrespective of governance structure, then London would have generated an additional £34bn in GVA over the last decade;
 - This translates into an extra £400 per Londoner per year.
- Meanwhile, comparable cities within OECD countries that have a unitary system like the UK's but that enjoyed either the same or less fiscal devolution grew by 2.33% annually during that same decade (on average). If we include comparable OECD-country cities irrespective of governance structure, that rate drops to 2.08%.

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