Re:State

TAXING FOR TAKE-OFF

A new plan for fiscal devolution

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June 2026

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'Re:Imagining the Local State' is one of the major work streams within this programme.

ABOUT RE:IMAGINING THE LOCAL STATE

This paper is part of the 'Re:Imagining the Local State' work stream. English local and regional government stands at a turning point. There are signal opportunities for local innovation, close community engagement, and ambitious devolution of powers and responsibilities from the centre. There are also unprecedented challenges, driven by years of fiscal retrenchment, rocketing service demand, and a growing democratic deficit. This programme will develop policy ideas for the future of devolution, the role of communities, and the structures, practices, and leadership of local government itself.

Re:Imagining the Local State Advisory Group

Re:State is grateful to the expert members of the 'Re:Imagining the Local State' Advisory Group who provide invaluable insight and advise on the programme. Their involvement does not equal endorsement of every argument or recommendation put forward.

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ABOUT THE DEVO NEXT INITIATIVE

The Devo Next Initiative brings together a group of Mayoral Strategic Authorities (MSAs) to develop and shape the future of devolution policy in England. It aims to define a long-term 'end state' vision for a more devolved and decentralised country, as well as identifying the clear 'next steps' for policy and strengthening the case for deep and lasting change.

The participating MSAs are:

- East Midlands Combined County Authority
- Greater Manchester Combined Authority
- Liverpool City Region Combined Authority
- The North East Combined Authority
- South Yorkshire Combined Authority
- The West of England Combined Authority
- West Midlands Combined Authority
- The West Yorkshire Combined Authority

We are grateful for their input over course of this research project. The content of this report does not necessarily represent the policy position of any participating organisation.

ACKNOWLEDGEMENTS

External reviewers

We would like to express our gratitude to our external reviewers Stephen Aldridge and Dr Mark Sandford for their helpful comments on an earlier draft of this paper.

Interviewees

We would like to thank all interviewees for giving their time and candid insights to support this research paper. The list of interviewees is as follows:

- Stephen Aldridge, Director for Analysis and Data, Ministry of Housing, Communities and Local Government
- Professor Dame Diane Coyle, Bennett Professor of Public Policy, University of Cambridge
- Professor John Denham, Centre for English Identity and Politics, University of Southampton
- Andrew Jeffreys, Director, Welsh Treasury
- Dr Tim Leunig, Chief Economist, Nesta
- Professor Philip McCann, Sir Terry Leahy Chair in Urban and Regional Economics, Alliance Manchester Business School
- Dr Kevin Muldoon Smith, Associate Professor in Strategic Public Sector Finance and Urban Adaptation, Northumbria University
- Lord Jim O'Neill, President, Northern Powerhouse Partnership
- Dr Mark Sandford, Senior Research Analyst, House of Commons Library

And four interviewees who wished to remain anonymous.

The arguments and any errors that remain are the authors' alone.

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Recommendations

Recommendation 1: The long-term goal for fiscal devolution in England should be a regional progressive income tax. Devolved authorities in England should have this power once larger population-footprint regional governance structures have been established with responsibility for coordinating, shaping, and delivering a significant portion of state responsibilities. This should represent 50 per cent of total income tax at the point of devolution, with central government halving national rates. There would continue to be a national progressive income tax alongside this, making up the remaining half. Regional authorities would have the power to vary rates and create new bands. However, the regional income tax should be progressive and contain at least as many bands as the national income tax. An individual's total income tax liability would be the national and regional rates combined. Major changes to regional rates and bands should be subject to a higher decision-making threshold than more minimal modifications.

Recommendation 2: Equalisation in this scenario should be partial rather than full, with an equalisation rate below 100 per cent. This would allow authorities with high performing economies to retain a portion of their above average fiscal capacity in order to reward success and preserve positive incentives. The baseline for equalisation should incorporate a simple adjustment for structural factors indicative of higher costs and greater need. To prevent rate-varying powers from being used to game transfers, equalisation should be calculated using hypothetical rather than actual fiscal capacity.

Recommendation 3: As a starting point for fiscal devolution, Integrated Settlements should be scrapped as the primary means of funding Established Mayoral Strategic Authorities (EMSAs). Instead, EMSAs should be assigned 2.5p of the 20p basic rate of income tax paid by those whose primary residence is in their area (equivalent to a 12.5 per cent portion of basic-rate income tax revenue).

Recommendation 4: A tariff or top up should be applied to the total EMSAs receive from retained income tax to ensure equal starting points at year 1 in terms of revenue per capita. The tariff or top up should be held constant in real terms over a defined period. Revenue growth should be retained by the EMSA over a six-year period before a reset of the tariffs and top ups takes place. EMSAs should have an increased capacity to borrow and draw on reserves up to certain limits to cover shortfalls in projected revenue.

Recommendation 5: All MSAs should retain 100 per cent of the growth in business rates revenue in their area over a defined period. MSAs should decide themselves how retained revenue should be split between constituent authorities and wider strategic priorities. MSAs with 100 percent business rates retention should be able to devise reliefs and discounts targeted at particular areas or sectors. Established MSAs should have the power to vary existing business rates multipliers and set new ones, subject to the unanimous consent of the MSA board where this would deviate substantially from the national multipliers.

Recommendation 6: Business rates should ultimately be replaced with a Land Value Tax, with a similar model of 100 per cent retention for all MSAs within a broader redistributive system, and heightened levels of local control.

Recommendation 7: The Overnight Visitor Levy (OVL) should be available to all levels of Strategic Authority (SA), with full local discretion through the governance processes of the SA on rates and how the levy will apply within the SA area. The funds generated should not mean a reduction in any central government grant but form an additional source of revenue.

Recommendation 8: MSAs should be able to use their new powers over business rates reliefs and discounts to create their own 'special economic zones'. EMSAs should be able to establish 'special economic zones' (SEZs) that offer a wider package of support, and where these are covered entirely by local revenues, they should be able to set them up at their own discretion. There should be an established process for proposing larger-scale SEZs that would require collaboration with central government, with the UK Government having to respond publicly to these requests with its rationale for accepting or rejecting the proposal.

Recommendation 9: Building on the example of the OVL and the Workplace Parking Levy, MSAs should be able to propose and trial new local levies and charges of different kinds orientated around specific local objectives.

Recommendation 10: The current approach to Integrated Settlement outcomes frameworks should be replaced by a process that involves MSAs engaging directly with the Treasury on a high-level and cross-cutting set of outcomes in the interests of transparency and local scrutiny, as well as central government assurance.

Recommendation 11: New intergovernmental forums should be established and meet semi-regularly to facilitate the relationship between mature devolved institutions in England and the Treasury in coordinating and overseeing the operation of the subnational fiscal settlement on a less hierarchical basis.

Recommendation 12: Local Public Accounts Committees (LPACs) should be established in all Strategic Authority areas and work in conjunction with the new Local Audit Office.

Recommendation 13: MSA Chief Executives should be designated as the Accounting Officers for their organisation, and account to LPACs, as well as the Public Accounts Committee when necessary.

Recommendation 14: In general, risk should be borne by EMSAs and shortfalls covered by borrowing, drawing down reserves, cutting spending or, if possible, increasing rates. However, there is a case for additional protection in situations where there are economic shocks caused by events outside of the authority's control. The UK Government should also issue new guidance for how the Best Value Duty will apply in the context of fiscal devolution to EMSAs and set out transparently in what circumstances it would be minded to use its intervention powers.

Recommendation 15: Management of an Integrated Settlement should not be a prerequisite to gaining the assignment of 2.5p of the basic rate of income tax. Rather a systemic institutional maturity assessment should be conducted by a specific 'local empowerment body' established by MHCLG. Income tax assignment should be accessible to MSAs with established status, while a more basic package of fiscal devolution, including business rates and the OVL, should be available to Strategic Authorities prior to this point in their development.

Recommendation 16: MSAs should be made billing authorities for the OVL and be responsible for its administration. The necessary administrative architecture should be built at a genuinely regional scale to provide an underlying framework which in time can support the move towards larger-scale governance. To support the move to a locally retained share of income tax, HMRC must start collecting more granular geographical data for income tax and issue new income tax codes on the basis of residence.

1. Introduction

The passage of the English Devolution and Community Empowerment Act was undoubtedly a significant milestone, formalising the status of Strategic Authorities – the institutions at the frontier of the current wave of decentralisation – and leaving the era of incremental deals and institutional improvisation behind. A range of powers are now being passed out of Whitehall to a cohort of increasingly confident local leaders across England.

So far decentralisation in England has been primarily political and administrative. Yet to quote the Organisation for Economic Co-operation and Development (OECD), "without fiscal decentralisation, political and administrative decentralisation are meaningless."[1] Unless there is fiscal firepower to back it up, there is no "devolution revolution".[2] England has long been "not just an outlier but an anomaly", as one interviewee put it, when it comes to tax centralisation. Central government in the UK raises over 90 per cent of overall revenues compared to an average of 53.2 per cent across OECD countries.[3]

There is a growing recognition in Government that this is holding back the potential of the devolution agenda. The 2025 Autumn Budget saw the Chancellor of the Exchequer Rachel Reeves commit to a new local tax power in the form of a levy on overnight visitors. This was quickly followed by the announcement in March 2026 that she had tasked "officials to work with mayors and businesses, to develop a roadmap for future fiscal devolution" ahead of the Autumn 2026 Budget.[4] For many years, it had been thought that the Treasury's desire for tight control of public spending meant that fiscal devolution was a pipedream, despite the growing consensus that without it, this model of subnational governance would struggle to mature and fulfil its potential. But attitudes now appear to be changing.

Mayoral Strategic Authorities (MSAs) have been tasked with the economic development of England's cities, as well as, increasingly, more varied and complex geographies. However, without some form of revenue retention, they do not share directly in the fruits of their success. Fiscal devolution can help incentivise growth friendly decision-making by rewarding economic performance. If local decisions drive growth in the local tax base, then a share of the resulting revenue is retained locally. The evidence suggests that, in the right conditions, fiscal decentralisation can lead to higher productivity and economic growth.[5]

Furthermore, a direct link between revenue and spending gives devolved institutions more 'skin in the game', requiring them to engage more directly with trade-offs, encouraging efficiency, and ultimately enhancing accountability to the local electorate. Local leaders are able to use fiscal autonomy to create the right tax mix for their particular area, pursuing growth while ensuring they are able to fulfil the functions expected of them, with meaningful decisions being taken closer to the citizens and places they impact.

This kind of flexibility would be a significant departure for the UK, which only relatively recently moved towards devolving a more substantial set of fiscal powers to the Scottish Parliament, almost two decades after its establishment. This sudden opening of the door to fiscal devolution has created a moment of opportunity, a policy inflection point involving a rare

[1] OECD, *Making Decentralisation Work: Handbook for Policy-Makers* (2019).
[2] Ministry for Housing, Communities and Local Government, *English Devolution White Paper* (2024).
[3] OECD, *Government at a Glance 2025* (OECD, 2025).
[4] Rachel Reeves, *Mais Lecture 2026* (HM Treasury, 2026).
[5] Hansjörg Blöchliger and Balázs Égert, 'Decentralisation and Economic Growth - Part 2: The Impact on Economic Activity, Productivity and Investment', *OECD Working Papers on Fiscal Federalism No. 15*, 2013.

alignment of problem, solution and the emergence of political will. It is now imperative that this window for reform is not squandered.

Taking the path of least resistance and complexity might be tempting in the short term. But a minimalist version of fiscal devolution – lacking in the key ingredients of autonomy and flexibility – would be beset with risk and less likely to transform the fortunes of England's regions. Now is the time to be bold and rethink the way in which revenue is raised, with what powers, and at what level of government, as well as how it should be shared between different places.

The evidence is clear, however, that the benefits of fiscal decentralisation are not automatic.[6] Much depends not only on the taxes in question, and how they are controlled, but on the right conditions being in place. What institutional capacity and specific capabilities do subnational authorities need to handle the reins of fiscal power? How should their readiness to take on this new autonomy be assessed? What forms of accountability and scrutiny must underpin this shift? And, crucially, how should independence be balanced with solidarity between places within a wider financial system, in which there are very different starting points? The answers to these questions are as important to any fiscal devolution "roadmap" as the mechanics of how much different options for devolved taxation would raise.

This report seeks to answer these questions, as well as set out proposals for the package of tax powers that Strategic Authorities should have at their disposal. It focuses primarily on this developing strategic tier and the fiscal flexibilities needed to unlock its potential, but touches on the need to think holistically about the financial settlement of the local state as whole. With the right ingredients, fiscal devolution can underpin a new era of experimental place-based policymaking, driving growth and innovation in public service reform.

[6] Dylan Jong et al., *A Comprehensive Approach to Understanding Urban Productivity Effects of Local Governments: Local Autonomy, Government Quality and Fragmentation* (OECD, 2021).

2. The case for fiscal devolution

The British economy is regionally imbalanced, with investment, productivity, and opportunity highly unevenly distributed across the country. Addressing regional disparities is at the heart of efforts to turn around the UK's ailing national economic performance and secure higher growth, transform public services, and improve living standards. There is a substantial body of evidence that suggests that centralisation – including fiscal centralisation – is likely to be part of the problem.

Comparative studies examining OECD countries have found a positive association between fiscal decentralisation and higher economic growth, productivity, and human capital.[7] Subnational control over a significant share of both spending and taxation is also connected with more efficient public investment.[8] Research focused on individual countries has found a similar relationship. A recent article focused on Italy, for example, found that municipalities with higher fiscal autonomy have a higher per capita income.[9] Moreover, the evidence base points towards the devolution of tax powers being more important than the decentralisation of spending on its own.[10]

In fiscally decentralised systems, when subnational governments take decisions that lead to higher tax revenues they share directly in the benefits of those decisions, providing incentives for pro-growth policymaking. There is also evidence that the devolution of fiscal powers can improve local financial resilience by reducing dependence on short-term, competitive grant programmes and enabling longer-term planning.[11]

Devolving fiscal responsibilities can improve allocative efficiency by ensuring that provision is better aligned with local preferences where these differ between areas.[12] Devolving tax powers as well as spending decisions creates greater clarity around responsibilities, ensuring there is a connection between revenue raising and levels of local provision. Without this connection, a "fiscal gap" can open up inhibiting accountability by divorcing spending decisions from fiscal consequences.[13] Fiscal devolution means there is more at stake at the subnational level, accountability to the local electorate is enhanced, and citizens are more likely to engage in local politics and the democratic process.[14] Comparative evidence shows that local tax powers can be associated with clearer attribution of responsibility, higher political engagement, and stronger pressure on local governments to perform.[15]

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[7] Jorge Martinez-Vasquez and Robert M. McNab, 'Fiscal Decentralization and Economic Growth', *World Development* 31, no. 1 (2003).; Blöchliger and Égert, 'Decentralisation and Economic Growth - Part 2: The Impact on Economic Activity, Productivity and Investment'.

[8] Hansjörg Blöchliger et al., *Fiscal Federalism and Its Impact on Economic Activity, Public Investment and the Performance of Educational Systems* (OECD, 2013).

[9] Massimiliano Ferraresi et al., 'Does Fiscal Autonomy Increase Local Income? Evidence from Italy', *European Journal of Political Economy* 93 (June 2026).

[10] Blöchliger and Égert, 'Decentralisation and Economic Growth - Part 2: The Impact on Economic Activity, Productivity and Investment'.

[11] Jessica Studdert, *Fiscal Devolution: Why We Need It and How to Make It Work* (New Local, 2023).

[12] Wallace Oates, *Fiscal Federalism* (Harcourt Brace Jovanovich, 1972).

[13] Stuart McIntyre et al., *Fiscal Devolution and the Accountability Gap: Budget Scrutiny Following Tax Devolution to Scotland*, 57, no. 2 (2022).

[14] Ailsa Henderson and Nicola McEwen, 'A Comparative Analysis of Voter Turnout in Regional Elections', *Electoral Studies* 29, no. 3 (2010); André Blais et al., 'Decentralization and Voter Turnout', *Environment and Planning C: Politics and Space* 29, no. 2 (2011).

[15] Paul Smoke, 'Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice', *Democracy, Governance and Human Rights Programme Paper Number 2*, February 2001.

Fiscal devolution, much like with the decentralisation of powers and responsibilities more broadly, provides an opportunity for experimentation and a way of overcoming the inherent knowledge problem faced by central governments when formulating policy for places they are far-removed from. Local leaders with a more granular understanding of an area's strengths, conditions, and priorities are empowered to innovate – learning by doing, iterating and adapting, and feeding the lessons back into the wider policy system.[16]

2.1 The state of play

The UK is highly unusual in the extent of its fiscal centralisation. The Government's consultation on introducing an Overnight Visitor Levy (OVL) power acknowledges this, highlighting that the share of national taxes collected at the subnational level in the UK is 5.8 per cent – the lowest in the G7 – and much lower than countries such as France (20.4 per cent), Japan (36 per cent), and the US (45.7 per cent).[17]

The move towards some form of fiscal decentralisation is the latest element of the broader English devolution policy agenda being pursued by the Government, which itself builds on the 'combined authority' model developed under its predecessors. The English Devolution White Paper (EDWP) published in December 2024 pledged a "devolution revolution" and set out the Government's framework for achieving this, including the additional powers and flexibilities that the three levels of 'strategic authority' (Foundation, Mayoral, and Established) would be able to access.[18] The English Devolution and Community Empowerment Act (EDCEA) became law in April 2026, formalising in statute nine competences that strategic authorities would be formally empowered to act across. The seven that were in the Bill as introduced by the Government were: transport and local infrastructure; skills and employment support; housing and strategic planning; economic development and regeneration; environment and net zero; health, wellbeing, and public service reform; and public safety. Two further competences were then added after the Government accepted late-stage amendments from the House of Lords: (1) culture and (2) rural affairs and coastal communities.[19]

Furthermore, the EDCEA contains a mayoral 'right to request' – a statutory duty on the Government to consider and respond to calls for new functions. This mechanism was operating in 'shadow' form ahead of the passage of the legislation, and mayors used this opportunity to request the OVL power, which the Government is now bringing forward.

When it comes to funding, a key development has come in the form of 'Integrated Settlements', which consolidate various central government funding pots into a single pool with greater flexibility (although various constraints are still present) on how it can be spent. These were granted first to the most advanced strategic authorities – Greater Manchester and the West Midlands, whose settlements came on stream for the 2025-2026 financial year. This was then expanded, with multi-year Integrated Settlements for seven 'Established Mayoral Strategic Authorities' (EMSAs), starting in April 2026.

The main revenue raising mechanism for MSAs has come in the form of the option to add a precept to council tax, which, for example, Greater Manchester has done since 2018. Where mayors also hold Police and Crime Commissioner responsibilities, they may also add a ring-

[16] Alex Walker, 'Why We Should Embrace the Postcode Lottery', *Re:State*, 23 April 2026.
[17] HM Treasury and Ministry of Housing, Communities and Local Government, *Visitor Levy Consultation: A Consultation on the Design of a New Mayoral Power to Create Visitor Levies on Overnight Stays in England* (2025).
[18] Ministry for Housing, Communities and Local Government, *English Devolution White Paper*.
[19] English Devolution and Community Empowerment Act 2026 (Chapter 23).

fenced precept specifically for these purposes. Some other specific sources of funding are available but have been less utilised. For example, mayoral authorities can also charge a Business Rates Supplement, though only the Greater London Authority has done so, to help fund the construction of the Elizabeth line. Local authorities have also been able to raise a Community Infrastructure Levy (CIL) since 2010, which can be charged on new developments to help pay for necessary additional infrastructure. The EDCEA extends the CIL power to strategic authorities with a Spatial Development Strategy in place.

The EDCEA also confirmed an enhanced role for MSAs in relation to public service reform, although the extent and nature of this have remained ambiguous. The NHS 10 Year Plan confirmed that the Greater Manchester Combined Authority (GMCA), where public service experimentation at this level has gone the furthest, would be designated as a 'prevention demonstrator', with mayoral 'total place' powers – essentially, pooled, place-based budgeting – to underpin innovative new approaches to preventative public service transformation.[20]

At the same time, the UK Government has moved forward with changes to the financing of local government through the Fair Funding Review 2.0 with the aim of better distributing grant funding to local authorities on the basis of need when accounting for local property tax raising potential.[21] Changes have been made to the business rates system, with modifications to the multipliers, and a reset of the 50 per cent growth retention model as part of the Fair Funding reforms. A 2025 interim report indicated that further changes were being considered.[22]

The announcement by the Chancellor at the Autumn 2025 Budget that the local state would be granted its first new tax raising power in decades in the form of the OVL was welcomed as a significant shift.

In her subsequent Mais Lecture, the Chancellor indicated an initial timeline and direction of travel for fiscal devolution of national taxation. The prize here is potentially a big one. Previous OECD research has suggested that doubling the subnational tax share is associated with an average increase in GDP per capita of 3 per cent (although there would be ceiling on this relationship).[23] Yet much depends on the design and surrounding conditions. These must be given careful thought to ensure this window of opportunity is not wasted and that the desired effects are secured.

Some initial parameters to the policy have been indicated: that it will look to give "regional leaders control of a share of some national taxes"; that it will look at income tax, but alongside other national taxes; that it will be fiscally neutral, and not involve new or higher taxes; that it will focus on those devolved institutions that are most advanced; and that there will be some growth benefit, accompanied by protections against volatility.[24]

While this gives some indication of the likely shape of the policy coming down the track, it leaves the detail still to be negotiated. Furthermore, while the roadmap – designed well – can provide a starting point for greater fiscal decentralisation in England, the framework the Treasury has sketched out should not be seen as the limit of ambition in this area.

[20] *Fit for the Future: 10 Year Health Plan for England* (Department for Health and Social Care, 2025).
[21] *The Fair Funding Review 2.0* (Ministry of Housing, Communities and Local Government, 2025).
[22] *Transforming Business Rates: Interim Report* (HM Treasury, 2025).
[23] Blöchliger and Égert, 'Decentralisation and Economic Growth - Part 2: The Impact on Economic Activity, Productivity and Investment'.
[24] Reeves, *Mais Lecture 2026*.

3. What fiscal powers where

The constitutional tradition that taxation is the preserve of Parliament, with local government permitted control only over the 'local rate', is deeply ingrained in the UK. The idea of giving subnational authorities substantial fiscal powers runs contrary to this tradition, even while partial tax devolution to Scotland and Wales has shown that it is not impossible.[25]

Nonetheless, there has been growing interest in the question of whether the local state in England should have further tax powers. This interest has been heightened in the context of the emergence of an English devolution agenda focused on the decentralisation of various spending powers to MSAs, and the commitment to rolling out this strategic tier of subnational governance across the whole of the country. MSAs provide a new tier at a scale that has not previously existed in England, with place-based economic development as part of their core remit.

If the case for fiscal devolution in some form is a strong one, the next question is what taxes should be devolved and how. This chapter looks first at the different options for what national taxes might be suitable candidates for devolution in England and the ways in which this might be approached. It then sets out first what an ambitious, long-term vision for the devolution of one of the main national taxes might look like in the context of a much more decentralised England. Having established the 'end state', the remainder of the chapter explores the steps that should be taken more immediately to start moving towards this destination.

3.1 National taxes

Subnational government in England is currently funded through a mixture of central government grant and local property taxes, namely council tax and business rates. In many other countries, local and regional government are funded through a portion of one of the big national taxes or through a local version of one of those taxes. In the UK, the 'big four' are considered to be income tax, national insurance, VAT, and corporation tax.

Figure 1 sets out the key features of two different approaches to national tax devolution. The 'assignment' model tends to involve subnational governments sharing or retaining a portion of a specific national tax generated in the local area. The second model typically involves a local version of that particular tax, over which subnational governments have some degree of control.

Germany, for example, operates predominantly under the first approach, with income tax and sales tax set and controlled at federal level but with shares retained and redistributed between the *Länder* (regional tier) and municipalities. Other countries, such as Denmark and Spain, have local income taxes. In Denmark and other Nordic countries this is levied at a flat rate, while in Spain Autonomous Communities can levy a progressive local income tax.

[25] Mark Sandford, 'Three Monkeys on the Back of English Fiscal Devolution', *The Constitution Unit*, 6 October 2017.

Figure 1: Approaches to tax decentralisation

Model of devolved taxation	Features
Model 1: Assignment of national taxes	Subnational governments are assigned some of a national tax, usually a portion of the revenue generated in that particular region or municipality Subnational governments do not have the power to vary rates, which remain set at national level Subnational governments are incentivised to grow their economies so that they get higher revenues from their portion
Model 2: Regional / local versions of national taxes	Subnational governments are permitted to set their own versions of national taxes Subnational governments have variation powers (e.g. over rates, bands, allowances) Subnational governments can use higher or lower rates to increase or decrease revenues and as a way of influencing behaviour

While it depends in part on which of these approaches is adopted, some of the candidates for tax devolution are stronger than others. The Institute for Fiscal Studies (IFS) has developed a set of criteria for assessing the different options:

- Administrative feasibility
- Incentives and risks
- Tax base and taxpayer mobility
- Accountability effects
- Revenue distribution
- Revenue volatility

The IFS analysis of the 'big four' against these criteria leans most in favour of income tax.[26] Figure 2 sets out some of the key considerations when thinking about the potential devolution of income tax, national insurance, corporation tax, VAT, and Stamp Duty Land Tax, focusing on incentives and administrative feasibility. While income tax, national insurance, corporation tax, and VAT would all come with positive economic incentives, income tax and national insurance are less administratively difficult. Income tax and national insurance would involve determining where an individual is resident for the purposes of a tax on their earnings, which would not be overly complex. There are positive economic incentives around job creation, boosting earnings, housebuilding, and transport connectivity – a view confirmed by multiple interviewees for this report. Income tax has an advantage over national insurance in that it

[26] David Phillips, *Reforming Local Government Funding in England: The Issues and Options* (Institute for Fiscal Studies, 2024).

could be levied on a broader base[27], covering, for example, income from property, pensions, employment, and self-employment.[28]

Figure 2: Options for decentralisation

Tax option	Incentives	Administrative complexity	Additional considerations
Income Tax	Increase incomes of resident population Attract new residents (housebuilding, better services) Job creation Higher employment Access to employment (connectivity)	Need to accurately determine an individual's main residence, issue new tax codes and adapt payroll systems	Broader base than national insurance (e.g. includes pensions and rental income) Taxed on resident population Generally buoyant (revenues go up in relation to economic growth)
National Insurance	Increase incomes of resident population Attract new residents (housebuilding, better services) Job creation Higher employment Access to employment (connectivity)	Need to accurately determine an individual's main residence, issue new tax codes and adapt payroll systems	Narrower base than income tax (primarily just earnings from employment) Taxed on resident population Generally buoyant
Value Added Tax	Consumption Business activity Access to opportunities for consumer spending	Complexity assigning VAT revenues to a particular area due to single businesses engaging in various different activities across different stages, and the fact that businesses can claim back the VAT they	Generally buoyant Taxed on non-resident population

[27] Neil Amin-Smith et al., *Taking Control: Which Taxes Could Be Devolved to English Local Government?* (Institute for Fiscal Studies, 2019); Phillips, *Reforming Local Government Funding in England: The Issues and Options*.
[28] The base used for devolved income tax in Scotland and Wales is earnings from employment, self-employment, pensions and property. Income tax on savings and dividends remains reserved to the UK Government.

		have paid on their expenses Some of this complexity would be reduced if the approach was a local sales tax rather than VAT	
Corporation Tax	Business profitability Attract new businesses	Complexity assigning corporation tax revenues to a particular area due to profits arising from various different activities across different stages A formula-based approach can be taken but would require more accurate information on disaggregated relevant factors	Taxed on non-resident population Volatile compared to other major taxes
Stamp Duty Land Tax	Housebuilding Housing market activity	Administratively feasible to devolve	Revenues highly volatile Economically distortive: reduces property transactions, suppresses mobility

Source: Neil Amin-Smith et al., *Taking Control: Which Taxes Could Be Devolved to English Local Government?* (Institute for Fiscal Studies, 2019).; David Phillips, *Reforming Local Government Funding in England: The Issues and Options* (Institute for Fiscal Studies, 2024); Mark Sandford and Kevin Muldoon-Smith, *Options for Fiscal Devolution to Strategic Authorities* (Local Government Information Unit, 2026).

For each of the options explored in Figure 2, another important consideration is whether it is the tax assignment or local version model that is being sought (the two different approaches set out in Figure 1). The second of the two, the local version model, can come with benefits in terms of allowing subnational authorities to respond more directly to local preferences and use levels of taxation as a lever. They may, for example, have higher local tax but better services, making their area a more desirable place to live, or choose to attract people to live or invest through lowering rates. This is not possible on an assignment model, as rate setting powers remain with central government. But, depending on how it is designed, tax apportionment can still mean sharper growth incentives (as described in Figure 2).

Local variation powers (model 2) also open up concerns around local tax competition, which can lead to displacement of economic activity between places (rather than additional activity); create downwards pressure on revenues, leading to less ability overall to deliver the functions expected of subnational government; and require more in the way of complex equalisation mechanisms to mitigate against expanding regional inequalities. These concerns would be particularly acute in the case of a devolved form of corporation tax, for

example, given that the revenues it raises are highly uneven between different parts of the country and are also more volatile than most of the other revenue sources in scope.[29]

Another issue with a localised approach to corporation tax and VAT relates to accountability. While there are exceptions, it is generally more appropriate for local taxes to be paid by those who can vote in a local area, so as to avoid a situation in which the local electorate is able to tax a non-resident population and only bear some of the cost themselves.[30] This would not be an issue with a local version of income tax with liability determined on the basis of primary residence.

Liability for a local income tax could also be determined on the basis of where an individual works. This would account for people who live outside of an area but work there and use the local infrastructure, as well as focusing the incentive for subnational government on creating and locating jobs in the region. However, this would mean a mismatch between the local electorate and the local tax-paying population, leading to the accountability gap described above. Using primary residence as the relevant criteria avoids this, while also encouraging a focus on making an area an attractive place to live, with sufficient housing, as well as opportunities for work.

Given the above, there is a case for focusing on income tax as the main 'national tax' for devolution. However, income tax should sit alongside a suite of other revenues that include retained business rates (or a reformed local property tax) and the OVL. A 'basket' of revenues with different bases can help mitigate against potential volatility. While all will be affected by wider economic trends to some extent, a spread can mean that while revenues from one source fluctuate, another remains more stable.

There are also advantages to focusing on income tax as the main national tax in scope as it leaves more room for progressing from a tax assignment approach (model 1) to one with greater flexibility and autonomy in the future (model 2). The next section sets out how an ambitious high autonomy approach to income tax devolution could work in the future, before the rest of the chapter looks at what should be in the fiscal devolution roadmap that would set England on the path to getting there.

3.2 Into the future: a progressive local income tax

The English Devolution and Community Empowerment Act represents real progress for devolution. Even so, England remains one of the most centralised countries in the world – and recent advancements remain at the modest end of the spectrum of decentralisation. The EDCEA should not represent the ceiling of ambition. As the Treasury puts together its fiscal devolution roadmap, it is important to have in view a long-term vision for English devolution that can orientate the direction of travel. This section of the report sets out an ambitious version of fiscal devolution, which should be worked towards in the coming years. It then sets out the immediate next steps for a more fiscally decentralised England that should form the focus of the Government's blueprint.

As set out in previous *Re:State* work, many planned and existing Strategic Authorities – beyond those covering city region geographies – are too small to pursue coherent and properly scaled economic strategies.[31] English devolution must evolve towards a model where strategic

[29] Amin-Smith et al., *Taking Control: Which Taxes Could Be Devolved to English Local Government?*
[30] Phillips, *Reforming Local Government Funding in England: The Issues and Options*.
[31] Dr Simon Kaye and Sean Eke, *Go Big or Go Home: Governing England's Polycentric Regions* (Re:State, 2025).

authorities act as a properly empowered 'meso' regional tier of government with enhanced responsibility for coordinating, shaping and delivering across an expanded range of decentralised functions. This would include, for example, the devolution of the majority of healthcare[32] and education responsibilities to the regional level, as well as the powers currently held by various arms-length bodies, such as Homes England[33] and Natural England.

In the context of a consistent at-scale tier of regional governance across England where a significant portion of the essential major services that are provided by the State are devolved, there must be a suitably expanded fiscal settlement to match. Specifically, the aim should be to move beyond a tax assignment model, which is proposed below as an important first step, to one with greater scope for regional variation, such as those used in Denmark and Spain. A direct link between the rates of taxation levied in a region and the services provided ensures that the trade-offs between revenue and spending have to be navigated, encouraging local efficiency and service reform efforts.

Devolved regional authorities should, for example, be able to target employment support and skills provision to the needs of the regional labour market, and if these interventions are successful, reap the economic rewards in the form of higher regional tax take. But at the same time, there should be some economic downside if policy is not working, and incentive to try a different approach – one which, if it costs more, may mean higher local rates, but that may then pay off in the form of lower economic inactivity and unemployment.

More generally, this means subnational authorities would be able to alter tax levels to reflect the preferences of the local electorate, whether that be for higher tax and increased spending, or vice versa. They can fine-tune the local tax mix to target it to particular objectives – for example, lowering a rate to attract a specific form of economic activity, or raising rates in order to better fund a particular form of provision or boost investment. There are, however, different ways that a local income tax could be approached.

A flat rate local income tax

One is the Nordic flat rate model used in some form in Sweden, Finland, and Denmark. In these places, a local income tax makes up a sizeable portion of total taxation on income, but it is charged at one rate and is usually raised at the municipal level. Progressive income tax is only raised at the national level. Depending on the purpose of fiscal devolution, there are several potential benefits to a flat rate. Some places have many more high earners than others. Revenue generated by a progressive local income tax would therefore be more unevenly distributed than at a flat rate.

A flat rate could either be applied to income as a whole, or just to the basic rate. The latter would generate revenues that are more evenly distributed across the country, meaning less work would be needed after the fact of collection to redistribute between areas to ensure more equal fiscal capacity and that resources are better matched to need. With this approach, the scope for places to compete for high earners by reducing top rates is minimised. It would also be less volatile, as high earners tend to be more mobile,[34] and incentives to grow the tax base would be more focused on low- and middle-earning residents.[35]

[32] Rosie Beacon, *Close Enough to Care: A New Structure for the English Health and Care System* (Reform, 2024).
[33] Sean Eke et al., *New House Rules: The Case for Devolving Homes England* (Re:State, 2025).
[34] Amin-Smith et al., *Taking Control: Which Taxes Could Be Devolved to English Local Government?*
[35] Phillips, *Reforming Local Government Funding in England: The Issues and Options*.

This approach allows for some discretion over a single rate, and therefore for some additional devolved control compared to the tax assignment model. However, on the spectrum of subnational control this would still be at the more minimal end of the spectrum. Adjustments to a small portion of the basic rate are a fairly blunt instrument and are unlikely to have much of an effect on behaviour. This was, in essence, the power that the Scottish Government had between 1999 and 2016. It was able to vary the basic rate of income tax by 3 per cent, meaning it could have reduced the basic rate to 17 per cent or increased it to 23 per cent. However, despite having this power for almost 20 years, it was never used.[36]

A progressive local income tax

Some countries allow for a more substantial level of subnational control and variation. This is particularly the case in those that are federal in structure, such as the United States and Canada. In these contexts, it is typically the regional (sometimes referred to as provincial) level that has these more substantial fiscal powers (although municipal governments below them may have their own flexibilities). Scotland, and to a lesser extent Wales, have increasingly moved in this direction since 2016. The Scottish Parliament now has powers to set new rates and change thresholds (aside from the personal allowance). It has used this autonomy to build a more progressive and targeted income tax system than in the rest of the UK, with a higher top rate and three additional bands. There is more scope with this model for places to design tax systems that are genuinely reflective of local preferences, and it suggests that when these powers are meaningful, they are more likely to be used.

One potentially instructive approach from elsewhere is that taken in Spain – which is not constitutionally a federation but has been moving in an increasingly decentralised direction since the end of the Francoist dictatorship in the 1970s.[37] Spain operates a reserved powers model, where the powers of the Spanish Autonomous Communities (ACs), of which there are 17, have the potential to extend to any areas not explicitly reserved to the centre. In several areas, such as education and health, there is significant subnational discretion within a broader national framework of minimum standards.

Reflecting 'co-governance' between ACs and the central state income tax is split in two: 50 per cent is taxed at national progressive rates, which are the same across the whole country, while 50 per cent is taxed at regional progressive rates, set by the ACs. In other words, there are two sets of rates – one national and one regional – which are charged on the same base, and the overall amount of income tax you pay is the total of the two combined. The state rate on income between €12,450 and €20,200 is 12 per cent, as it is in most regions. However, in Asturias it is 12.5 per cent and in Madrid it is 11.5 per cent. ACs can create new bands with different rates, with the proviso that the system remains progressive, and can also offer their own deductions. There are six state bands, but many ACs have five, while Catalonia, for example, has eight. This has not led to huge divergence between places, but it has meant some regional variation. Madrid, for example, is known for its lower rates, while Catalonia's are higher. This means that two of Spain's wealthier regions have used their tax varying powers to go in different directions. Andalusia, in the south, is somewhere in the middle, with competitive rates on lower and middle incomes, but higher rates on income above €130,000.[38]

[36] Nicola Hudson, *Income Tax in Scotland: Using the Powers* (The Scottish Parliament Information Centre, 2021).
[37] Alex Walker et al., *A More Collaborative Way of Governing? Why the UK's Council of the Nations and Regions Matters* (Bennett Institute for Public Policy, 2025).
[38] 'Spain IRPF by Autonomous Community 2026: Regional Tax Rate Comparison', *CountryTaxCalc*, April 2026.

This kind of shared approach may be better suited to a more quasi-federal context, in which larger, regional authorities have substantial service delivery responsibilities, such as in relation to health, and where there is scope for internal redistribution between places within regions. As can be seen from Spain, there are contexts in which different regional authorities may choose to levy a different rate to the national rate, and there is some evidence that this has impacted behaviour.[39]

However, a shared model – rather than a more wholly devolved approach, as is the case in Scotland – helps to highlight the principle that multi-level governance remains a collaboration between national and subnational. Different levels of government are situated within a wider, interconnected system and rely in various ways on other authorities to exercise their autonomy, which should be reflected in the way in which a more decentralised tax system is structured.[40]

At the outset, this would involve central government halving national rates of income tax, with the other half devolved to the regional level (so the national basic rate, for example, would become 10 per cent, with regional governments then able to set their basic rate at 10 per cent as well or vary it). While subnational governments would have the power to vary rates and create new bands, there would be some constraints. The subnational income tax should be progressive (each band should be taxed at a higher level than the previous one) and each region should have at least as many bands as the national income tax.

Substantial deviations from the national income tax rates and the introduction of new bands should be subject to the unanimous consent of the MSA board, with more modest changes subject to the standard decision-making procedure (simple majority including the mayor). It will be for regional governments in England to own the consequences of their decisions when it comes to the design of the regional income tax and its impact on behaviour and economic activity.

Adoption of fiscal devolution on this scale would also necessitate measures to ensure sufficient 'internal' or 'double' devolution within the regional governance structure, so that constituent authorities remain effectively resourced to play their distinctive local role.

Recommendation 1: The long-term goal for fiscal devolution in England should be a regional progressive income tax. Devolved authorities in England should have this power once larger population-footprint regional governance structures have been established with responsibility for coordinating, shaping and delivering a significant portion of state responsibilities. This should represent 50 percent of total income tax at the point of devolution, with central government halving national rates. There would continue to be a national progressive income tax alongside this, making up the remaining half. Regional authorities would have the power to vary rates and create new bands. However, the regional income tax should be progressive and contain at least as many bands as the national income tax. An individual's total income tax liability would be the national and regional rates combined. Major changes to regional rates and bands should be subject to a higher decision-making threshold than more minimal modifications.

[39] Julio López-Laborda and Fernando Rodrigo, 'Mobility of Top Income Taxpayers in Response to Regional Differences in Personal Taxes: Evidence from Spain', *Economics* 16, no. 1 (2022).
[40] Kevin Muldoon-Smith et al., *Embedded Autonomy: Financing a Resilient Local Government Effectively* (Palgrave Macmillan, 2024).

3.2.1 Future redistribution

One of the central questions raised by increased autonomy is how to approach the apparent trade-off between the incentives to grow the local economy and fairness to areas starting with smaller tax bases and lower initial growth potential. One of the central concerns about fiscal devolution is that it would lead to a widening of regional inequality. In fact, there is evidence that indicates it may help reduce disparities between regions by enabling less well-off regions to mobilise untapped economic potential through better tailoring of policies to local needs.[41] As discussed, tax and spending devolution can help boost economic performance and should help address England's regional imbalance – especially through the potential for 'catch up' from its second cities.

Additionally, if more parts of the country are realising their growth potential, then this will bring benefits to other places too through improving the national fiscal position, and allowing for better funded public services, for example. In a situation in which properly regional devolved authorities have significantly expanded revenue-raising powers, this regional strategic tier can play an internal rebalancing role, overseeing to some extent how funds are allocated within the region. However, the potential for divergence between places will nonetheless continue to raise 'equalisation' questions in any devolved scenario, particularly one in which there is a significant degree of autonomy over revenue raising.

The OECD defines fiscal equalisation as "the transfer of financial resources to and between sub-central governments with the aim of mitigating regional differences in fiscal capacity and expenditure needs."[42] Assuming that some form of mitigation is desirable, the key questions that arise are: what to equalise and how fully to equalise it? There are broadly three answers to the first question.

The first approach is referred to as revenue equalisation: the goal is to ensure that different places have similar per capita revenues – that is, the same amount available to spend per head (fiscal capacity). However, places are likely to have different levels of need and therefore higher or lower costs when it comes to delivering their functions. 'Cost equalisation' systems attempt to account for this, using various indicators to determine equalisation levels on the basis of expenditure needs. Finally, 'gap filling' approaches to equalisation involve assessing both cost and revenues and transferring the difference between them.[43]

Many countries seek to balance reward for subnational governments in growing their revenues at the same time as addressing to some degree the disparities between them. But different countries do this in different ways and to different extents. Germany's primary equalisation mechanism is revenue based and aims to bring the fiscal capacity of the *Länder* closer together (but does not fully equalise it), while in Spain regional expenditure need is calculated on the basis of a variety of indicators.[44] Australia aims for more or less full equalisation on the basis of a complex set of needs-based indicators, and is not so concerned about the incentive side of the equation; while the US maximises autonomy, with very little in the way of a redistribution between states. It is more common though for countries to deliberately design for partial or imperfect equalisation than to have no equalisation mechanism at all. This is so that as well as reducing the disparities in fiscal capacity between places the system also

[41] Andrés Rodríguez-Pose and Roberto Ezcurra, 'Does Decentralization Matter for Regional Disparities? A Cross-Country Analysis', *Journal of Economic Geography* 10, no. 5 (2010).
[42] OECD, *Fiscal Federalism 2022: Making Decentralisation Work* (OECD Publishing, 2021).
[43] OECD, *Fiscal Federalism 2022: Making Decentralisation Work*.
[44] Julio López-Laborda, 'The Assignment of Revenue to Spain's Autonomous Regions', *SEFO - Spanish Economic and Financial Outlook* 1, no. 4 (2012).

continues to reward growth and incentivises effective services that, for example, manage to reduce levels of economic inactivity.[45]

One of the key lessons identified by the OECD in its comparative research is the need to avoid equalising on the basis of factors that can be controlled, and therefore gamed, by subnational authorities. For example, if revenue equalisation is being sought this should be done on the basis of a 'representative tax system' where hypothetical rather than the real revenue is used to avoid a situation in which authorities can set rates in a way that maximises grants. This means that the amount being transferred would be based on what a subnational government could raise if it set its rates at a standardised level rather than what it raises through its actual rates – otherwise places could deliberately lower taxes in order to receive higher transfers.

For the same reasons, if a country is pursuing a form of cost equalisation this should be on the basis of structural factors, such as demographics and geography, rather than those that reflect specific policy choices that could be made in order to receive higher levels of redistribution. Assessing on the basis of structural indicators rather than actual expenditure helps to ensure that places cannot inflate costs to appear to have higher levels of need.[46] In general, it is crucial that equalisation is designed so that places stand to gain more from improving public services and growing their economies than from poor performance. Care must be taken to ensure there is no reward for policy failure.

At present, funding for EMSAs in the form of the Integrated Settlement is determined through the amalgamation of various Whitehall departmental spending programmes. The allocation to a particular MSA is decided through a "formulaic process", which departments may "periodically revise".[47] In general, the way in which funding is determined is opaque and the result of individual departmental decision-making. The way in which funding for local authorities is determined has recently been updated as a result of the Fair Funding Review 2.0. This aims to calculate local authority grant funding based on local need, using a formula offset against the amount the authority would be able to raise if it set local taxes to the level of the national average.

The funding received by the governments in Scotland and Wales comes in the form of a block grant from the Treasury, with the amount determined by the Barnett formula. The block grant is calculated on the basis of the previous year's grant plus an adjustment on a population-basis to account for changes in planned spending by the UK Government in England on areas that are devolved to Scotland and Wales. A small needs-based modification is then made for Wales, to reflect its particular demographic and geographic challenges.[48]

In Scotland and Wales, a 'block grant adjustment' is then made to reflect tax devolution. An amount is subtracted equal to that which the Scottish and Welsh governments would raise if they kept their tax rates the same as the rest of the UK. There are very few restrictions on how the devolved governments spend their funding.

However, a Barnett style model would be tricky to replicate for a more decentralised England. Take education: education is a devolved competence, and levels of spending per capita in England are used as part of the block grant calculation under the Barnett formula – if spending on education by the UK Government on education in England goes up, then the block grants increase. But if a function such as education is fully devolved to the regional level in England,

[45] OECD, *Fiscal Federalism 2022: Making Decentralisation Work*.
[46] OECD, *Fiscal Federalism 2022: Making Decentralisation Work*.
[47] Ministry of Housing, Communities & Local Government, *Integrated Settlement: Policy Document* (2025).
[48] David Phillips, 'The Barnett Formula', *The Institute for Fiscal Studies*, February 2026.

then it would be impossible to do this kind of calculation as it relies on there being an equivalent UK Government area of spending to act as a benchmark. A different approach will be needed, but one which comes with increased levels of spending flexibility.

The question of the right equalisation approach for a more decentralised England – made up of larger subnational authorities with more substantial responsibilities and fiscal autonomy – is a complex one. Other countries have implemented one model and then subsequently revised it – and the effects of any approach in England should be kept under review.

Nevertheless, the comparative evidence suggests that an approach that mixes revenue per capita equalisation with some needs-based adjustment could be desirable.[49] In the context of devolution of essential public services such as education and health, for example, the way in which equalisation is calculated should account for different levels of pressure on services between areas. There are many approaches that can be used to calculate need, and some can be highly complex and therefore opaque and difficult to communicate politically (the approach taken in Australia represents one such example). A simpler, more comprehensible approach might have comparative advantages. This could be based on demographic and geographic factors that are likely to have bearing on the cost of delivering the essential public services, such as education and healthcare, that would at this stage be devolved to this level of government. As mentioned above, it is crucial that these kinds of external indicators are used rather than actual expenditure, to ensure that places aren't able to spend more to indicate higher need and receive higher levels of equalisation funding as a result.

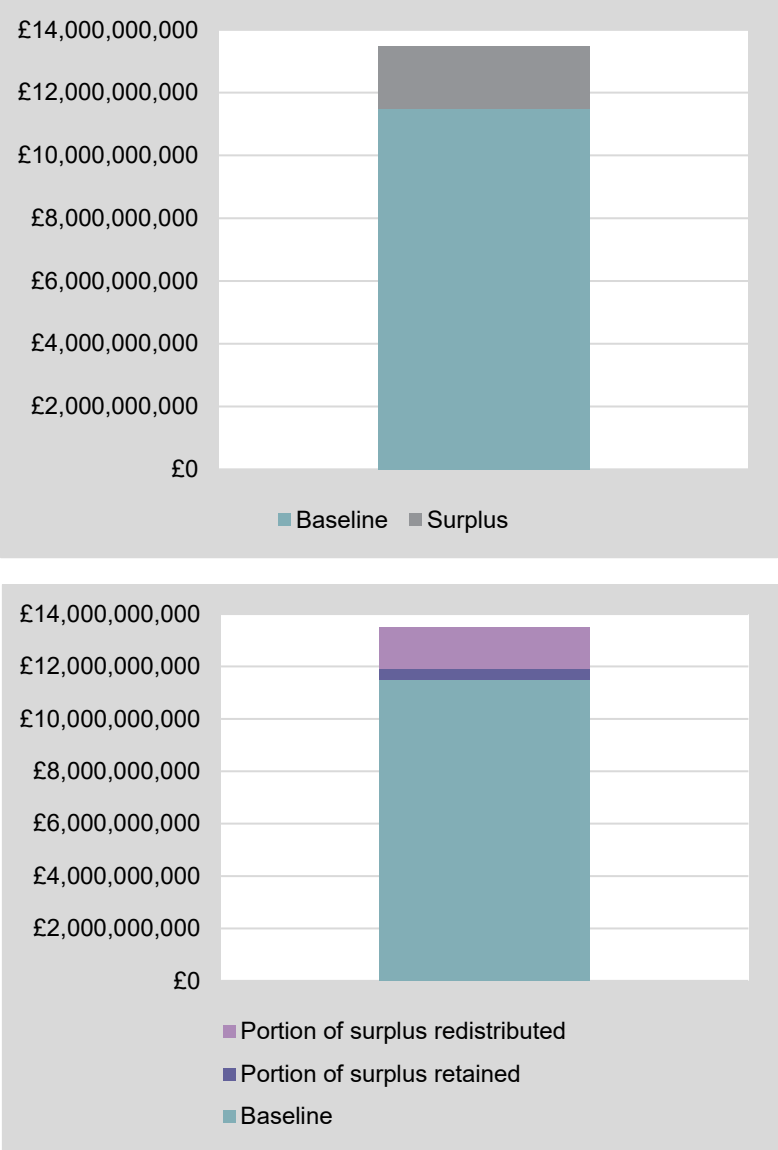
Equalisation should be partial, rather than full, in order to preserve incentives on subnational governments to grow their regional economies and reduce pressure on state services. This can be achieved by, for instance, setting the 'equalisation rate' at 80 per cent, rather than 100 per cent, which would allow those with strong performing economies to retain additional revenue. Under full equalisation, when a subnational government's fiscal capacity is above or below average the gap is fully closed through redistribution. With partial equalisation, regions with above average fiscal capacity would get to retain 20 per cent of their above the average revenue, while authorities below the average would only be brought 80 per cent of the way towards it.

To avoid a situation in which rate varying powers are used to gain higher transfers, hypothetical, rather than actual, fiscal capacity should be used to calculate equalisation transfers (the 'representative tax system'). The hypothetical fiscal capacity of a place can be arrived at by applying standardised rates to that particular region's tax base. In a context in which there continues to be a national progressive income tax alongside a regional progressive income tax, as has been proposed, national rates can be used as the standardised rates.

Whether a place has a surplus (and it stands to lose some of its revenue) or whether it has a deficit (and stands to gain a top up) can be determined based on whether it is above or below average fiscal capacity (calculated from the hypothetical fiscal capacity of each region). Or this baseline can be adjusted, as discussed, based on factors indicative of higher costs and to reflect levels of need. If a region is above this level, then it will retain 20 per cent of its surplus; while if it is below it, 80 per cent of the gap will be closed.

[49] OECD, *Fiscal Federalism 2022: Making Decentralisation Work*.

Figure 3: Worked example of partial equalisation in a region with a surplus



Source: *Authors' own analysis of hypothetical figures.*

Recommendation 2: Equalisation in this scenario should be partial rather than full, with an equalisation rate below 100 per cent. This would allow authorities with high performing economies to retain a portion of their above average fiscal capacity in order to reward success and preserve positive incentives. The baseline for equalisation should incorporate a simple adjustment for structural factors indicative of higher costs and greater need. To prevent rate-varying powers from being used to game transfers, equalisation should be calculated using hypothetical rather than actual fiscal capacity.

3.3 Assignment of a portion of income tax

Having set out the eventual destination, this section looks at the immediate next steps which should form the core of the Treasury's fiscal devolution roadmap to achieve this end state: the

replacement of the Integrated Settlement model and the assignment of a portion of income tax to particular MSAs.

Figure 4 provides rough estimates for how much revenue each MSA with established status – and which are therefore now in receipt of an Integrated Settlement – could receive if they were assigned 1p, 2p, or 2.5p of the 20p basic rate of income tax raised in their area. This would represent a 5, 10, or 12.5 per cent portion respectively of the total basic-rate income tax revenue for each place. Figure 5 compares the total revenue that would be assigned from 2p and 2.5p with the amount each EMSA is currently receiving from their Integrated Settlement.

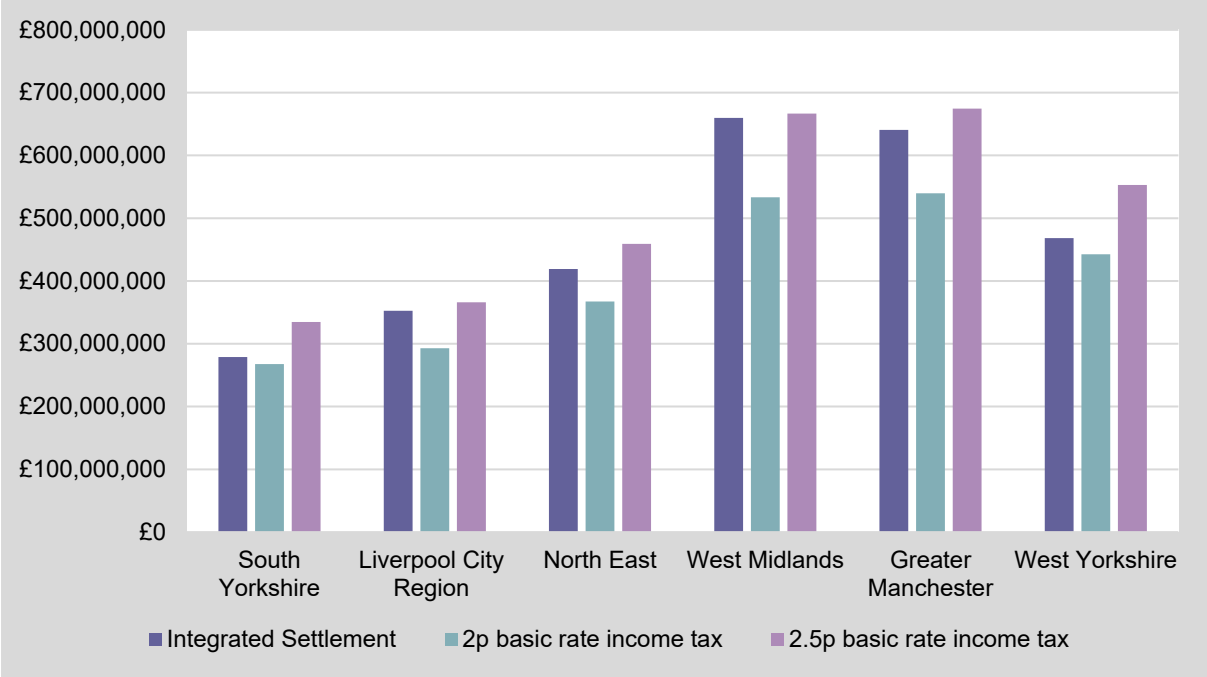
Figure 4: Estimates for assigned revenue 2026-2027

Established Mayoral Strategic Authority	1p basic rate income tax estimate (£)	2p basic rate income tax estimate (£)	2.5p basic rate income tax estimate (£)
South Yorkshire	133,863,690.85	267,727,381.70	334,659,227.13
Liverpool City Region	146,454,925.40	292,909,850.80	366,137,313.50
North East	183,689,554.78	367,379,109.57	459,223,886.96
West Midlands	266,629,980.53	533,259,961.06	666,574,951.32
Greater Manchester	269,845,173.45	539,690,346.90	674,612,933.62
West Yorkshire	221,212,973.95	442,425,947.90	553,032,434.88
London	955,547,634.74	1,911,095,269.49	2,388,869,086.86

Source: HMRC, *Direct effects of illustrative tax changes bulletin* (June 2025); Office for National Statistics, *Population estimates* (2025); Office for National Statistics, *Nomis – Official Census and Labour Market Statistics.*

Note: The figures are rough estimates, calculated by apportioning HMRC's national ready reckoner estimates for a 1p change in the basic rate in England (derived from UK-wide figures adjusted for population share) down to each EMSA using each area's economically active population (minus unemployed and including retirees) as a proxy for relevant income taxpayers. Given the assumptions involved these figures should be treated as illustrative.

Figure 5: Integrated Settlements and estimates for assigned revenue 2026-2027



Source: HMRC, *Direct effects of illustrative tax changes bulletin* (June 2025); Office for National Statistics, *Population estimates* (2025); Office for National Statistics, *Nomis – Official Census and Labour Market Statistics.*

Note: As above, figures for assigned revenue should be treated as illustrative.

While enabling some enhanced flexibility in how funds are spent, the Integrated Settlements still come with many strings attached and remain structured around departmental siloes, which limits the ability of EMSAs to experiment with new approaches and truly respond to local conditions and the priorities of their electorates. This situation derives, in part, from the way in which funding flows from the Treasury through Whitehall departments to the Ministry of Housing, Communities and Local Government (MHCLG) before reaching MSAs themselves.

The assignment of a portion of income tax could change this. It would entail swapping a percentage of the income tax generated in an area for the funding that currently comes from central government to EMSAs in the form of Integrated Settlements. As can be seen from Figure 5, for most EMSAs, assignment of 2p of the basic rate of income tax is close to the annual amount they are currently receiving through the Integrated Settlements. Central government could fill in the gap in the form of an equalisation grant to ensure that EMSAs do not receive less than they would have through the Integrated Settlement.

Replacing the majority of the Integrated Settlement could create a different relationship with central government and a more flexible approach to spending. The potential for this kind of autonomy was seen by interviewees as one of the biggest areas of benefit from fiscal devolution compared to the present situation.

However, there is a case for going further, and replacing the Integrated Settlement model with an entirely new funding settlement based on assigned taxation. While the advanced EMSAs have been growing in maturity and using the resources at their disposal creatively, in spite of the constraints attached, they are unlikely to fulfil their potential across areas such as transport, skills, employment, housing, and public health – and, vitally, break down the artificial barriers between these areas – if they are not both better resourced as well as allowed to act

with more flexibility. Assignment of 2.5p of the basic rate of income tax would likely raise more than the current Integrated Settlement total, allowing for it to be completely replaced, enabling a better resourced and more autonomous strategic tier.

Much of this could depend, however, on whether tax assignment takes the form of an actual share of income tax that goes directly from Parliament to EMSAs, or a central government grant that mimics this. This matters even though the amount involved would be the same. This is because of the implications for accountability, and therefore the relationship between Whitehall and EMSAs. A central government grant, where Whitehall departments continue to be ultimately accountable to Parliament, is much more likely to retain many of the conditions and controls currently in place. There is a risk that with this approach tax assignment turns into a rebadged version of the Integrated Settlement.

If the goal is greater EMSA flexibility over and responsibility for how money is spent, direct assignment by Parliament is more likely to ensure this. Furthermore, this approach would provide greater institutional certainty and political durability for these still relatively nascent institutions. Grant funding is more exposed to the spending review cycle and shifting political priorities, which a more mechanical and specific source of revenue could largely sit outside of.[50] This would undoubtedly constitute a significant shift, with far-reaching implications for the way central government operates.

At present, certain elements of the responsibilities of particular Whitehall departments have been made into grants or rolled into Integrated Settlements, with some discretion over how they are spent locally. Replacing this approach to funding with a model that is more automatic and generous would facilitate a move towards a world in which a consistent subnational strategic tier has more complete responsibility across the competences set out in the EDCEA and discretion over how to carry out these responsibilities.

Crucially, it would mean that this level of government is on the hook for carrying out these functions. If the decisions they take are successful, then they should benefit directly. If they are not effective, then funding may fall. With this approach, if an area experiences strong growth, then the outcome should be an increase in overall revenue.

This also has implications for borrowing, providing a predictable own-source revenue stream that MSAs can borrow against to fund local infrastructure, for example. MSAs can currently borrow for capital spending, subject to a debt cap agreed with the Treasury. However, this capital financing framework would need to be expanded. EMSAs should be able to use their assigned income tax revenue both for direct programme spending and to support prudential borrowing for capital investment, within agreed limits and subject to strengthened local audit and public accounts scrutiny (as set out below). Major nationally significant capital schemes may still require separate co-funding agreements with central government

The detailed work of driving forward economic development, which will involve using the full suite of levers set out in legislation, should fall primarily to MSAs. As the map of English devolution is filled in, and the activities of these devolved institutions expand to fill the competences they now have, the activity of the Whitehall departments that have traditionally held responsibility in these areas can be reduced. A 2.5p in the pound basic rate tax assignment model would therefore be funded through a steady reduction in the budgets of particular Whitehall departments.

[50] Mark Sandford and Kevin Muldoon-Smith, *Options for Fiscal Devolution to Strategic Authorities* (Local Government Information Unit, 2026).

Finally, it is worth mentioning the status of London specifically due to its distinct city-region governance structures that were established during the wave of devolution that occurred in the late 1990s rather than under the combined authority model that developed later. While the autonomy of the devolved nations has expanded in this time, London's has stalled. Coupled with the advancements in recent years of the devolved settlements for Greater Manchester and the West Midlands in particular, the Greater London Authority (GLA) is at risk of being left behind. It is crucial that the UK's capital has the flexibility to compete with its global counterparts, and this means fiscal powers too. Previous *Re:State* work focused on the governance of London argued that the city "should be at the leading edge of a growing programme of fiscal devolution" including "the introduction of retained shares of nationally levied taxes".[51]

The GLA is now in receipt of an Integrated Settlement of £581,241,246 for the 2026-2027 financial year.[52] However, this makes up a relatively small portion of the broader GLA Group's annual budget of £20.7bn. Some of this budget comes from retained business rates growth, the council tax precept, and the Community Infrastructure Levy, but the majority remains grant funding from central government. The GLA should also be assigned 2.5p of the basic rate, with this replacing its Integrated Settlement as well as other central government grant funding. This would mean that a much higher proportion of its overall budget would be made up of retained and locally raised revenues.

Recommendation 3: As a starting point for fiscal devolution, Integrated Settlements should be scrapped as the primary means of funding Established Mayoral Strategic Authorities (EMSAs). Instead, EMSAs should be assigned 2.5p of the 20p basic rate of income tax paid by those whose primary residence is in their area (equivalent to a 12.5 per cent share of basic-rate income tax revenue).

3.3.1 Redistribution within an assignment model

The assignment model would also raise equalisation questions and require engagement with the trade-off between rewarding performance and fairness to areas with weaker economic starting points. In the context of an already highly regionally imbalanced economy, a sudden shift to an approach where areas were entirely reliant on locally raised funding, without any kind of rebalancing, could lead to places already struggling being further left behind, rather than helping to address the underlying causes of the existing unevenness in economic performance.

It is possible, however, to design a system that balances growth retention with a redistributive mechanism. In fact, there is a precedent for this within the context of English local government finance: the business rates retention system. The system, which was introduced in 2013, is intended to allow local authorities to increase their funding when business rates revenue goes up while at the same time ensuring that areas with high business rates to start with do not benefit disproportionately.[53]

The starting point is that 50 per cent of business rates goes to central government and 50 per cent makes up a local share. A redistributive tariff (reduction) or top up is then applied to the

[51] Sean Eke et al., *Capital at Risk: Rebooting London's Governance for a New Era* (Re:State, 2026).
[52] *Greater London Authority Integrated Settlement – Spending Review 2025* (Ministry of Housing, Communities and Local Government, 2025).
[53] Mark Sandford, *Reviewing and Reforming Business Rates* (House of Commons Library, 2026).

local share. The level of tariff or top up is decided through comparing the 'business rates baseline' (based on the local authority's previous average business rates revenue) with the baseline funding level, the total business rates central government believes the local authority needs to fulfil its functions. Up to 50 per cent (100 per cent in some pilot areas) of the additional business rates revenue generated above the baseline is then retained (although an additional levy is also applied to some authorities with especially high business rates growth). A 'safety net' is also in place: if a local authority's business rates revenue falls below 92.5 per cent of the baseline, they receive a top up to bring them back to that level.[54]

When the system was introduced, it was intended that a 'reset' would occur every ten years. At this point, the baseline funding level would be recalculated and the tariff and top ups adjusted accordingly. Longer reset periods create stronger growth incentives but more potential for divergence between areas, while shorter reset periods mean more alignment of the funding total with changing levels of need, but a dampening of some of the incentives to, for example, approve a new development – especially towards the end of the period.

This is a fairly complex model, and it has been criticised by some for the limited nature of the growth incentives it generates – providing a reward for an increase in the amount of commercial floorspace available, which does not necessarily correspond with higher growth.[55] Yet there are principles from the approach to retention, which has already been designed and applied, that could be drawn upon when considering the retention of a portion of income tax at MSA level – which is a tax that, as discussed above, would provide better economic incentives at the subnational level.

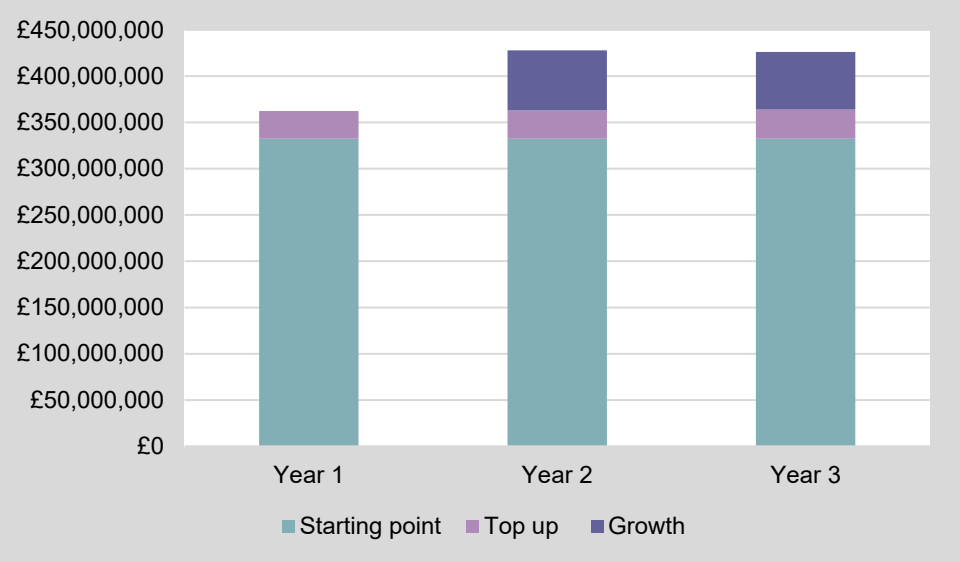
However, while 2.5p basic rate income tax assignment provides a good starting point for the funding of EMSAs and would enable a full move away from the Integrated Settlements, as with the business rates retention system described above, some supplementary rebalancing is likely to be needed to ensure more equal starting points. One way of doing this would be to apply a tariff or top up to ensure a similar level of revenue per capita across EMSAs. Or a further adjustment could be made based on a calculation of different levels of need – allowing for factors like age, deprivation, and connectivity. In the first instance, a form of revenue equalisation is likely to be sufficient for EMSAs. This would apply a top up grant or a tariff reduction with the aim of ensuring that each EMSA has a broadly equivalent amount of revenue available to spend per person (fiscal capacity) at the outset of the period.

This is likely to be more appropriate at first while EMSAs largely provide discretionary, economic development focused functions. Cost-based approaches to equalisation, which typically incorporate various indicators of need, are more necessary in the context of divergent costs for different subnational governments in the provision of essential services (and this is why a needs-based approach to the Local Government Finance Settlement should be maintained). However, as EMSAs begin to take on the coordination and provision of fundamental services in the future, equalisation for fiscal capacity should be combined with a needs-based adjustment, as discussed above.

As with the business rates retention system, the tariff or top up would remain fixed in real terms across the period. This approach would mean better resourcing than at present, a move away from the constraints still embedded in the Integrated Settlements, and the ability to retain growth over a period – rewarding places that are growing quickly and allowing them to reinvest these dividends back into the area.

[54] Sandford, *Reviewing and Reforming Business Rates*.
[55] Hugo Bessis, *Business Rates: Maximising the Growth Incentive across the Country* (Centre for Cities, 2017).

Figure 6: Worked example



Source: *Authors' own analysis of hypothetical figures.*

In order to incentivise pro-growth decision-making this additional revenue would need to be retained over a sufficiently long enough period that additional housing and infrastructure development has a chance of coming to fruition, for example. With this in mind, the additional revenue could be retained for a period of six years, or two spending review periods, before a reset of the tariffs and top ups takes place to avoid excessive divergence between areas.

This also opens up the possibility that revenue could drop unexpectedly, if a number of income taxpayers move out of the area, for example, or a major employer goes bankrupt. MSAs must have the tools to respond in this kind of scenario. One option is a safety net, like on the business rates retention scheme, whereby if EMSAs fall below a certain level they receive an additional top up from central government. It is likely this kind of top up would come from central government borrowing or departmental reserves, which raises the question of whether MSAs themselves should be given additional leeway to borrow in these circumstances.

At present local authorities can take on debt for capital investment, but not for day-to-day (resource) spending. Loans are mostly acquired from the Treasury controlled Public Works Loan Board, and local authority decision-making must have regard to the guidance set out in the Prudential Code, which is intended to ensure liabilities are sustainable and risk is proportionate. However, fiscal devolution comes with the possibility that revenue might fall short of what was expected, leaving a gap in planned day-to-day spending to fill.

To help manage this, the Scottish and Welsh governments can borrow for day-to-day spending, but only in these circumstances (when revenues fall short of forecasts or where the associated Block Grant Adjustments deviate from expected levels).[56] Annual borrowing and the total amount of outstanding debt are subject to limits (a £600 million annual borrowing limit in 2023-2024 for the Scottish government) and the devolved governments – like local authorities – are required to set balanced budgets.

[56] Martin Brogaard and David Phillips, *Recent Changes and the Future Outlook for Welsh Government Funding* (Institute for Fiscal Studies, 2026).

In the context of fiscal devolution, it is also possible that EMSAs will be faced with this situation, and they should therefore have access to further borrowing powers – subject to a cap – to cover any gaps between actual and projected revenue.

Recommendation 4: A tariff or top up should be applied to the total EMSAs receive from retained income tax to ensure equal starting points at year 1 in terms of revenue per capita. The tariff or top up should be held constant in real terms over a defined period. Revenue growth should be retained by the EMSA over a six-year period before a reset of the tariffs and top ups takes place. EMSAs should have an increased capacity to borrow and draw on reserves up to certain limits to cover shortfalls in projected revenue.

3.4 Property tax

The content of the Chancellor's Mais Lecture has focused attention squarely on the devolution of a share of one or more national taxes, and much of the debate is now focused on what form this should take. However, this should not obscure the potential for property tax to form part of any wider devolved fiscal settlement. Business rates sit logically at the centre of a fiscal devolution agenda targeted primarily at MSAs: their yield is connected to local commercial activity, and their base is spatially anchored.

3.4.1 Business rates

Business rates are currently the main local tax on non-domestic properties (commercial space such as offices, shops and warehouses) in England, charged on the rateable value of business premises. Collected by local authorities, they contribute significantly to local government finance. As discussed above, from 2013 the system was substantially reformed with the key change being the introduction of the 50 per cent local share, under which local authorities retain around 50 per cent of any real-terms growth in business rates revenue. However, most elements of the system remain centrally designed, including the redistributive dimension and the multipliers that are used to calculate how much is due. On top of the standard 50 per cent arrangements, various trailblazer arrangements with enhanced retention have been agreed and trialled by different authorities.

The current Government signalled that it was planning to overhaul the business rates system (the Labour Party's manifesto pledged to reform business rates in support of high streets, investment and devolution). However, the approach in practice has been more incremental, with the Government introducing a series of targeted adjustments rather than a full redesign of the system.[57] As set out in more detail below, there are convincing critiques of business rates as a tax – and a move towards a different form of local property tax is desirable.

However, in the interim, there is a strong case for extending the 100 per cent business rates growth retention model beyond trailblazer arrangements and making it a standard feature of English devolution. This would mean that the relevant authority keeps the full additional real-terms yield generated, subject to any pooling or redistribution rules agreed at the strategic authority level. The logic is straightforward: if MSAs are expected to drive growth, regeneration, transport investment and economic strategy, they should also be able to keep

[57] 'Is the Government on Track to Replace the Business Rates System in England?', *Full Fact*, February 2026.

the fiscal gains that follow – and the growth incentive will be sharper on a 100 per cent retention model than the standard 50 per cent model.

Full retention does not mean that places get to keep every pound of business rates revenue collected in their area – it continues to sit within the broader redistributive system of tariffs and top ups, but with more financial gain from strong business rates growth. There is an ongoing discussion about the regularity of resets – as discussed above, the longer the reset period, the stronger the growth incentive, but the more scope for considerable divergence between areas. Previously, the intention was for a reset every ten years, but none took place between 2013 and 2026. A reset is now taking place in line with the conclusions of the Fair Funding Review 2.0, and the Government has signalled an intention to reset every three years corresponding with multi-year financial settlements for local authorities.[58] Unsurprisingly, authorities with significant levels of business rates growth have tended to view the prospect of resets with concern, while those whose priority is growth redistribution have seen them more positively.[59]

A model which splits retained business rates growth between strategic authorities and their constituent local authorities is logical. The approach taken by the GLA and the London Boroughs to 100 per cent retention in the 2018-19 pilot offers one useful precedent – although it was agreed via a Memorandum of Understanding given the lack of formal collaborative governance arrangements in place in London. A 15 per cent share of business rates growth was apportioned to a strategic investment pot, 36 per cent of the remaining growth was received by the GLA, and the remainder distributed among the Boroughs on the basis of assessed funding need (this reverted to the previous 67 per cent retention model from 2020-2021). It shows that local retention can coexist with internal redistribution across a functional economic area and strategic oversight.

Full retention has also been trialled in Greater Manchester and provides an illustrative example of how it can work successfully in practice in the combined authority context. Under the GMCA scheme, which has been in operation since 2017-18, retained growth is split by local agreement, with a proportion set aside for MSA-wide priorities and the rest distributed among the ten constituent councils. In 2023-24, for example, an update from GMCA shows the proceeds split 75 per cent to local authorities and 25 per cent to city region priorities, with the mayoral body holding the GM-wide share for agreed programmes.[60]

All Mayoral Strategic Authorities (not just those with “established” status) should be able to retain 100 per cent of business rates growth, as a precursor to further fiscal devolution. MSAs provide a shared governance structure to facilitate local authority business rates retention, with the strategic economic tier taking on the growth incentive and acting to coordinate pooling and redistribution across a wider area.

The split between distribution to constituent authorities and the amount that is set aside for wider priorities should be agreed internally, through the co-governance structures of the MSA. This shared approach can also help support the move towards a greater role for MSAs in public service reform and integration, linking local economic growth with wider place-based, preventative approaches.

For EMSAs, where it would be coupled with 2.5p basic rate income tax assignment, this would undoubtedly mean a substantial increase in available resources – even when business rates

[58] *The Fair Funding Review 2.0*.
[59] Kantar Public, *Ministry of Housing Communities and Local Government 100% Business Rates Retention Evaluation* (2019).
[60] Greater Manchester Combined Authority, *Retained Business Rates Update* (2024).

growth is shared with constituent authorities. As set out above, this should take place in the context of expanding spending responsibilities for EMSAs in line with the competences set out in the EDCEA, and a corresponding reduction in spending by Whitehall departments.

At present, multipliers – the ratios which determine what a business pays based on the rateable value of the property – are determined by the UK Government. Previously, there were two main multipliers, a small business multiplier and a higher multiplier, but the 2025 Autumn Budget introduced two lower multipliers for eligible retail, leisure, and hospitality businesses. Business rates relief for electric vehicle only forecourts and charge-points were also announced at the Budget, and specific reliefs for pubs and small live music venues followed in January 2026.[61] There are other precedents for reliefs being offered to support particular sectors and pursue wider economic objectives, for example, in specific 'zones'.

Once MSAs are able to fully retain business rates growth, they should have the capacity to devise targeted reliefs and discounts focused on particular areas or sectors in pursuit of the objectives set out in the growth plans they are required to produce. Discretion should go further than this for EMSAs, with full control over the rates (multipliers) that apply in their area. This would involve both the power to set new multipliers and vary existing rates.

Given the potential implications for local authority funding, substantial deviations from the national multipliers and the introduction of new multipliers should be subject to the unanimous consent of the MSA board, with more modest changes subject to the standard decision-making procedure (simple majority including the mayor).

Recommendation 5: All MSAs should retain 100 per cent of the growth in business rates revenue in their area over a defined period. MSAs should decide themselves how retained revenue should be split between constituent authorities and wider strategic priorities. MSAs with 100 per cent business rates retention should be able to devise reliefs and discounts targeted at particular areas or sectors. Established MSAs should have the power to vary existing business rates multipliers and set new ones, subject to the unanimous consent of the MSA board where this would deviate substantially from the national multipliers.

3.4.2 Land Value Tax

Ensuring 100 per cent retention and giving more subnational control over business rates would be a straightforward starting point, as there are precedents on both counts. This should be the immediate priority. However, it should also be just the starting point for more fundamental reform of local property tax.

The current business rates model is economically blunt because, as previous *Re:State* work has argued, it "creates perverse incentives by taxing companies more if they make investments to increase the value of business property, disincentivising property development".[62] As such, business rates can have a disproportionate impact on small and medium sized enterprises, inhibiting their ability to grow. It penalises 'bricks and mortar' business, leaving them at an unfair disadvantage compared to online retailers, even with adjustments and additional reliefs. In essence, the current model can end up actually discouraging growth.

[61] *Full Fact*, 'Is the Government on Track to Replace the Business Rates System in England?'
[62] Dr Simon Kaye et al., *Back from the Brink: Radical Ideas for Sustainable Local Finances* (Reform Think Tank, 2024).

Given these well documented issues, a Land Value Tax (LVT) would be preferable and less distortionary – a tax imposed solely on the value of land, without considering the value of buildings, personal property, or other improvements on it. There is a long history of economic arguments in support of taxing land itself, primarily on the basis that doing so does not discourage desirable activity.[63] In practical terms, it is less likely to disincentivise investment, more likely to encourage productive use of underused land, and is better aligned with a growth strategy that wants to encourage development rather than penalise it.

Additionally, the value of land goes up when broader improvements in the area are made, such as better transport connections, or community facilities, for example. Taxing the value of the land would capture this uplift, meaning that there would be a more proportionate contribution from the landowner to the external community improvements that had led to the increase in value.[64]

This fits with the logic of local retention. Given that land value is shaped by local planning decisions, public infrastructure, transport links and the wider success of a place, it is reasonable for a land tax to capture more of the benefit. With LVT, investments that increase land values can generate additional tax revenues. By providing a reliable mechanism for capturing a share of this land value uplift, LVT can help make infrastructure and development projects financially viable where they otherwise might not be. LVT is attractive therefore, not just as a tax reform, but as part of a broader argument about local economic stewardship. In the long term, replacing business rates with LVT would address some of the criticisms and weaknesses of the current system, create a more stable and growth-friendly revenue stream, and give devolved institutions a tax that is better suited to place-based policy.

This would undoubtedly be a significant shift. Any move from one model of taxation to another will create winners and losers, making the transition politically difficult. Owners of underused and underdeveloped land would likely face higher liabilities while businesses that invest in buildings and improvements, and places currently held back by the distortive effects of business rates, would stand to gain.

There would be practical as well political barriers to LVT, with considerable logistical and administrative hurdles involved. LVT would require land only valuations (which currently do not take place), the development of a framework enabling and explaining the new approach to valuation, while the move away from business rates would also need to be managed in a way that protects local revenues during the transition, and a new redistributive architecture would likely also need to be built. Given the upheaval that would be involved, there is a case for pursuing wider property tax reform at the same time. Council tax is highly regressive, while Stamp Duty Land Tax (SDLT) is progressive but economically distortive.[65] All three property taxes could be replaced by a general LVT. Conducting these reforms in parallel could be beneficial, as those who lose out from council tax reform might stand to benefit from the abolition of SDLT.

However, the challenges involved in this wider project of property tax reform are why enhanced retention and control within the business rates system should be the initial priority, before working towards its eventual replacement with LVT.

Recommendation 6: Business rates should ultimately be replaced with a Land Value Tax, with a similar model of 100 per cent retention for all MSAs within a broader redistributive system, and heightened levels of local control.

[63] *The Taxation of Land and Property* (Institute for Fiscal Studies, 2022).
[64] *The Taxation of Land and Property*.
[65] John Muellerbauer, 'Britain Needs a Wealth Tax on Property', *Financial Times*, 31 August 2025.

3.5 Overnight Visitor Levy

Local 'tourist taxes' are commonplace in many European countries, providing a valuable additional revenue stream and having a negligible impact on visitor numbers. Places with high tourism face additional pressures that are largely borne by local communities, and it is reasonable to ask these visitors to contribute directly, especially in the context of acute funding pressures at subnational level. Local leaders are much more likely to have access to the granular on the ground information about the impact of such a tax and the needs of the visitor economy in their area more generally.[66] Furthermore, the funds can be reinvested in ways that contribute to improving the visitor experience, potentially leading to higher visitor numbers in the future. Recent estimates have indicated that a tourist levy could raise over £350 million for London[67] and more than £50 million a year for York and North Yorkshire.[68]

After pressure from a cohort of mayors,[69] the 2025 Autumn Budget announced plans for an OVL, and a consultation on the policy was launched. The announcement was welcomed by local and regional leaders not only as a source of additional funding but as a concession on the principle of devolving fiscal levers, one which could open the door to further fiscal powers down the line.

The Government's consultation on the OVL suggests that local leaders should be able to invest the revenues in pro-growth projects, with places given discretion over the design of how the levy will apply locally, and the ability to vary the rate based on local preferences and conditions.[70]

An approach that maximises local discretion is key, so that subnational authorities can experiment and refine the application of the levy based on contextual knowledge. The OVL should be accessible to Foundational-level Strategic Authorities so as to avoid disadvantaging areas with substantial visitor economies that do not yet have a mayor. With this approach the OVL can become a stepping stone towards fuller fiscal devolution. For EMSAs, the OVL should become part of the general pool of revenues they will have access to, alongside retained income tax and business rates revenue. The OVL, however, should be an additional source of revenue, rather than offset against any existing grants.

Recommendation 7: The Overnight Visitor Levy should be available to all levels of Strategic Authority (SA), with full local discretion through the governance processes of the SA on rates and how the levy will apply within the SA area. The funds generated should not mean a reduction in any central government grant but form an additional source of revenue.

[66] Thomas Pope and Jill Rutter, 'Rachel Reeves Should Allow Local Tourist Taxes', *Institute for Government*, 29 July 2025.
[67] Kumail Jaffer, 'Tourist Tax Could Raise £350m a Year for London', *BBC*, 14 January 2026.
[68] Richard Edwards, 'Mayor's Budget Hope for "£52m" Tourism Tax', *BBC*, 20 November 2025.
[69] Liverpool City Region Combined Authority, 'Mayors Unite in Call for Visitor Levy Powers to Drive Regional Growth', *Liverpool City Region Combined Authority*, 3 June 2025.
[70] HM Treasury and Ministry of Housing, Communities and Local Government, *Visitor Levy Consultation: A Consultation on the Design of a New Mayoral Power to Create Visitor Levies on Overnight Stays in England*.

3.6 Fiscal innovation

One of the key advantages of devolution is the opportunity it presents for experimentation: it can provide a mechanism for innovation, where devolved institutions learn by doing, iterate and adapt. This should mean fiscal experimentation, not just service innovation. The potential to retain growth in revenue opens up new possibilities for locally led place-based economic policymaking. Furthermore, the principle that places should be able to tailor the OVL to their context should be applied more widely, with greater latitude to trial new levies and charges.

Special economic zones

'Special economic zones' (SEZs) are typically geographically demarcated areas which come with specific benefits for investors, often including fiscal incentives, a special regulatory regime, and streamlined administrative processes. SEZs are a targeted means of promoting various forms of development. They aim to create an attractive business environment by removing some of the typical constraints on growth in places where otherwise there might be little incentive for a specific industry to locate and expand. Through this they can facilitate the clustering and agglomeration of a particular sector in an area.[71]

Since it was established in 1996, the Katowice Special Economic Zone in Poland, for example, has played a central role in restructuring the Upper Silesian economy, which was previously heavily reliant on steel and coal mining. The SEZ has helped the region to transition to strategic sectors such as electronics, semiconductors and automotives, and has seen an estimated $10.5 billion of investment.[72] As well as offering incentives like corporate income tax credits, the SEZ works closely with local stakeholders, offering entrepreneurship support and a vocational training centre.[73] China has also embraced SEZs: provincial governments can set up their own zones, with those that perform well then upgraded to national status.[74]

The UK is no stranger to this kind of development policy. Between 1981 and 1997, 38 enterprise zones were set up offering a discount on capital allowances and business rates exemptions for developments on specific brownfield sties.[75] The transformation of Canary Wharf is probably its most well-known outcome. The most recent iteration has come in the form of the freeports (or green freeports in Scotland) programme and the announcement of 13 Investment Zones at the 2023 Spring Budget. The Labour Government has since repackaged these as 'Industrial Strategy Zones' and described them as being "perfectly placed to be a key element of this government's Industrial Strategy".[76] Industrial Strategy Zones offer a package of tax reliefs within special tax sites – the 'menu' includes business rates, Stamp

[71] Douglas Zhihua Zeng, 'Special Economic Zones: Lessons from the Global Experience', *Private Enterprise Development in Low Income Countries* PEDL Synthesis Paper Series No. 1 (2016).
[72] Ruth Strachan, 'Katowice Looks to Regain Pre-Covid Momentum', *Investment Monitor*, 8 October 2021.
[73] Alex Irwin-Hunt, 'Global Free Zones of the Year 2025 — Best Industrial Zones', *FDi Intelligence*, 9 October 2025.
[74] Longfei Zheng, 'Place-Based Policies and Innovation: The Contrasting Roles of Central and Local Special Economic Zones', *Papers in Regional Science* 10, no. 4 (2025).
[75] Paul Swinney, *In the Zone? Have Enterprise Zones Delivered the Jobs They Promised?* (Centre of Cities, 2019).
[76] Ministry of Housing, Communities & Local Government, *Industrial Strategy Zones Action Plan* (2025).

Duty, and Employer National Insurance, as well as enhanced allowances for companies investing in new plant, machinery and buildings.[77]

The original package was designed predominantly for former industrial areas, and most existing zones are focused on advanced manufacturing and clean energy. However, there are other sectors MSAs are looking to target among the 'IS-8', such as creative and cultural industries[78], where a different combination of reliefs and support might prove more effective.

Fiscal devolution could enable MSAs to construct their own bespoke zonal policies, orientated around local priorities, within a more permissive national framework. MSAs will have particular strengths and priorities beyond the sectors that are included in the 'IS-8'. With more fiscal autonomy, a more expansive, place-led approach would be possible – one that extends, for example, to the 'everyday economy', not just the big-ticket sectors in the Industrial Strategy.[79]

At present, however, the dynamic is generally top down: Whitehall decides it wants to pursue a programme of SEZs and seeks partners or bids. Instead, strategic authorities should be empowered to establish their own bespoke SEZs, and where tax relief packages require funding, they should be fully covered by devolved revenues.

As set out above, all MSAs should have powers over business rates reliefs and discounts. They would then be able to use these in a spatially targeted way, allowing for initial, limited, experimentation at this level with 'zonal' policy. However, EMSAs with a broader suite of devolved revenue streams should be able to go further in designing their own bespoke SEZs with a wider package of incentives funded by own-source revenues.

For those seeking packages of relief involving taxes controlled by central government, there should be a process through which to request partnership on a zonal policy where both parties contribute. The Scottish Government, UK Government, and Falkirk Council have collaborated in a way similar to this on the Falkirk and Grangemouth Investment Zone, for example.[80] This would invert the process, with EMSAs able to put together proposals on an ongoing basis and have these reviewed by central government. If rejecting the proposal, the UK Government must set out why.

This more bottom-up approach would need to operate with a high degree of transparency and sit within the enhanced system of local accountability and scrutiny set out in Chapter 4, as well as be designed to ensure compliance with the UK's international obligations on state aid.

Recommendation 8: MSAs should be able to use their new powers over business rates reliefs and discounts to create their own 'special economic zones'. EMSAs should be able to establish SEZs that offer a wider package of support, and where these are covered entirely by local revenues, they should be able to set them up at their own discretion. There should be an established process for proposing larger-scale SEZs that would require collaboration with central government, with the UK Government having to respond publicly to these requests with its rationale for accepting or rejecting the proposal.

[77] HM Revenue & Customs, *HMRC Investment Zones Information Pack* (2026).
[78] *The UK's Modern Industrial Strategy* (UK Government, 2025).
[79] John Denham and James Silverwood, 'Industrial Strategy, the British State, and the Common Good: Labour's First Year', *Renewal* 33, nos 3–4 (2026).
[80] Scottish Government et al., *£100m Falkirk and Grangemouth Growth Deal Signed*, November 2024.

New levies and charges

A more permissive approach to local taxation should also be enacted, whereby strategic authorities are empowered to propose and pilot new levies and charges oriented around specific local objectives.

Nottingham's Workplace Parking Levy offers an instructive precedent: employers are required to pay an annual charge per parking space, with the aim of reducing road use and encouraging a shift to other forms of transport. The scheme generates approximately £9 million a year to fund public transport improvements and has been associated with reductions in congestion. It operates under the provisions of the Transport Act 2000, with schemes of this kind subject to approval by the Secretary of State.[81]

There is, however, a case for permitting devolved institutions to devise and pilot new approaches on their own initiative. Where such schemes prove beneficial, other areas may adopt similar models; where they do not, valuable lessons will nonetheless have been gained.

Under the current framework, local authorities are restricted to setting fees and charges for services at a level consistent with cost recovery.[82] A relaxation of these rules could allow authorities to levy higher charges where they wished to use pricing as a mechanism for influencing behaviour.

Individually, these measures may represent relatively modest sources of revenue. The broader principle at stake, however, is that devolved authorities should be positioned at the forefront of fiscal experimentation in England, with the capacity to introduce targeted levies that are responsive to particular local circumstances.

The effect of new levies might be to increase costs for businesses in some places. However, other proposals that have been set out, such as those related to SEZs, could reduce their burden. The broader principle is that with fiscal devolution places will have more discretion over different sources of revenue and therefore be able to fine tune the local tax mix to ensure they are an attractive place to do business with sufficient resources to fulfil their functions.

Recommendation 9: Building on the example of the OVL and the Workplace Parking Levy, MSAs should be able to propose and trial new local levies and charges of different kinds orientated around specific local objectives.

The assignment of a portion of income tax, the expansion of business rates retention, and the addition of an OVL power represent a positive starting point for fiscal devolution in England. Taken as a basket, this would mean a subnational level of government that benefits more directly from its own economic success, is able to spend on local priorities with less centrally imposed constraints, and that is overall better resourced. However, the longer-term ambition should be a fiscal settlement for a properly regional tier, with fiscal autonomy that reflects both scale and expanded responsibility.

[81] Naomi Clayton et al., *Funding and Financing Inclusive Growth in Cities* (Centre for Cities, 2017).
[82] Phillips, *Reforming Local Government Funding in England: The Issues and Options*.

Figure 7: Summary of key features

Model	Scale of governance	Functions	Income tax		Other devolved taxes
			Approach to devolution	Approach to equalisation	
Long-term, ambitious model	Regional scale population footprint Regional scale geographies	Competences set out in the English Devolution and Community Empowerment Act Provision of essential state services such as health and education Functions of many national arms-length bodies	Regional progressive income tax 50 per cent of income tax devolved Powers to vary rates, establish new bands Must be progressive and have at least as many bands as national income tax	Partial equalisation with an equalisation rate below 100 per cent Equalisation on the basis of fiscal capacity (revenue per capita) adjusted for external structural indicators of cost pressure	Regional Land Value Tax Overnight Visitor Levy
Next step, near-term model	Current EMSA population footprint Current EMSA geographies	Competences set out in the English Devolution and Community Empowerment Act	Assignment of 2.5p in the pound of basic rate income tax generated in an area (12.5 per cent) No rate varying or band setting powers	Equalisation on the basis of fiscal capacity (revenue per capita) at year 1, with a tariff or top up fixed in real terms over a set period Additional income tax growth above this level retained over the period Equalisation resets every six years	Full retention of additional business rates growth Overnight Visitor Levy

4. Getting it done

One of the themes that came up repeatedly in interviews was Whitehall's lack of trust in the local state. The Treasury's approach to spending control and reluctance to let go of fiscal levers was said to be a particular barrier. Some central government departments have championed devolution while others have been seen as more sceptical. The concern is that public money will be wasted if strict controls and oversight are not in place – and that local government in particular lacks the capabilities to handle more fiscal flexibility.

There is also a pervasive sense that when things go wrong, it will be central government that has to step in and pick up the pieces – and that because local government knows this, it cannot be trusted to be fiscally prudent. The way in which accountability works within the British constitutional tradition reinforces this mindset – with Whitehall departmental Accounting Officers (AOs) on the line to account to Parliament for how public money is spent. However, some of these attitudes appear to be shifting, with the Chancellor now spearheading the drive towards fiscal decentralisation.

The more advanced MSAs – especially GMCA and WMCA – have shown that they can handle substantial spending responsibilities and make sound investment decisions, somewhat breaking the cycle of central-local distrust. Nonetheless, Whitehall will seek assurances around any model and want to avoid a situation in which subnational authorities receive increased fiscal flexibility but without any of the downside risk involved.

This is not unreasonable. The evidence suggests, unsurprisingly, that institutional conditions are a crucial determinant of the effectiveness of fiscal decentralisation. While there will always be an element of risk involved, it is vital that devolved authorities are set up in a way that makes significant failure less likely. If a new relationship between central and subnational government is to be forged in the context of fiscal devolution – one that is more mature, trusting and less hierarchical – then new structures, processes and arrangements need to be in place, so that autonomy comes with sufficient accountability, and that the public can be confident that increased power will be exercised responsibly.

4.1 A new relationship with central government

The movement towards Integrated Settlements for EMSAs was meant to herald a step change in spending flexibility for the most advanced and mature devolved authorities in England. While they are no doubt an improvement on the arrangements they replaced – which essentially involved the subnational delivery of specific central government priorities through ring-fenced spending pots – they still come with substantial conditions on how funds can be spent, extensive requirements for reporting upwards to Whitehall, and central government monitoring. They are far from the kind of block grants that go to the devolved governments in Scotland, Wales, and Northern Ireland.

The Integrated Settlement is divided into themes that correspond broadly with the original seven areas of competence set out in the EDCEA (although, as mentioned, two further competences were later added via Lords Amendments). At the Spending Review (SR), MHCLG and the Treasury engage with relevant departments to determine funding lines potentially in scope. Formulae are then applied to work out the total funding each EMSA will receive for each competence theme. The EMSAs then receive an annual transfer from central government in line with what was agreed at the SR. Only 10 per cent of the theme's annual total can be moved to another theme each year (aside from the economic development theme,

where there is no cap). The split between capital and resource funding for each theme is also decided at the SR, and only 10 per cent of capital funding per theme can then be moved into resource funding.[83]

The accountability arrangements for the Integrated Settlement continue to reflect the fact that funding comes from departments across central government. There are three core accountability roles involved: MHCLG's Accounting Officer (the Permanent Secretary), the MSA Chief Executive, and thematic Accounting Officers from contributing departments. MHCLG's AO acts as the single 'systems' AO, overseeing institutional propriety, governance structures, the local assurance framework, and the approach to value for money. At the local level, each MSA's Chief Executive holds responsibility for agreeing outcomes with central government, delivering against those outcomes, maintaining the assurance framework, and managing internal processes and capability. However, contributing departments retain a role by signing off relevant outcomes and targets, and receive monitoring and evaluation data through a 'programme board'. Parliamentary accountability sits with MHCLG's AO, who reports on settlement delivery and is subject to scrutiny by the Public Accounts Committee.

After each SR and before the Integrated Settlement comes into play, each EMSA must agree a specific outcomes framework with central government – designed to "provide a structured approach to defining, measuring and reporting on the MSA's performance on Integrated Settlement delivery".[84] The framework consists of measurable specific targets for scrutiny. For example, GMCA has transport targets that include increasing the percentage of trips made by public transport, the level of bus and tram patronage, public satisfaction with public transport, and the number of cancelled journeys.[85] Progress against the framework is monitored by the programme board, made up of senior officials from across the different departments with funding in the Integrated Settlement. The EMSA must submit monitoring reports to the board every six months.

In the context of the replacement of the Integrated Settlement with an income tax assignment model, this relationship with central government must change. EMSAs will no longer rely on funding directly from various different departmental funding streams, making it harder to justify extensive Whitehall controls, reporting requirements, and oversight. It is important, however, that devolved institutions are clear and transparent about what they are seeking to achieve. This helps both the local electorate and the enhanced local scrutiny bodies mentioned above to hold them to account. Much of this information is already in the public domain through the various strategies that MSAs produce, and the commitments made by devolved leaders when running for election. There is nonetheless a pragmatic case for some form of outcomes framework as part of the relationship between MSAs and central government. But rather than negotiating arbitrary granular targets with individual departments, MSAs should engage directly with the Treasury on a light-touch, high-level, cross-cutting set of outcomes.

Recommendation 10: The current approach to Integrated Settlement outcomes frameworks should be replaced by a process that involves MSAs engaging directly with the Treasury on a high-level and cross-cutting set of outcomes in the interests of transparency and local scrutiny, as well as central government assurance.

[83] Ministry of Housing, Communities & Local Government, *Integrated Settlement: Policy Document*.
[84] Ministry of Housing, Communities & Local Government, *Integrated Settlement: Policy Document*.
[85] *Greater Manchester Combined Authority Integrated Settlement Outcomes Framework 2026/27 to 2028/29* (Ministry of Housing, Communities and Local Government, 2026).

This highlights how the relationship with central government should work more broadly. When it comes to determining crucial questions related to the operation of fiscal devolution, including the methodology for equalisation, this should be the product of direct collaboration between the regional tier and the Treasury. Institutionalised forums for multi-level coordination, common in federal and Nordic countries, help manage tensions and adapt frameworks over time, but these arrangements are comparatively underdeveloped in the UK.[86]

Intergovernmental structures for routine engagement between the Treasury and devolved institutions in England should be established, along similar lines to the Joint Exchequer Committees that were established to negotiate the Scottish and Welsh fiscal frameworks, and the more recently established Finance: Inter-Ministerial Standing Committee, that operates on a multilateral basis.

Recommendation 11: New intergovernmental forums should be established and meet semi-regularly to facilitate the relationship between mature devolved institutions in England and the Treasury in coordinating and overseeing the operation of the subnational fiscal settlement on a less hierarchical basis.

More broadly, fiscal devolution should have an impact on Whitehall itself beyond a changing relationship between central and sub-central. In moving towards a situation where there are fewer 'layers' of the machine for money to move through, it can help improve efficiency and reduce friction. This would align with the aims of the Office for Value for Money's plans for reforming the spending control and accountability framework.[87] The movement towards a less onerous and granular system of outcomes oversight means less departmental micromanagement – and therefore more time and energy that can be spent elsewhere.

Ultimately, the decentralisation of powers – including fiscal levers – should contribute to a more agile and streamlined central government that is more focused on bigger picture national strategic issues.[88] As *Re:State* has previously argued, the success of devolution should be assessed in part by the extent to which it contributes to a measurable reduction in Whitehall's administrative workload – and fiscal decentralisation can help achieve this.

4.2 Accountability

One of the major barriers to greater independence for subnational government, and a different relationship with Whitehall, is the way in which accountability works within the British parliamentary system. Departmental AOs have to appear before Parliament's powerful Public Accounts Committee (PAC) and explain how value for public money has been achieved. Under present arrangements, the money MSAs spend is money the MHCLG Permanent Secretary in particular has to account for – hence the need for extensive assurance, so they can say they have discharged their duties responsibly. But as more revenue is raised and retained locally, accountability should shift towards the local electorate and enhanced local accountability and scrutiny bodies.

[86] Jonathan A. Rodden, *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism* (Cambridge University Press, 2005).
[87] Office for Value for Money, *Reforming the Spending Control and Accountability Framework* (UK Government, 2025).
[88] Simon Kaye and Rachael Powell, *Devolve by Default: Decentralisation and a Redefined Whitehall* (2024).

The EDWP recognised the need to improve on the current accountability arrangements in place for MSAs. Overview and Scrutiny Committees (OSCs) are responsible for reviewing and scrutinising MSA decisions but have been widely viewed as underpowered in the context of increasing MSA responsibilities, with low status and limited resources. An audit committee is also required, to scrutinise financial affairs and assess if value for money is being secured. However, these bodies are limited in scope, focusing primarily decision-making and spending within the institutions of the MSA rather than looking more widely at the public service system within a place.[89]

Government amendments to the EDCEA made provision for strengthening OSCs, which will be rebranded as "local scrutiny committees", with EMSAs due to implement these changes first with other MSAs to follow. These would have the powers of OSCs, plus additional powers including in relation to access to information, compelling individuals to attend, with new penalties for non-compliance, and a power to summon individuals beyond the MSA, as well as an explicit role in scrutinising value for money.[90] These enhancements are welcome, but further changes should be made to bring forward the full Local Public Accounts Committee (LPAC) model, based on Parliament's PAC, that *Re:State* and others have advocated for.[91] Similar to the PAC, LPACs would trace all public money across the local state in a given area, taking a holistic, system-wide view rather than just focusing on one particular component.

Furthermore, LPACs should work in close collaboration with the soon-to-be-established Local Audit Office, which should go beyond its initial role focused on fixing the local audit system to something closer to the functions of the National Audit Office (NAO) for the local state.[92] LPACs could continue to work alongside strengthened overview and scrutiny style committees focused on examining the effectiveness of policy decisions and the outcomes they are delivering.

Recommendation 12: Local Public Accounts Committees (LPACs) should be established in all Strategic Authority areas and work in conjunction with the new Local Audit Office.

While MSAs are legally required to make proper arrangements for financial administration, with Chief Executives, Chief Financial Officers and Chief Governance Officers all possessing statutory financial responsibilities, none of these officers holds AO status for devolved funds. Instead, as discussed above, the relevant central government permanent secretary retains AO responsibility.

Previous *Re:State* work has argued for designating MSA chief executives as AOs. This would bring formal scrutiny mechanisms into play as set out in *Managing Public Money*, including eligibility for NAO audits and parliamentary committee appearances.[93] Local AOs would be answerable to LPACs, as well as subject to these formal national mechanisms. Crucially, this would also improve the quality of scrutiny, as an MSA chief executive will have far greater knowledge of local spending than a Whitehall-based civil servant.[94]

[89] Sean Eke and Dr Simon Kaye, *Metromentum: Taking Strategic Authorities from Patchwork to Powerhouse* (Re:State, 2025).
[90] Mark Sandford, *Overview and Scrutiny in Local Government* (House of Commons Library, 2026).
[91] Eke and Kaye, *Metromentum: Taking Strategic Authorities from Patchwork to Powerhouse*.
[92] Eke and Kaye, *Metromentum: Taking Strategic Authorities from Patchwork to Powerhouse*.
[93] HM Treasury, *Managing Public Money* (2025).
[94] Eke and Kaye, *Metromentum: Taking Strategic Authorities from Patchwork to Powerhouse*.

Despite receiving a block grant from the Treasury, AOs in Scotland, Wales, and Northern Ireland appear before PAC-style committees of their respective parliaments to explain that public money has been used appropriately. While acknowledging the institutional and constitutional differences between them, the reforms outlined above would move arrangements for MSAs closer to this position.

Recommendation 13: MSA Chief Executives should be designated as the Accounting Officers for their organisation, and account to LPACs, as well as the Public Accounts Committee when necessary.

4.3 When things go wrong

The accountability reforms described above – through heightening transparency and scrutiny – should make it less likely that things will go wrong at MSA-level, while at the same time creating a more flexible environment, one in which devolved institutions are better able to pursue their own specific priorities. Yet any model that involves greater subnational fiscal autonomy and expanded devolved responsibilities will nonetheless generate concerns about the risks involved. One commonly anticipated objection is that devolved authorities want all of the upside of fiscal devolution – the possibility of capturing growth and raising more revenue – with none of the downside, such as the potential for revenues to fall or cuts to become necessary if broader economic conditions deteriorate. The idea of "soft budget constraints" is well-established in the literature on fiscal federalism – where subnational governments anticipate central government bailouts, weakening incentives for fiscal discipline.[95]

These concerns form the basis of the 'best value' regime established under the Local Government Act 1999. The regime designates local authorities – including strategic authorities – as 'best value' authorities, with a statutory Best Value Duty. These authorities must be able to show that they have arrangements in place – such as the right operational culture and decision-making processes – to secure continuous improvements in how they carry out their work with regard to economy, efficiency, and effectiveness.[96] There are various interventions that can take place – both statutory and non-statutory – if there are concerns that a best value authority is not complying with the duty, including the appointment of commissioners to carry out some of the authority's functions.[97] The idea is that "the financial cost of failure should be met locally, as far as possible."[98]

The powers of inspection and intervention set out in the Act operate in relation to the delivery of the Integrated Settlements. Central government has detailed a specific 'matrix of mitigation' where there are concerns about the settlement, including, at the 'major' end of the spectrum, the reintroduction of ring-fences, the withdrawal of funding lines, and deep monitoring and

[95] Rémy Prud'homme, 'The Dangers of Decentralization', *The World Bank Research Observer* 10, no. 2 (1995); Rodden, *Hamilton's Paradox: The Promise and Peril of Fiscal Federalism*.
[96] Local Government Act 1999 (Section 3).
[97] Ministry of Housing, Communities and Local Government, *Best Value Standards and Intervention: A Statutory Guide for Best Value Authorities* (2024).
[98] Ministry of Housing, Communities and Local Government, *Best Value Standards and Intervention: A Statutory Guide for Best Value Authorities*.

evaluation to determine if failure is institutional, and the potential for the use of the Best Value Duty to investigate.[99]

Instead, a "trust-first" approach should be taken to Best Value in the context of fiscal devolution to mature devolved institutions, whereby MSAs are assumed to be competent enough to manage the revenues they are assigned, raise and retain, unless clear evidence emerges to the contrary. Central government interventions should only be triggered by a demonstrable failure of the authority to fulfil its core functions. If, for example, the expanded borrowing powers available to EMSAs are repeatedly being triggered to plug gaps in day-to-day spending, then this would be a sign that its financial forecasting and management capabilities need improvement.

To provide assurance without undermining the spirit of devolution, the threshold for intervention should be high. Where performance data indicates that outcomes in a region are deteriorating, and where this can be attributed to the actions or inactions of the MSA, central government would retain the right to step in, increase oversight, and – in extreme circumstances – consider whether devolved powers or funding should be reviewed.

Ultimately, the principle should remain that the cost of failure is to be borne by the failing authority as far as possible. However, as established above, it is not reasonable to expect MSAs to accept a model of fiscal devolution where they bear significant risk without the levers to mitigate against it themselves. This is why, as described above, MSAs should have expanded borrowing powers to cover unforeseen fluctuations in revenue.

In a more decentralised England, where fiscal flexibility matches spending autonomy, the success or failure of subnational policymaking and investment decision-making will impact overall funding levels. If an investment proves to have been flawed, or a policy ineffective, the devolved institution will have to recalibrate to meet its financial obligations by cutting spending or raising rates. There is, however, a case for additional support in force majeure situations, where unforeseen events impact economic conditions in a way that is outside of the control of MSAs.

Recommendation 14: In general, risk should be borne by EMSAs and shortfalls covered by borrowing, drawing down reserves, cutting spending or, if possible, increasing rates. However, there is a case for additional protection in situations where there are economic shocks caused by events outside of the authority's control. The UK Government should also issue new guidance for how the Best Value Duty will apply in the context of fiscal devolution to EMSAs and set out transparently in what circumstances it would be minded to use its intervention powers.

4.4 Readiness and institutional capability

The OECD identifies several conditions under which fiscal devolution is most likely to secure benefits. One key requirement is sufficient administrative and analytical capacity at subnational level – for example, the ability to manage tax administration, forecasting, budgeting, and investment planning. However, where capacity is weak and reforms proceed rapidly, as in some Southern and Eastern European cases, decentralisation has led to instability and uneven service provision.[100] Adequate time and resource must be made

[99] Ministry of Housing, Communities & Local Government, *Integrated Settlement: Policy Document*.
[100] OECD, *Making Decentralisation Work: Handbook for Policy-Makers*.

available for MSAs to build the capabilities – including economic forecasting, investment planning and revenue administration – that fiscal devolution will require. While they must be provided with capacity-building resources, MSAs must also be proactive in building strategic capabilities, analytical expertise, and strong accountability systems.[101]

This raises the question of what criteria should be applied to assess the readiness of an authority for fiscal devolution. On the one hand, it is important that subnational institutions have the maturity, analytical capacity, and right governance structures to make effective use of fiscal powers and the spending flexibility that should accompany them. On the other, they need to be given the opportunity to develop this maturity and readiness, and being held in a funding position that is suboptimal is likely to inhibit their progress in building the capabilities that will be needed.

One important consideration that has already been touched upon is that of scale. There is evidence to suggest that fragmented governance structures that do not cover functional economic geographies can limit the extent to which fiscal devolution has a positive impact on productivity.[102] The MSAs that cover England's city-regions are around the right scale to pursue coherent and appropriately scaled economic strategies. But previous *Re:State* work has argued that many other proposed and existing MSAs are too small and would likely struggle to generate a sufficient tax base for meaningful fiscal devolution. This is why the report has argued that the more expansive and autonomous model proposed as an end point should be conditional on areas adopting properly regional geographies – meaning target populations of around three million in places outside of city-regions.[103] Given the potential for more substantial variation on this model, this would also mean a less complex tax landscape than if a patchwork of small MSAs, some hardly bigger than county councils, were able to set their own rates.

However, the income tax assignment and growth retention model the report has proposed as an immediate next step should come with Established MSA status and should form the default funding model for all EMSAs. An MSA is eligible for established status if they have been in existence with a directly elected mayor for at least 18 months, have not been subject to a Best Value Notice during this period, and there are no accounting concerns from the previous financial year which relate to the MSAs ability to manage public money.[104]

However, the Integrated Settlement should not be used as a stepping stone to tax assignment – rather assignment should replace the Integrated Settlement model. In interviews we heard concerns that using Integrated Settlement performance as a readiness gateway could bake in the wrong capabilities – being effective at managing departmental objectives – rather than the kind of flexible, locally-driven thinking that fiscal devolution requires.

Instead, the systemic institutional maturity of MSAs should be assessed by a specific 'local empowerment body' incubated in MHCLG. This body should consider indicators of systemic maturity across the dimensions of capacity, performance, governance, and culture, as set out in *Re:State's* report *Devolve by default*.[105] This should be done instead of, but along similar lines to, the institutional readiness checks conducted by Deloitte ahead of WMCA and GMCA

[101] Mike Emmerich, 'Fiscal Devolution: A Test of Seriousness for Government and Places', *The MJ*, 20 April 2026.
[102] Jong et al., *A Comprehensive Approach to Understanding Urban Productivity Effects of Local Governments: Local Autonomy, Government Quality and Fragmentation*.
[103] Kaye and Eke, *Go Big or Go Home: Governing England's Polycentric Regions*.
[104] Ministry of Housing, Communities & Local Government, *Integrated Settlement: Policy Document*.
[105] Kaye and Powell, *Devolve by Default: Decentralisation and a Redefined Whitehall*.

gaining access to the Integrated Settlement.[106] MSAs that believe they are ready for further devolution should be able to request an assessment, and the outcome of the assessment should lead to a quick response from central government.

It may be that the recommendation is for a more basic form of fiscal devolution in the first instance – one that should be accessible prior to EMSA status – involving the OVL power and the enhanced business rates (or LVT) retention. This would help begin the process of building the right capabilities at an early stage and speed up the process of progression towards further fiscal autonomy.

Recommendation 15: Management of an Integrated Settlement should not be a prerequisite to gaining the assignment of 2.5p of the basic rate of income tax. Rather a systemic institutional maturity assessment should be conducted by a specific 'local empowerment body' established by MHCLG. Income tax assignment should be accessible to MSAs with established status, while a more basic package of fiscal devolution, including business rates and the OVL, should be available to Strategic Authorities prior to this point in their development.

4.5 Administration

Finally, fiscal devolution also raises questions about administration. Which institutions, at what level, will collect and apportion the relevant revenues, for example? An effective and appropriately scaled administrative architecture is an important component of a more fiscally decentralised system.

Countries such as Denmark and Canada have invested in local tax administration and integrated data systems to support more accurate assessment, better compliance and more efficient collection.[107] Others, such as Spain, have combined regional tax administration structures with a national collection approach for some shared taxes, such as income tax. A similar approach has been taken in Scotland and Wales. In both instances, devolved revenue collection agencies (Revenue Scotland and the Welsh Revenue Authority) have been established to administer devolved taxes such as Stamp Duty and landfill tax. However, HMRC continues to administer and collect Scottish and Welsh income tax.

In England, as it stands, local authorities are billing authorities for council tax and business rates – with other bodies acting as precepting authorities, which can instruct a billing authority to collect revenue on their behalf. Strategic Authorities are precepting authorities and can instruct local authorities to collect a mayoral precept (and, in some instances, a police and crime precept) that forms a small portion of council tax. However, MSAs do not have any tax administration architecture of their own. There is an argument for building this architecture in anticipation of MSAs taking on greater tax powers in the future.

The Government's consultation on the OVL recognises this case, identifying various potential approaches to the levy's administration ranging from a more local to a more centralised approach. It suggests a need to balance the avoidance of fragmentation with the advantages of local flexibility and insight, and highlights that while a more centralised approach may

[106] *Greater Manchester Combined Authority Readiness Check: Summary* (Ministry of Housing, Communities and Local Government, 2025); *West Midlands Combined Authority Readiness Check: Summary* (Ministry of Housing, Communities and Local Government, 2025).
[107] OECD, *Making Decentralisation Work: Handbook for Policy-Makers*.

provide better economies of scale, "local insight into the context and local circumstances is fundamental to the management and enforcement of local taxes, benefitting both compliance and business experience of interacting with the tax authorities".[108]

The key question is how to combine scale and efficiency with local differentiation. In the context of MSA discretion over OVL rates and their local application, a new system to administer the levy should be built. To combine efficiency with local responsiveness, these collection bodies should cover regional geographies – in anticipation of a move towards properly regional MSAs in the future. The architecture to support the devolution of existing taxes or the trial of new levies would therefore already exist, making further fiscal devolution much easier.

However, as in Scotland and Wales, HMRC is likely to remain the starting point for any serious model of income tax assignment or regional income tax. This is primarily as it already has the capabilities and the payroll and compliance infrastructure necessary. Even so, HMRC will have to make changes to facilitate an assignment approach to income tax or, indeed, any more substantial model of income tax devolution. It will need to begin collecting up to date residency information for income tax purposes to determine the retained share for each area or, in the future, the different rates that individuals might be required to pay. Challenges may include missing or out of date information and taxpayers with multiple properties.[109] Nonetheless, these difficulties are by no means insurmountable and HMRC should begin using additional tax codes based on place of primary residence. The need to get ahead of the game on this is emphasised by the Scottish experience, where administrative design issues contributed to the delayed start of the Scottish income tax system by around three years.[110]

The Government should treat a regional fiscal administrative architecture as a key building block in a more decentralised state. At the same time, as in Spain, there is likely to remain a role for a central collection and enforcement body in the form of HMRC. It must start preparing now for a tax landscape that varies between English regions, and the complexity that will come with this.

Recommendation 16: MSAs should be made billing authorities for the OVL and be responsible for its administration. The necessary administrative architecture should be built at a genuinely regional scale to provide an underlying framework which in time can support the move towards larger-scale governance. To support the move to a locally retained share of income tax, HMRC must start collecting more granular geographical data for income tax and issue new income tax codes on the basis of residence.

[108] HM Treasury and Ministry of Housing, Communities and Local Government, *Visitor Levy Consultation: A Consultation on the Design of a New Mayoral Power to Create Visitor Levies on Overnight Stays in England*.
[109] Phillips, *Reforming Local Government Funding in England: The Issues and Options*.
[110] Sandford, 'Three Monkeys on the Back of English Fiscal Devolution'.

5. Conclusion

The UK's centralised model of governance is holding back national economic performance – with productivity, growth, real wages, and living standards continuing to flatline. The key to addressing this economic malaise is increasingly sought in the cities and towns outside of London and the South East. If these places can realise their potential, and the gap between London and England's second cities closes, the impact on the UK economy as a whole would be substantial.

The still nascent English devolution agenda reflects a growing recognition that tackling this challenge depends on giving local leaders powers and funding traditionally tightly controlled in Westminster. While increasingly confident Strategic Authorities have used the tools at their disposal creatively, and many are starting to see encouraging results, the modest decentralisation of some spending and investment decisions, as is still the case, will not shift the dial. As long as England remains highly fiscal centralised, devolution is unlikely to achieve its potential. There appears to be a growing awareness of this fact – reflected in a quick succession of fiscal devolution related announcements coming from the Treasury, which has typically been viewed as an institutional block on the possibility of tax decentralisation.

This moment should represent a starting point on the journey towards a much more decentralised England – not the final destination. The retention of 2.5p in every 20p of basic rate income tax paid by residents in an area would, crucially, allow for the full replacement of the Integrated Settlement model, and the severing of the various strings attached to it. Places will have a heightened interest in high economic performance, as they will be able to retain additional revenue for a significant period. Combined with full business rates retention and the OVL this would represent a basket of reliable, locally rooted revenue streams.

Yet this should represent the floor of ambition, not the ceiling. An ambitious long-term vision should involve devolution of areas such as healthcare, education, skills, employment support and even elements of social security to regions that are empowered to experiment with public service reform.

As the country moves increasingly in this direction, the fiscal settlement must keep pace. With properly regional governance structures in place, and a mandate to pursue strategic economic development alongside service coordination, England's devolved authorities should have fiscal autonomy to match, and adopt an approach to tax more suited to a quasi-federal context.

They should be able to levy their own progressive income tax, with powers over rates and bands – along similar lines to the approach taken in Spain – as a means of embedding genuine fiscal autonomy. This would be accompanied by a less hierarchical relationship with a streamlined central government, with regional authorities engaging directly with the Treasury on the operation of this model and the equalisation mechanism that would accompany it, and appropriate accountability mechanisms.

The UK's historic centralisation has stifled creativity and led to an imbalanced national economy. The vision is a decentralised England in which Westminster's historic distrust of local leaders is a thing of the past – in which places that have long been overlooked possess the tools to pursue their own course, and economic success is more evenly distributed. Fiscal devolution is the key to unlocking this future.

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Re:State

ISBN: 978-1-918941-01-2

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