DEVOLUTION THAT DELIVERS

FISCAL POWER FOR REGIONAL GROWTH

Aditi Sriram, **Mirte Boot**
and **Ryan Swift**

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ABOUT THIS PAPER

The UK is one of the most centralised countries in the developed world, and one of the most regionally unequal. Now, the government has promised the biggest shift of power out of Westminster in a generation. This paper shows how centralisation holds back regional growth, and why fiscal devolution is the key to unlocking the economic promise of devolution. It sets out a practical roadmap for the devolution of tax, spend and borrowing powers: what to devolve, how to sequence it to local capacity, and the safeguards needed make it fair and sustainable. It offers a blueprint for delivering the government's commitment to fiscal devolution, and making it work.

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FOREWORD

Those of us – and there are few – immersed in the topic of devolution and regional growth, should be ecstatic about the Burnham government. At long last, there is a chance that the tiptoeing approach undertaken since the days of Cameron–Osborne is now likely to be followed by something much bolder, what one might even call 'economic constitutional devolution'.

Driven by his experience in Greater Manchester as the first elected mayor for the Combined Authority, inheriting some of the ambitious work set out by those in the core of the Manchester project including by Howard Bernstein and Richard Leese, the prime minister presided over an era of faster economic growth in the area. Indeed, as is now finally becoming better known, Greater Manchester has been the fastest-growing major metro area for some time, easily outshining London.

As prime minister, Burnham now builds on the work of the Labour government that, since 2024, has started to realise that the success of Greater Manchester coincided with modest devolved powers, with plans that were already under way for further ambitious steps, including the start of fiscal devolution.

In this report, IPPR North is one of the first to set out some detailed thoughts about what might be fiscally devolved and, very importantly, in my view, to outline the process of where more powers might be linked to the ability to deliver results and strong accountability. This report will be very helpful to the government and its growing team in Number 10 North, as they embark on the exciting journey I know they intend to take.

The recommendation for some 'advanced' areas to receive enhanced fiscal powers is especially something I would endorse. It fits with my own beliefs ever since I chaired the City Growth Commission in 2013/14, which contributed to the government at that time adopting some of our ideas.

This is especially important given the fact that now the whole UK population will have a view on whether devolution is useful or, as far too many cynics say to me, it is an irrelevance, and a probable source of wasted taxpayers' money. The way to respond to these sceptics is to ensure that the most populated areas, with the biggest potential to grow, are at the forefront of devolved powers. This is assuming they have the capacity to cope, the desire to be accountable and, of course, just like Greater Manchester has had, the aspiration to be bold. It is a simple mathematical fact that, if these areas all start to grow more strongly, the national economy will, by definition, do so as well and this will be to the benefit of all.

In this regard, it is extremely important, in my view, that this includes London, as the reality is that, despite its economic struggles of the past 15 years or so, it is still eight times larger economically than the next eight metro areas in aggregate. Therefore, if there are powers that can help London to do better, this will be crucial. Outside of the metro areas, some regions are growing fast in their capability. They will not all have the immediate delivery capability yet that somewhere like Greater Manchester has, and great efforts to help them should be prioritised so they can not only share in, but also help drive, stronger regional-led growth, drawing on the unique economic strengths in every place across England.

This should not be seen as an alternative to other national economic decisions that will affect everyone, but as something that goes hand in hand, and I welcome this report for serious reading.

Lord Jim O'Neill

Former Treasury minister and chair of the Northern Powerhouse Partnership

SUMMARY

The UK is one of the most centralised countries in the developed world – and one of the most regionally unequal. That is no coincidence.

Powers over tax, spending and investment are still highly concentrated in Westminster. English devolution – the transfer of powers from central government to subnational governments – sets out to help change this. But as it stands, regional leaders in England have been handed the responsibility for economic growth without the tools to deliver it. Mayors risk being handed a 'poisoned chalice' – facing the political heat for delivery while Whitehall controls the purse strings. Fiscal devolution (the handing down of tax, spend and borrowing powers from central government) can be the key that unlocks the economic promise of devolution.

Government has recognised this, with Rachel Reeves, the former chancellor, announcing a fiscal devolution roadmap in March 2026. The Burnham government has gone further, promising fiscal devolution powers for all regional mayors in England by 2028 (Cabinet Office 2026a). This report is a blueprint for how to do this well.

For fiscal devolution to deliver growth, the government needs to get four things right.

1. **The design of fiscal devolution must be rooted in the specific ways in which centralisation holds back growth.**

   Drawing on qualitative research with mayoral strategic authorities (MSAs) and international evidence, we establish the 'four horsemen of centralisation' that hold back regional growth – delayed decisions, wrong decisions, uncertain decisions and no decisions – because authorities have little reward for taking the risk to invest. Our interviews echo these findings and point to an urgent need for greater fiscal power and flexibility.

2. **Mayors must be given powers over the policy areas that drive growth, so they can adapt them to the needs of their place.**

   The government has committed to a principle of 'devolution by default'. We suggest operationalising this through two tests when considering fiscal devolution to MSAs:

   - a devolution test – is delivery best held regionally?
   - a financing test – is the investment best raised and held regionally?

   Policy areas that pass the first test but not the second one are best delivered regionally while still being nationally financed; policy areas that pass both tests should be considered for fiscal devolution by default. We identify infrastructure systems – in particular mass transit, housing and regeneration, and industrial clusters – as areas where fiscal devolution can unlock the most, and they should be the prime candidates for devolution by default in the upcoming white paper. Whitehall must shrink as a result.

3. **The government must give strategic authorities the fiscal powers, and the capacity, to deliver.**

   Mayors need three core fiscal powers: revenue devolution, borrowing powers and greater autonomy over how the money is spent. But how those powers are devolved matters. Doing this well means navigating two tensions: between handing over power and building the capability and accountability to exercise

it; and between unleashing the areas that can grow fast while protecting those that will grow more slowly, so that no place is left behind.

Below we set out a spine for fiscal devolution in England, based on four innovations that build capacity at every tier towards full fiscal devolution for all, moving as fast as each area is ready:

- **Build capacity at every tier of regional government.** Set up a national secondment and training programme, and give all strategic authorities, including those without a mayor, the power to collect a visitor levy.
- **Fundamentally reform the integrated settlement as the bridge to full fiscal devolution.** Rebase integrated settlements on a share of national income tax, with areas keeping part of the uplift in tax revenues to incentivise growth-enhancing investments and provide certainty. Replace the outcomes framework with a few strategic growth indicators and local accountability.
- **Create a new advanced MSA tier within the devolution bill framework.** This will unlock full fiscal devolution for MSAs that are ready, based on experience and accountability measures. Advanced MSAs would hold a devolved share of national income tax (we recommend an income tax share of 5 per cent), with further spending and borrowing powers. This avoids a blanket rollout that ignores the need for capacity and the picking of winners – instead giving every MSA a transparent track to full fiscal devolution.
- **Give MSAs borrowing powers against their future tax income stream.** This is the other side of the coin, without which regional infrastructure will not be built. This includes establishing infrastructure revolving funds for newer MSAs and wider borrowing powers for advanced MSAs, including tax increment financing and a strengthened prudential framework in place of negotiated caps.

4. **Two safeguards – an inbuilt redistributive mechanism and accountability measures – are essential.**

The academic and international evidence shows that two safeguards determine whether fiscal devolution drives growth without deepening inequality; both must be built in from the start to ensure fiscal devolution is robust and retains public support. The first is an **equalisation mechanism**: economies that are currently weaker must be protected as stronger ones develop through some redistribution of growth dividends and national funding. This can work like the 'tariff and top-up' system already used for other taxes and in other countries. The second is **built-in regional accountability** – financial, democratic and institutional – which will guard against overspending and the misuse of funds, to the same standard we expect nationally. Without these safeguards, the government could be one rogue mayor away from bringing England back to square one.

This report focusses on fiscal devolution to the regional tier of government in England – strategic authorities – as the key actors in a first phase of fiscal devolution focussed on growth. Local authorities will also have a crucial role to play, and the links between sustainable local government funding, councils, local growth and fiscal devolution will be set out in future research. The report also does not discuss the fiscal frameworks currently applying to the devolved nations, and none of the recommendations should be read as having implications for these arrangements. IPPR North and IPPR Scotland will be setting out in future research how fiscal devolution to the English regions might learn from the devolved nations' experiences.

1. HOW CENTRALISATION HOLDS BACK GROWTH

1.1 WHAT IS THE PROBLEM?

'Good growth in every postcode' is the central mission of the new government (Burnham 2026).

It reflects a broad and increasingly settled consensus: the UK's weak national growth is in large part a regional problem. This inequality – chiefly between London and the South East, and the rest of the UK – is unusually wide and unusually persistent. The UK remains among the most regionally unequal large high-income countries in the world (McCann 2020). London's output per head is 175 per cent of the national average, and the underperformance of the UK's big cities outside of London costs the economy at least £47 billion every single year (Swinney 2021, Harari 2025).

England, in particular, is an international outlier in its extreme centralisation. It suffers from the double challenge of the UK being the most fiscally centralised country in the G7, with roughly 95 per cent of tax revenue flowing straight to the Treasury and only 5 per cent retained locally (Hope 2026). It also currently lacks any of the devolved fiscal powers enjoyed in other nations of the UK. Spending, investment and tax decisions are concentrated in Whitehall, and local government is left weak, underpowered and stripped of any revenue-raising power.

Devolution – the transfer of powers away from central government to strategic authorities – sets out to change this, beginning in London in 1999, and extending to Greater Manchester, the West Midlands and other regions from 2012 onwards. The English Devolution and Community Empowerment Act 2026 expanded devolution across the country, with three-quarters of England now covered by a devolution deal. Much progress has been made in giving mayors control over key growth levers, such as housing, skills and transport. The current Burnham-led government looks set to go further, making devolution one of its defining policy agendas.

But what has been tested in England to date is predominantly administrative devolution – control over delivery. It has been paired with weak and inconsistent fiscal levers over short time horizons. A mayor may control how a devolved skills budget is spent, but keeps almost none of the income tax growth that success generates. Instead, the reward flows back to the exchequer.

This means the economic promise of devolution is only half realised, because mayors have been handed responsibility for growth without the fiscal power to drive it or keep its rewards. The early studies of English devolution corroborate this. While the 'city deals' in the first wave of devolution show modest improvements in headline productivity and in local economic performance of around 2.5–3 per cent (Alonso and Andrews 2024, Raja and Larsson 2024), econometric analysis of the mayoral authorities established in 2017 finds no statistically significant growth dividend from devolution as implemented (Sweeney 2026). The lesson is not that devolution has failed, but that administrative devolution on its own is not enough to move the dial.

The risk is that England's mayoral strategic authorities (MSAs) are handed a 'poisoned chalice' – where mayors are accountable for delivering economic prosperity without sufficient tools to achieve it. This is a political risk, as well as an economic one. Without change, it threatens the legitimacy of the entire devolution project.

1.2 THE 'FOUR HORSEMEN OF CENTRALISATION'

To fulfil the promise of fiscal devolution, it must not try to solve every problem. Instead, it should flow from a diagnosis of how centralisation holds back growth, with every proposed reform answerable to a single question: which failure of the current system does it fix?

Our research and engagement with MSAs identify 'four horsemen of centralisation' that constrain the ability to drive regional growth from the centre:

- **Delayed decisions.** Projects that can unlock growth are trapped in Whitehall and Treasury approval processes. A centre that holds all decision-making powers, while lacking the capacity to exercise them, becomes a bottleneck: appraisals, feasibility studies and cross-departmental coordination add years to timelines that local delivery and financing could compress, with costs compounding with every year of delay.
- **Wrong decisions.** Central frameworks and national rather than local priorities shape investment. This bakes in an information asymmetry: local leaders are closest to a place and best understand its economy, yet decisions are taken furthest from them.
- **Uncertain decisions.** Competitive funding pots, short-term funding settlements and frequent spending reviews do not give local leaders the certainty they need to invest over the long term. Funding is often narrowly focussed on particular sectors or policy areas, undermining the ability to join up interventions. This keeps local leaders dependent, rather than empowered.
- **No decisions.** Because the additional tax revenue that growth generates flows back to the Treasury, local leaders have less incentive to make growth-generating investments. Many still do, but they face the risk, costs and disruption without the financial upside. In a world of constrained budgets, a logical response is one of inaction.

The crux is a misalignment between local needs and central control.

Taken together, these failures point to three requirements for fiscal devolution:

- greater autonomy for strategic authorities
- a direct stake in locally generated revenues
- the ability to borrow against stable revenue streams.

Chapter 3 sets out how this should work in practice.

1.3 INTERNATIONAL EVIDENCE ON FISCAL DEVOLUTION

The international record of the impact of fiscal devolution on growth is mixed: decentralisation is not automatically good for growth (Rodríguez-Pose and Ezcurra 2011), and there is an optimum beyond which more of it can begin to hurt (Thiessen 2003, Canavire-Bacarreza et al 2020). But the effect of fiscal decentralisation is distinctly positive when it rises from low levels (Thiessen 2003). England, where only around 5 per cent of tax is retained locally, sits so far below that optimum that the question is not how much to devolve, but how to do so well.

Two design choices are pivotal for success or failure.

The first is **equalisation**. Fiscal decentralisation narrows regional inequality only where a strong redistributive capacity runs alongside it (Rodriguez-Pose and Ezcurra 2010). Framed purely as a growth problem – rather than a balance between growth and redistribution – it instead risks concentrating resources in already prosperous areas (Rodríguez-Pose and Gill 2005, Sweeney 2026). Well-designed fiscal devolution must balance these priorities: areas growing fastest must be able to retain and reinvest their increased tax take, while a national rebalancing mechanism must protect weaker economies. This is standard international practice, used in more than 20 OECD countries, including Denmark, Germany, the Netherlands and Switzerland (LGA and Localis 2020, Dougherty et al 2022).

The second is **capacity**. Institutional capacity is not a side issue for fiscal devolution; rather, it is critical to the ability of areas to absorb fiscal powers. The evidence shows that the benefits of devolution are conditional on strong institutions and human capital to effectively make use of it (Becker et al 2013, Rodríguez-Pose and Garcilazo 2015). Furthermore, fiscal devolution should not be a uniform switch thrown 'on' for everyone at once; it should build as capability grows. Accountability sits here too: power is used well only where local institutions are impartial, spend money appropriately and are answerable to residents rather than to Whitehall.

1.4 WHAT MAYORS SAY

For this report, we conducted interviews with representatives from MSAs across England, resulting in the following key insights.

Mayors want more freedom to invest

We heard that MSAs still lack the ability to flexibly invest in their places. Although the rollout of integrated settlements in recent years – whereby MSAs receive multi-year funding instead of separate government grants – provides greater freedoms than previous funding arrangements, it has not delivered as much flexibility as was hoped for. It was suggested that government departments continue to attach tight conditions to funding, which leave MSAs with limited scope to pursue more experimental approaches or investments that may take longer to produce results. In practice, much of the available funding may need to be used simply to deliver the outputs already agreed with the government. This limits MSAs' ability to take a genuinely strategic view of how funding could best be deployed across different priorities.

A preferable long-term model for mayors would involve receiving a greater proportion of funding through fiscal devolution, with MSAs having substantially more freedom to determine how those resources are used. Accountability would then shift towards the local area and its residents, rather than primarily being exercised through centrally determined departmental targets.

Fiscal devolution must come with safeguards

When it comes to what MSAs want to see as part of the government's fiscal devolution roadmap, there was widespread support for MSAs retaining a share of income tax, with some recognising that the government may consider other taxes as part of the roadmap.

But there was also a clear recognition that greater fiscal devolution would need to be accompanied by both a safety net and an equalisation mechanism, which aligns with the studies mentioned above on what is required to make fiscal devolution successful.

It was noted that protection against significant fluctuations in local revenues would be important because long-term investment depends on certainty over the level of resources available in future years. A successful system of fiscal devolution, it was argued, would ultimately mean that all, or the vast majority, of an MSA's budget would be made up of a combination of retained tax revenues and balancing payments.

Greater borrowing powers are essential for investment

Beyond this, there was a clear appetite, particularly in some of the more established MSA areas, for MSAs to be granted powers to borrow money. This would be made more viable by having a large-scale, long-term stream of revenue to borrow against. This was seen as essential to unlocking revenue to invest in long-term infrastructure and regeneration projects.

Yet interviewees recognised that there are substantial differences in readiness between MSAs, with some of the newer authorities not yet being at the same level of institutional capacity or financial maturity as some of the more established MSAs. This suggests that at least some elements of fiscal devolution, such as advanced borrowing powers, could be introduced through a tiered approach.

Fiscal devolution is the next step for English devolution

These insights from MSA representatives have played a crucial role in shaping our recommendations. Ultimately, fiscal devolution must:

- end Westminster fiscal centralisation
- provide greater flexibility to MSAs
- be fair to all places, with built-in equalisation measures
- enable more advanced MSAs to borrow to invest in long-term priorities.

The next chapter sets out how this can be delivered.

2.
TARGETING FISCAL DEVOLUTION FOR GROWTH

The core objective of fiscal devolution is to give mayors the fiscal powers they need to deliver the responsibilities best devolved to them. This chapter identifies what those responsibilities are by using two tests:

- a devolution test, to determine what is best delivered regionally
- a financing test, to determine what is best financed regionally.

Applying these tests together identifies infrastructure delivery – particularly mass transit, housing and regeneration, and industrial clusters – as the strongest candidate for 'devolution by default' for both regional delivery and regional financing. This is where fiscal devolution can be most transformative for driving investment and growth.

2.1 REGIONAL DELIVERY AND FINANCING TESTS FOR 'DEVOLUTION BY DEFAULT'

The English Devolution and Community Empowerment Act, which received royal assent in April 2026, already gives mayors more powers over infrastructure, transport and planning. The Burnham government's July 2026 cabinet statement on 'rewiring the state' goes further, committing to devolve a much wider range of responsibilities under a 'devolution by default' principle (Cabinet Office 2026a).

Devolution by default should mean giving mayors clear responsibility for the things they are best placed to do, rather than Whitehall determining individual projects from the centre. It applies at two levels: many policy areas pass the devolution test – which means they are best delivered regionally – and responsibility for these should move to mayoral strategic authorities (MSAs) by default. A narrower set passes the financing test as well; here, both responsibility and financing should sit regionally.

The devolution test: should responsibility sit at a regional level?

An area of investment is well suited to regional responsibility where it meets three criteria:

- **Regional economic geography.** The project's principal benefits are concentrated within a regional economy. National government may be too distant to reflect local needs, while mayors can coordinate investment across boundaries.
- **Value of regional coordination.** Delivery depends on coordination across policy areas, such as transport, housing, land use, energy and skills, where MSAs, in partnership with constituent councils, can use their local knowledge to coordinate around regional strategies.
- **Clear regional responsibility.** The mayoral authority can exercise meaningful control over the project and retains clear accountability for its delivery.

The financing test: should financing sit at a regional level?

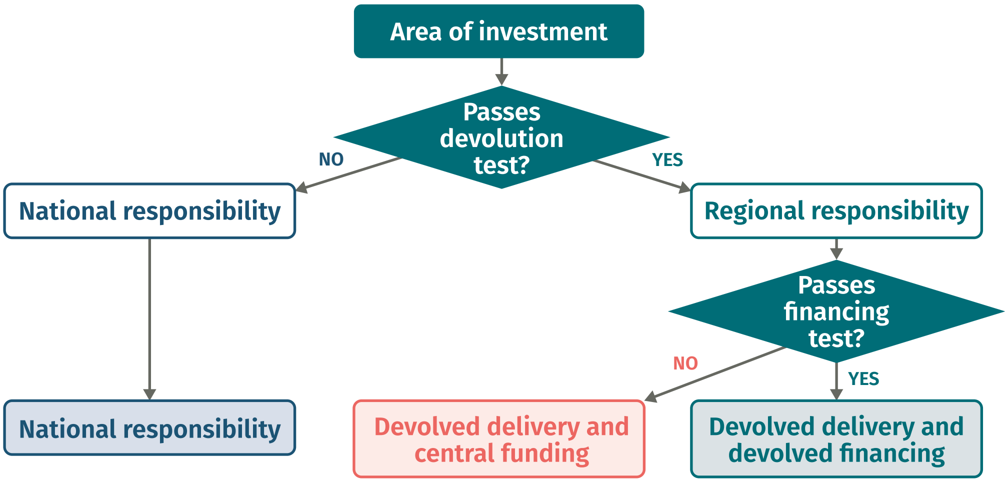
Areas of regional responsibility are also suitable for devolved financing when they meet three additional criteria:

- **Additional economic activity.** The investment supports new economic activity or removes barriers to growth. This includes enabling infrastructure, such as housing, where conventional measures may understate its economic value.
- **Identifiable and capturable revenue.** The investment generates revenue that can be captured locally to support its financing, either directly from the project, or indirectly through the development and economic activity that the project enables. This could include fares, user charges, land receipts, property tax growth or a share of additional tax revenues.
- **Predictable returns and manageable risks.** Revenue from the investment is predictable enough to support long-term borrowing. The scale of the risks should be proportionate to the MSA's capacity, with national government sharing risks that cannot be managed locally. While local borrowing ultimately remains on the public sector balance sheet, greater local responsibility should be matched by proportionate oversight and, where necessary, national support.

Figure 2.1 sets out this framework for determining whether an investment should involve national or devolved responsibility, delivery and financing.

FIGURE 2.1

A framework for determining the national or devolved responsibility, delivery and financing of investment



Examples
- National rail network
- National energy grid

Examples
- Bus service improvements
- Skills programmes

Examples
- Major regeneration schemes
- Local transport infrastructure
- Development/ infrastructure with capturable land or tax value

Source: IPPR analysis

Implications of applying the devolution and financing tests

Some areas of investment will pass the devolution test but not the financing test, meaning they are well suited to regional responsibility but not regional financing. These should be devolved for regional decision-making while continuing to be supported by central funding. Skills and employment support, arts funding and preventative health care are some examples that fall into this category. Where central funding is needed, central government should retain a role in assessing value for money and allocating national resources.

For policy areas that pass both the devolution and financing tests, mayors should have greater decision-making autonomy alongside access to devolved fiscal powers. These areas are the focus of the rest of this chapter.

2.2 FISCAL DEVOLUTION FOR INFRASTRUCTURE TO UNLOCK GROWTH

Applying the two tests together points to infrastructure as the natural starting point for fiscal devolution. More specifically, three policy areas clearly pass both the devolution test and the financing test (see table 2.1):

- mass transit
- housing and regeneration
- place-based elements of reindustrialisation, such as industrial clusters and innovation districts.

This is where regional coordination and local knowledge add the most value, and where needs vary most between places: transport and housing needs, for example, look very different in a rural area than in a city region, and each should be able to invest in what drives growth locally.

TABLE 2.1

How three policy areas pass both the devolution test and the financing test

Policy area / investment category	How it passes the devolution test	How it passes the financing test and unlocks growth	Example
Mass transit	Transport decisions need to be coordinated across multiple policy areas at a regional level, including housing and jobs. This usually spans multiple councils. A mayor can plan across the travel-to-work area.	Better transport expands access to jobs and unlocks land for development. Investment returns are also identifiable through fares, land-value uplift and growth in tax take.	Investment in a new tram links poorly connected communities to the city centre or employment site, or unlocks new housing development.
Housing and strategic development	Mayors can intervene where local housing delivery is constrained, and coordinate development at scale. This can include assembling land, building housing and funding enabling infrastructure.	Unlocking constrained sites brings forward new homes and development, supporting construction, employment and additional local revenues.	A major development that would otherwise remain stalled is built through assembling land, decontaminating the site and funding enabling infrastructure.
Industrial clusters and innovation districts	Successful industrial clusters bring many policy areas together around a place's unique economic strengths. While industrial strategy should remain nationally led, mayors can deliver a regional industrial strategy.	Coordinated investment can crowd in additional private investment and support higher-productivity jobs, driving up employment and wages.	Investment is made in transport around an advanced manufacturing district or the development of a university innovation district.

Source: IPPR analysis

Mayors already hold responsibilities across these areas, but decisions made in Whitehall continue to constrain their ability to invest. Greater fiscal autonomy would shift this balance, allowing mayors to set investment priorities and finance them over the long term. The government should therefore make mass transit, housing and regeneration, and industrial clusters the first (but not the only) areas to be devolved by default for fiscal devolution – devolving responsibility and financing together.

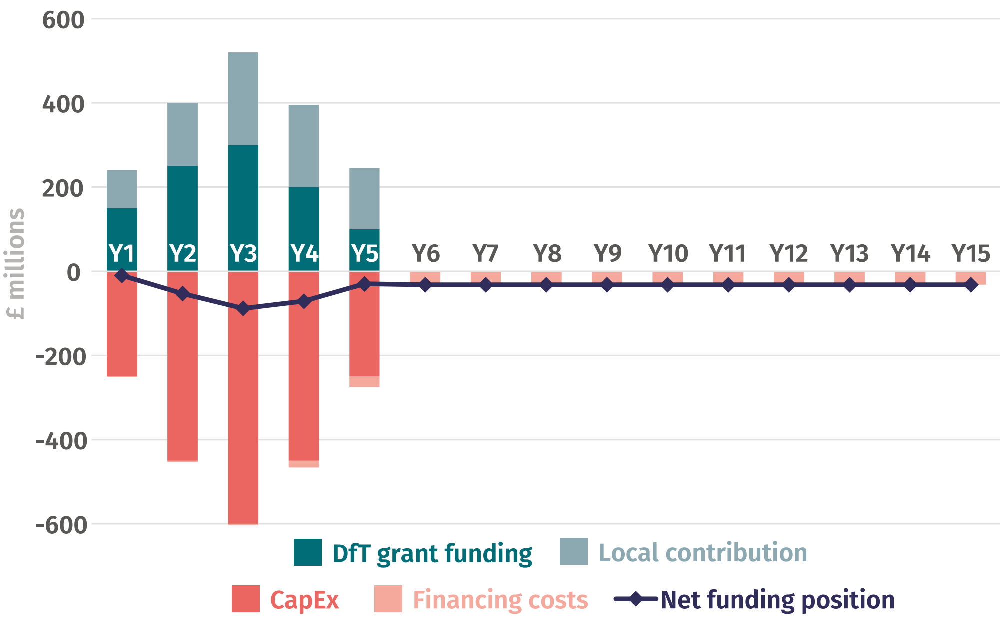
CASE STUDY: HOW FISCAL DEVOLUTION COULD SUPPORT MASS TRANSIT IN THE WEST OF ENGLAND

The West of England is one of the UK's most productive city regions, generating £54 billion in gross value added (GVA) each year and supporting around 600,000 jobs. But unlike comparable European city regions, it lacks a high-capacity mass transit system that connects residents to major employment sites. The West of England Combined Authority (WECA) has identified mass transit as central to its long-term plans, and has allocated £150 million to developing it through its Transport for City Regions settlement.

Mass transit requires substantial upfront capital investment, while many of its economic benefits materialise over decades. At this scale, it would require substantial government funding, even with greater fiscal devolution (see figure 2.2).

FIGURE 2.2

Illustrative mass transit funding profile for WECA under current fiscal arrangements (years 1–15)

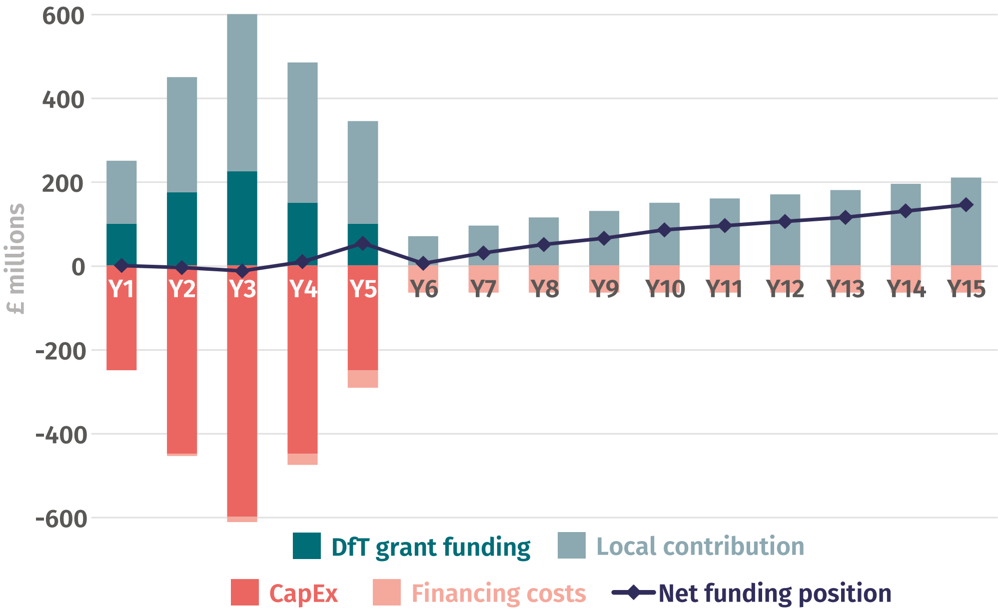


Source: Arup analysis, verified by WECA
Note: DfT = Department for Transport; WECA = West of England Combined Authority.

Greater fiscal devolution (see figure 2.3) could, however, allow WECA to capture and reinvest a larger share of the value that this investment creates. Retaining a proportion of the growth in tax revenues generated as employment and incomes grow would provide a stronger local revenue base to support borrowing and future investments. These revenue streams could also enable WECA to invest in areas such as housing, development and employment alongside mass transit, helping to unlock additional growth and retain more economic and fiscal benefits locally.

FIGURE 2.3

Illustrative mass transit funding profile for WECA with greater local revenue retention and borrowing (years 1–15)



Source: Arup analysis, verified by WECA
Note: DfT = Department for Transport; WECA = West of England Combined Authority.

2.3 IMPLICATIONS FOR WHITEHALL RESPONSIBILITIES

Devolving both responsibility and financing changes the role of Whitehall departments in key areas of policy. This is as much a political and institutional challenge as it is an economic one. A feature of England's centralisation is not only the concentration of resources but also central government control over investment decisions. Departments therefore have strong incentives to retain responsibilities, even where regional delivery would be more effective. A successful fiscal devolution roadmap must be designed to overcome this institutional bias towards centralisation.

The government's commitment to 'devolution by default' provides the basis for doing so. Rather than requiring mayors to make the case for each new responsibility or creating new gateways for individual projects, the government should ensure that policy areas that pass the devolution test belong to strategic authorities, and that Whitehall departments retain responsibility only where there is a clear case for national delivery.

Mass transit is a useful illustration. Trams and bus systems within regional boundaries should be delivered and run by mayoral strategic authorities (MSAs). Projects like High Speed 2 (HS2), which have national benefits and cut across regional boundaries, should be held centrally. For nationally led projects, mayoral authorities and councils should be represented on project boards, taking part in decision-making on local elements of the project, such as stations and connections.

However, shrinking the role of Whitehall is only viable if accountability moves with responsibility. One of the reasons why central control persists is that departmental accounting officers remain answerable for investment decisions. These officers should no longer be answerable for decisions they do not control. Regional accountability frameworks, such as regional accounting officers and audit requirements, should take their place, as IPPR North has recommended (Billingham and Sandford 2025), and the government's 'rewiring the state' announcement has since proposed (Cabinet Office 2026a). This is explored further in section 4.2.

Whitehall should also support moving capability to MSAs. Some functions rely on specialist skills that are nationally scarce, for example in bus franchising. These capacity constraints should not become a reason to retain decision-making centrally. The government can support the building of regional capability through a national secondment programme, as set out in section 3.1.

3.
DESIGNING A FISCAL DEVOLUTION FRAMEWORK

Identifying the right responsibilities for mayors is only half the challenge. Delivering on these responsibilities requires a fiscal framework that equips mayors with the capacity and financing tools to invest.

To get mayors building, fiscal devolution must give them three core powers:

- **revenue devolution** – an assigned share of tax receipts that grow with local economic success, providing revenue certainty and encouraging investment in infrastructure and productivity
- **borrowing powers** – the ability to borrow against assigned revenue to unlock upfront investment in infrastructure before its benefits are realised, while remaining accountable to national fiscal rules
- **spending autonomy** – the freedom to apply local knowledge about where revenue is best spent to drive growth according to the needs of their places.

This chapter sets out a roadmap for achieving this. It proposes four reforms:

- building fiscal capability at every tier of devolution
- reforming integrated settlements as a bridge towards assigned tax revenues
- creating a new advanced tier of fiscal maturity
- pairing revenue devolution with borrowing powers.

DEVOLUTION MATURITY TIERS

This chapter builds on the framework of the English Devolution and Community Empowerment Act enacted in April 2026. This Act rolls out strategic authorities across England in a tiered system, with more powers and funding at each tier. Areas move from being a foundational strategic authority (FSA) (a combined regional authority made up of local authorities), to a mayoral strategic authority (MSA) when they elect a mayor, to an established mayoral strategic authority (EMSA) when they receive integrated settlements. This a single pot of devolved funding, which allows for further funding flexibility.

There are currently 11 established MSAs: Greater London, Greater Manchester, the West Midlands, the North East, Liverpool city region, South Yorkshire and West Yorkshire; and Cambridgeshire and Peterborough, the East Midlands, the West of England, and York and North Yorkshire, which received EMSA status in July 2026.

3.1 BUILDING FISCAL CAPABILITY ACROSS DEVOLUTION TIERS

Mayors should not be locked out of new fiscal powers until those powers reach full maturity. Every tier of devolution can be given additional powers now – changes that kickstart growth across the country immediately as they move to the advanced tier of fiscal devolution. We suggest that the government should level up foundational strategic authorities and MSAs with the following.

- **A national secondments and training programme for all strategic authorities.** The government should build on early commitments to secondments (Cabinet Office 2026b) by establishing a structured training and secondment programme between strategic authorities, Whitehall departments and councils, to transfer fiscal and delivery experience at pace. This could include the twinning of strategic authorities of different maturities facing similar challenges, to share expertise and support delivery capacity. In time, all authorities at the regional level should be supported to build strong regional growth policy and research functions. This aligns with the evidence that shows the crucial importance of human capital in delivering devolution well (Rodríguez-Pose and Garcilazo 2015).
  - **Illustrative scenarios:** an official from Manchester City Council is seconded to Cumbria to share experience of introducing a visitor levy; an official from HM Treasury is placed in the North East MSA to help with managing tax-receipt volatility; and a West Yorkshire transport official is placed in the Department for Transport to learn about mass-transit delivery.
- **A visitor levy, and the machinery to collect it.** The government should give strategic authorities, including foundational strategic authorities, the option to introduce and collect an overnight visitor levy – to create an immediate revenue stream and build tax administration capability. In areas without a strategic authority, the power could sit with local authorities to ensure all places benefit from the visitor levy immediately.
- **Illustrative scenario:** York and North Yorkshire Combined Authority implements a £2-a-night visitor levy, raising £52 million a year, which could triple the mayoral investment budget (Edwards 2025).

To drive regional growth, these changes should come with an explicit commitment in the fiscal devolution roadmap to help authorities progress through the devolution tiers as quickly as possible, to reach an end state where established MSAs span the whole of England. Once an MSA becomes established, the next step is to reform the integrated settlements they already have.

3.2 REFORMING INTEGRATED SETTLEMENTS

Integrated settlements are the natural bridge between Whitehall grant funding and genuine fiscal devolution. They give MSAs more flexibility over spending, but they are fundamentally grant based, with central government determining funding levels and delivery outcomes. These settlements only came into effect for many strategic authorities in 2026, meaning MSAs are at different starting points and level of experience; rather than replacing the settlements immediately, the roadmap should fundamentally reform them, to prepare all strategic authorities for full fiscal devolution.

We advocate doing this by:

- **Rebasing settlements onto a share of income tax.** Integrated settlement budgets should be administered as a share of national tax, such as income tax, to start shifting from Whitehall-led to mayor-led budgets and build capacity for further fiscal devolution. Mayoralties should then retain growth in tax receipts that come from strategic investments, creating an incentive for local economic success. Over time, this approach could extend to a wider range of funding allocated to MSAs, further reducing reliance on individual Whitehall grants.
- **Moving away from a detailed Whitehall outcomes framework towards strategic accountability for growth.** The existing outcomes framework should be substantially simplified, or ultimately replaced, with accountability focussed on a small set of strategic growth indicators such as productivity, employment, earnings and private investment, or indicators aligning with local growth plans. Departmental outcomes should still count, but should

sit within a leaner framework to allow mayors to set a strategic direction and invest with more flexibility.

3.3 A NEW DEVOLUTION TIER – ADVANCED MSAS AND SHARE OF NATIONAL TAXES

The government has committed to replacing grants with a share of local income tax for all mayors from 2028 (Cabinet Office 2026a). This is the right direction of travel and in line with our recommendations in this report. Income tax devolution is particularly well suited to this because it provides a broad and relatively buoyant revenue base, giving mayors a direct financial stake in growing employment in their region.

The fiscal devolution roadmap should build on this commitment. All MSAs should be able to retain a share of the growth in tax revenues generated in their area. The reforms to integrated settlements in section 3.2 provide the mechanism for beginning this transition, with settlements linked to local income tax revenues rather than fixed Whitehall grants. This would allow all areas to benefit directly from growth in their local tax base.

IPPR estimates that 2.5 per cent of income tax would equal existing integrated settlements. An ambitious settlement would assign 5 per cent, shifting an additional £3.8 billion a year from Whitehall to mayoral control.[1] This would not involve an increase in income tax, but would instead replace existing Whitehall funding through integrated settlements with a larger and more autonomous devolved revenue stream.

It is crucial that the most capable authorities go further and faster. We therefore propose adding a new and final maturity stage for genuine fiscal devolution: the advanced mayoral strategic authority. The distinction between established and advanced MSAs is in revenue and autonomy. While established MSAs would receive income tax through an integrated settlement tied to devolved responsibilities, advanced MSAs would retain and manage a share of the tax revenues they generate. For established MSAs, integrated settlement funding would vary with local income tax performance through periodic rebasing, allowing mayors to benefit from growth in local revenues. Advanced MSAs would go further by gaining greater flexibility over how these revenues are spent and the ability to borrow against them. This comes with the full autonomy to invest, borrow and shape long-term economic development.

Advanced status is the most demanding rung of all: managing assigned revenues and borrowing against them asks more of an authority than at any earlier stage. MSAs could progress to this stage through transparent criteria, such as after demonstrating their capability to manage existing devolved revenues responsibly after three years of successfully managing integrated settlements, and implementing accountability mechanisms.

However, this should not create further bureaucratic hurdles. Readiness assessments should be backwards looking, recognising existing track records and allowing the most mature established MSAs to progress immediately. Equally, some established MSAs have one or two years of experience managing integrated settlements, and this time should also be counted for readiness assessments.

The end goal is for all MSAs to become advanced MSAs as soon as possible when they have the capability and accountability measures in place to do so, rather than creating a permanent, two-track system. It would ensure that, by

1 Methodology: IPPR modelled different shares of 2025 English income tax assigned to mayors, under the assumption that it will replace 2025 integrated settlements which covers 40 per cent of England. Values of different income tax shares were compared with current integrated settlement funding to determine how much additional funding each scenario would place under mayoral control.

2028, all mayors have a share of income tax and fiscal powers commensurate with their institutional maturity.

The precise legal mechanism for establishing advanced status will require further consideration, including whether it can be delivered through the existing devolution framework or requires legislative change.

3.4 BORROWING POWERS

Borrowing powers are the final piece of the fiscal devolution puzzle and are essential for translating devolved revenues into infrastructure delivery. This is because infrastructure investment requires substantial upfront capital, while the revenues and wider economic benefits accrue over many years. The aim is not unconstrained borrowing, but targeted borrowing tools consistent within the fiscal rules that the government decides to set and the spending envelopes spelled out in spending reviews. This should let mayors invest against their expected income tax revenue streams, which provide the certainty needed to do so.

Borrowing autonomy should increase with an authority's fiscal capability. All MSAs should have access to borrowing for smaller-scale infrastructure investment, while advanced MSAs should be enabled to undertake relatively larger borrowing for more complex projects. The following are concrete recommendations that should be built into the roadmap.

Building investment capacity: all MSAs

- **Establish infrastructure revolving funds.** For MSAs with more limited borrowing capacity, the government should establish an infrastructure revolving fund of £20–50 million per MSA to finance smaller-scale projects, such as smaller public transport improvements and grid connections. This fund would enable newer MSAs to build the financial capability needed to take on greater borrowing autonomy over time. Repayments from investments could be recycled into future projects, allowing the fund to support successive rounds of infrastructure investment.

Greater borrowing autonomy: advanced MSAs

- **Codify tax increment financing (TIF).** Tax increment financing lets a strategic authority borrow against the future increases in tax revenues that its own investment generates. A clear statutory framework would make tax increment financing a standard financing tool that, if certain conditions are met, is scalable for all advanced MSAs, rather than relying on case-by-case agreements. This is commonplace in other countries, and could be transformational for infrastructure delivery. The framework should set out clear eligibility requirements, where these revenue increases can be projected with reasonable confidence. This is likely to be best suited for property-based taxes such as business rates.
- **Consolidate borrowing controls under the prudential framework.** Under the current system, strategic authorities periodically agree to an overall borrowing cap with HM Treasury, before setting their own prudential borrowing limit within that ceiling based on affordability and risk. For advanced MSAs, this first step of negotiating a borrowing ceiling should be removed to reduce bureaucracy. Instead, borrowing should be governed through a strengthened and standardised prudential framework, with common risk metrics and powers for targeted intervention where an authority is mismanaging its finances.

Further options for financing strategic development

Alongside these reforms, the government could explore further options for expanding the financing available for the strategic development of MSAs, including the following.

- Empowering mayoral development corporations, which are a key vehicle for delivering strategic growth projects such as new towns – the government could establish a framework to determine which categories of development corporations, or classes of their physical assets, qualify as part of the 'public sector net financial liabilities plus' (PSNFL+) rule, allowing them to borrow to invest outside this rule, within spending review envelopes.
- Enabling land value capture for MSAs, exploring how MSAs could more effectively capture a share of the increases in land and property values that public investment generates and use these revenues to support infrastructure financing.

4.
CONDITIONS FOR SUCCESS

For fiscal devolution to support regional growth and prosperity, it must also be fair and sustainable. The international evidence and our interviews with mayoral strategic authorities (MSAs) point to two essential conditions for success:

- Fiscal devolution must include a redistributive mechanism to prevent increasing regional inequality.
- Greater fiscal powers must be accompanied by strong regional accountability.

Together, these conditions ensure that fiscal devolution is equitable and long lasting, providing the confidence needed for the centre of government to devolve greater powers.

4.1 EQUALISATION AND FAIRNESS

Problem: growth leads to divergence

Section 1.2 showed that, without redistribution, fiscal devolution risks concentrating growth in areas that are already growing, rather than closing the gap between regions (Rodríguez-Pose and Gill 2005, Sweeney 2026). This is especially important in England, where regions differ greatly in the strength of their economies, their economic geography and the capacity of their mayors. Fiscal devolution must therefore be paired with an equalisation mechanism, which enables high-growth areas to realise their potential while ensuring weaker economies are not left behind. Equalisation should operate at two stages.

Transition solution: equalisation mechanism in the short to medium term

Central government currently performs an equalisation function by raising revenue nationally and redistributing it to areas to provide them with similar opportunities and living standards. Fiscal devolution should not replace this role immediately or entirely. Instead, it should enable central government to focus on areas that need support the most, made possible by higher growth areas delivering on key priorities with less central oversight.

As integrated settlements are rebased onto a share of national tax, and mayors retain the uplift from a growth in tax receipts, diverging rates of growth could lead to a widening funding gap over time. A similar issue exists for devolved business rates, where local council areas with more valuable property may raise more than others. A solution already exists for this at the local government finance level, in the form of a 'tariff and top-up' mechanism. The same mechanism should apply to integrated settlements rebased on income tax: establishing a funding floor, and redistributing a proportion of revenues from stronger economies to weaker ones, while still allowing MSAs to retain a defined share of the growth they generate. To preserve growth incentives, tariffs should be reset every three to four years rather than annually.

End state: equalisation mechanism in the long term

The long-term objective is an England with every region covered by an advanced MSA with responsibility for a share of national tax revenues. At this point, equalisation would no longer operate through integrated settlements, and the tariff and top-up equalisation mechanism should evolve into a permanent national equalisation system. This would redistribute funding between advanced MSAs according to differences in their underlying fiscal capacity, while ensuring that they can continue to benefit from growing their own tax base.

Germany offers an instructive model: it developed its fiscal equalisation system following reunification, which allows regions to retain the benefits of economic growth while redistributing a proportion of revenues to maintain comparable standards of living across the country (LGA and Localis 2020). A mature English fiscal devolution settlement should operate with the same principle: rewarding local growth without furthering regional inequalities.

4.2 ACCOUNTABILITY

As authorities gain fiscal powers, the safeguards that come along with those powers are crucial for building trust, and this will have direct implications for the relationship of England's new tier of regional governance to the public, local authority leaders, parliament and government. Accountability is important in three main ways:

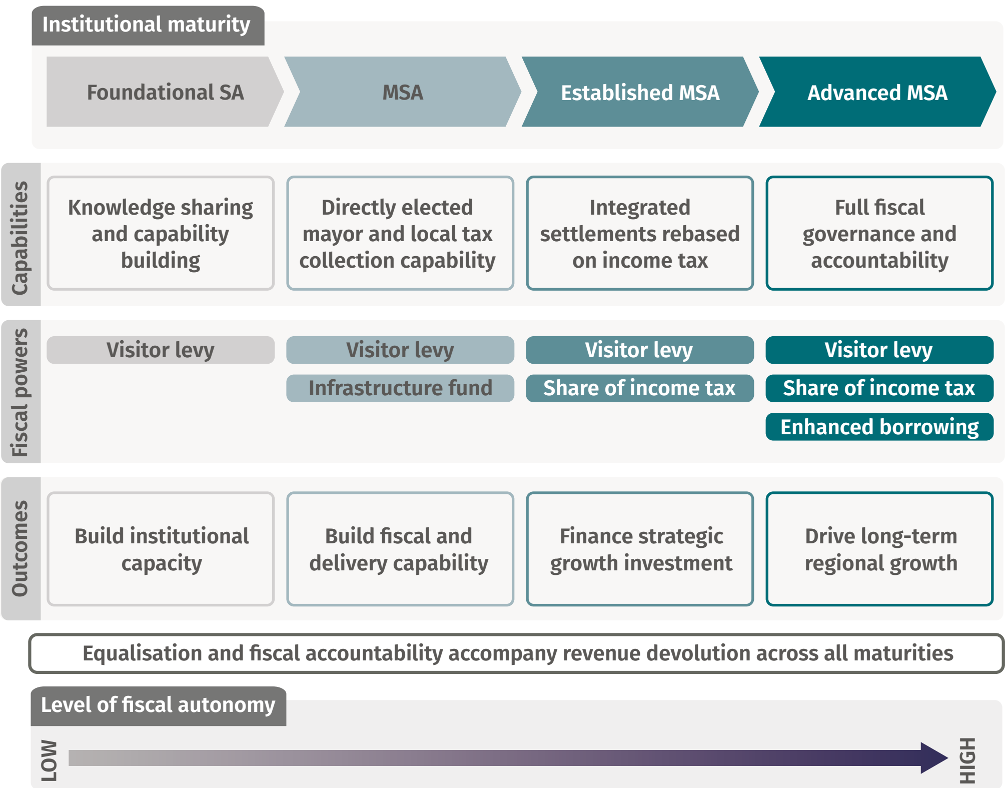
- **Financial accountability.** As set out in section 3.4, borrowing against devolved revenues should stay within the Treasury's fiscal rules and national financing and transparency frameworks.
- **Democratic accountability.** Where responsibility moves to a mayor, accountability must move with it. This means mature authorities at the regional level appointing their own accounting officers, in place of Whitehall permanent secretaries, and establishing local audit offices for how money is spent and what it delivers.
- **Institutional accountability.** Fiscal autonomy requires local institutions that are resistant to the misuse of funds, corruption and elite capture by lobbying interests. Advanced MSAs should therefore face enhanced transparency and audit requirements. As part of this, we propose introducing mayoral authority accountability committees, which would expand and professionalise the current role of mayoral authorities' overview and scrutiny committees, as IPPR North has previously set out (see Billingham and Sandford 2025).

Together, these make fiscal devolution something that strengthens public trust in how regional economies are run to establish a sustainable fiscal devolution settlement.

5. RECOMMENDATIONS

FIGURE 5.1

Summary of recommendations: Roadmap for increasing fiscal autonomy as regional institutions mature, linking capabilities and fiscal powers



Source: Arup and IPPR analysis

The government recognises that fiscal devolution is a once in a generation opportunity to drive regional growth. In this report we have set out the blueprint for this: what to devolve, the fiscal powers to deliver on it and the safeguards required to make it ambitious, fair and sustainable. Much can begin now, and most or all can be in place by 2028. The prize is enormous, and the risks are real. We recommend the following to ensure fiscal devolution delivers.

WHAT AREAS OF RESPONSIBILITY ARE BEST DEVOLVED?

- Enforce the proposed 'devolution by default' operating principle by ensuring that policy areas that pass the devolution test belong to mayors, supported by regional accountability frameworks rather than Whitehall departmental oversight. (section 2.1)

- Consider mass transit, housing and regeneration, and industrial clusters as the first candidates for devolution by default for regional delivery and regional financing. (section 2.2)
- For nationally led projects, relevant mayoral authorities and councils should be represented on project boards and take part in decision-making. (section 2.3)

WHAT FISCAL POWERS ARE NEEDED?

- Put every strategic authority on a pathway to greater fiscal autonomy, with a clear route for all MSAs to the established and advanced tier of fiscal devolution. (section 3.1)
- Establish a national secondment and training programme between central, regional and local government to share expertise, learning and delivery capacity. (section 3.1)
- Enable every strategic authority (and local authority where a strategic authority is not yet present) to implement a visitor levy to generate revenue and build tax collection expertise. (section 3.1)
- Reform integrated settlements as the bridge to fiscal devolution by rebasing them onto a share of income tax and replacing departmental conditions with a smaller set of strategic growth outcomes. (section 3.2)
- Create a new advanced MSA tier for authorities ready for genuine fiscal autonomy, allowing them to retain and manage an assigned share of tax revenues. Readiness assessments should recognise existing track records so that mature authorities can progress immediately. (section 3.3)
- Assign 5 per cent of English income tax revenues to mayors of AMSAs, shifting an additional £3.8 billion a year from Whitehall to mayoral control and roughly doubling devolved funding. (section 3.3)
- Give MSAs greater borrowing and investment powers according to their fiscal capability. Establish infrastructure revolving funds for newer MSAs and a statutory framework for tax increment financing (TIF) and greater autonomy under a strengthened prudential framework for advanced MSAs. (section 3.4)
- Explore further options for financing strategic development through mayoral development corporations and land value capture. (section 3.4)

WHAT EQUALISATION AND ACCOUNTABILITY SAFEGUARDS ARE REQUIRED?

- Introduce a tariff and top-up mechanism alongside reformed integrated settlements, protecting places with weaker tax bases while ensuring strategic authorities retain a reward for growth. This should evolve into a permanent national equalisation system as authorities progress towards full fiscal devolution. (section 4.1)
- Implement fiscal, democratic and institutional accountability measures to move scrutiny over spending from the central to the regional level, including through establishing local accounting officers, establishing local audit offices and introducing mayoral authority accountability committees. (section 4.2)

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