No Government Can Deliver Long-term Growth Without Ambitious Fiscal Devolution

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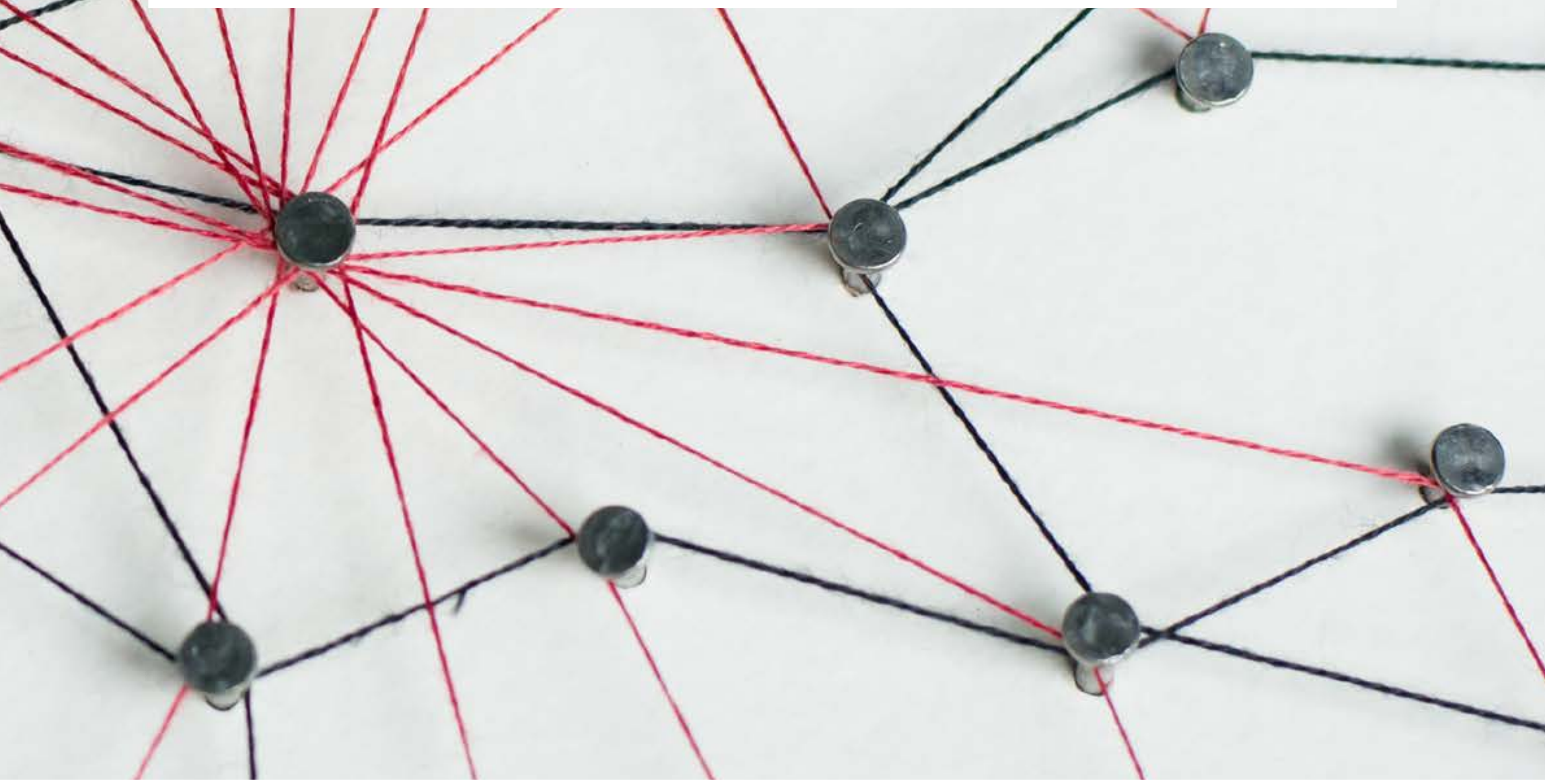

All-Party
Parliamentary Group
on Local Government

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Executive summary

Last month, Sir Keir Starmer tendered his resignation. As Sir Keir's administration draws to a close, it is important to reflect on what has changed: the Government did begin to build England's new devolution settlement. The English Devolution White Paper, the legislation that followed, the announcement of a Visitor Levy and the Chancellor's commitment in the Mais Lecture to begin assigning a share of income tax to strategic authorities all represented meaningful steps forward. But those developments were not enough to meet the moment. Having been rolled out first in the devolved administrations of Scotland and Wales, and in London, devolution has been a quarter century experiment. It is now at an inflection point — and it demands radical change and bold, new leadership.

Andy Burnham is widely expected to become the Prime Minister this month. He has built his leadership pitch on a promise to rewire the UK, to create "good growth in every postcode" and shift power decisively out of Whitehall. [01] After decades of incrementalism, as the County Councils Network told this APPG, "there has never been a better time to be radical".[02] The next Prime Minister should heed that advice. In his first speech since becoming the presumptive Prime Minister, there are signs that Burnham is serious. Announcing a new No10 operation in the north of England is an important signal, but it will be tantamount to moving the deck chairs on the Titanic if Burnham's administration does not take substantive steps to change how the UK, and England in particular, is governed.

To make sure that every city, town and village benefits from Burnham's vision of devolution, the new Prime Minister must ensure that fiscal devolution benefits the whole of England. Fiscal devolution should not create a privileged class of strategic authorities. Every part of England should have a credible pathway to greater fiscal autonomy, albeit through different powers exercised at different tiers of government. That will require taking steps to ensure disadvantaged communities get extra help, so that they can provide the same opportunities — employment, training and good-quality housing — as their more affluent counterparts. Policy-makers call this equalisation. Strategic and local authorities must also be ready for fiscal devolution, and accountable once they take advantage of it. With these ingredients in place, Burnham can take real, meaningful action.

01 Andy Burnham speech, 29 June 2026.
02 Written Evidence — County Councils Network.

In this report, we set out how this new way of governing from 'outside' of Westminster can be achieved. The incoming government can facilitate that change with a renewed emphasis on the following:

1. **Delivering a new settlement for England that gives places meaningful control over public finances.** If the Government devolves in their entirety taxes such as Landfill Tax and the Growth and Skills Levy or assigns a proportion of taxes such as Income Tax and Stamp Duty Land Tax, analysis conducted for the APPG suggests that as much as £79 billion could be made available.

2. **Matching fiscal devolution with the responsibility for delivering public services and growing local economies.** Fiscal devolution will only succeed if local institutions possess the powers needed to influence their tax base. The Government should align fiscal devolution with further devolution of economic development, employment, skills, transport and housing functions in strategic authorities, creating institutions capable of growing regional economies, strengthening public services and improving living standards. Given the financial pressures on local authorities, the Government should also progress the review of their statutory responsibilities, which have continued to increase year after year.

3. **Building a fiscal settlement for England based on fairness, stability and accountability.** Fiscal devolution must sit alongside a transparent national equalisation framework, stronger local democratic accountability and investment in institutional capability in both strategic and local authorities. The Government should establish an independent, rules-based equalisation system, strengthen scrutiny arrangements and ensure authorities have the financial and analytical capacity required to manage greater fiscal responsibilities. This should become the enduring feature of English fiscal devolution.

4. **Modernise England's outdated and fragmented system of local taxation.** The Government should use fiscal devolution as the catalyst for wider reform of local government finance by committing to a national council tax revaluation programme, introducing additional council tax bands for the highest-value properties, increasing local discretion over business rates and enabling full cost recovery for statutory services. Fiscal devolution needs to be explicitly dual-track, as strategic and local authorities require different forms of fiscal autonomy.[03] Together, these reforms would create fairer, more resilient public services.

5. **Publish a long-term roadmap that gives every part of England a route into fiscal devolution.** The APPG is critical of how the Government has taken forward its roadmap, which is largely HM Treasury led, but is supportive of the principle. The incoming administration should build on the work already undertaken by the Treasury and publish a comprehensive fiscal devolution roadmap at the Autumn Budget, setting out a clear timetable for reform and a pathway that ensures every part of England can ultimately benefit. There is an opportunity to develop the roadmap in a manner that reflects the more collaborative approach to government that Burnham is championing.

03 Breckland Council highlighted the importance of a "careful balance" between strategic and local authorities. Written Evidence — Breckland Council.

Introduction

Half a century ago, in 1976, the Layfield Committee on Local Government Finance reached a conclusion that remains strikingly relevant today. Introducing the report to Parliament, Baroness Birk, then Parliamentary Under-Secretary of State at the Department of the Environment, put its conclusion simply: the design of any system of local government finance ultimately depends on the relationship to be struck between central and local government.[04] The Government of the day chose to preserve the centralised status quo rather than devolve meaningful tax-raising powers. Fifty years on, as Andy Burnham is widely expected to become the next Prime Minister, he will confront a similar constitutional question: what relationship does he want to exist between central government, mayors and local leaders — and how much power is Westminster, under his premiership, prepared to let go?

In his first speech since becoming the presumptive Prime Minister, Burnham put forward both diagnosis and solution: England has witnessed a "stark imbalance" in resources between central and local government that is "holding back growth". According to the Makerfield MP, it requires the "biggest rebalancing of power the country has ever seen".[05] His rhetoric echoes much of the rhetoric by the Chancellor in March. In her Mais Lecture, Rachel Reeves committed to a "permanent transfer of power and resources" which she described as representing a "genuine break with the past".[06] This ambition is welcome and long overdue, placing the issue firmly at the heart of the national debate and creating the prospect of one of the most significant developments in English devolution for a generation.

But despite the rhetoric the Treasury's approach has been far too cautious and Burnham will need to match words with action in a way that his predecessors have not. Reeves indicated that she would explore the assignment of a fixed share of nationally collected revenues, including Income Tax. But she ruled out local flexibility over existing taxes, made explicit that reform would be fiscally neutral — meaning the source of funding would change, but the quantum would not — and her focus was only on places with the greatest capacity to benefit.[07]

The APPG understands that caution. The cost-of-living is placing household finances under considerable pressure and any programme of fiscal devolution must command public confidence. Half of the public already think that taxes are too high, and the public are deeply divided over whether taxes should increase to improve public services.[08] However, this caution and incrementalism undermines the transformative potential of fiscal devolution. As currently conceived, the outgoing government's approach is too narrow and risks creating a two-tier system of fiscal devolution, confining meaningful fiscal autonomy to a small number of places while leaving many cities, towns and counties behind. Unless the next administration takes a different path, plans laid in the Mais Lecture will fail the Makerfield Test and undermine the ambition to spread growth and opportunity across England. In short, the APPG does not accept that strategic authorities alone should be the beneficiaries of fiscal devolution.

The outgoing government presented fiscal devolution as an instrument for economic growth. While growth is an essential objective, the prize is far greater than additional revenue or stronger local incentives. Fiscal devolution should be understood as part of a wider transformation in how England is governed.

Though the Milburn Review observed it in a different context, Alan Milburn's words resonate: "the current architecture itself is the problem, and no amount of reform to individual policy areas will fix it."[09] The same theory of change applies to fiscal devolution. England's over-centralised system of government has become a barrier not only to growth, but also to more effective public services, stronger democratic accountability and better long-term decision-making.

The next administration therefore has an opportunity not simply to reform local finances, but to reshape the architecture of the English state. A meaningful programme of fiscal devolution, combined with mature strategic authorities capable of integrating transport, housing, skills, health, employment and economic development, alongside financially resilient local authorities delivering neighbourhood services and exercising strong community leadership, would provide the foundations for a genuinely new whole-system approach to government. Rather than managing individual funding streams from Whitehall, the Government should empower places to solve their own challenges and set their own future.

International evidence demonstrates that countries which combine fiscal autonomy with strong sub-national institutions achieve more than stronger economic performance. Properly designed systems strengthen the financial resilience of local institutions, improve place-based policymaking, enhance democratic accountability and help reduce regional inequalities. Fiscal devolution is therefore not an end in itself; it is the financial architecture that enables a more integrated, more preventative and more locally accountable model of government.

04 The Department of Education evolved into the Ministry of Housing, Communities and Local Government. House of Lords, Hansard, 19 May 1976.
05 Speech by Andy Burnham on 29 June 2026.
06 HM Treasury, Mais Lecture 2026, 2026.

07 Amin Smith, N. et al. Taking control: which taxes could be devolved to English local government?, Institute for Fiscal Studies, 2019.
08 YouGov, Can the UK's financial problems be solved solely by taxing the rich, 2025.
09 Milburn, A. Young people and work: interim report, Department for Work and Pensions, 2026.

England's challenge: centralisation

The UK is among the most centralised countries in the OECD — and England is the most centralised part of the UK. The fiscal devolution to the devolved administrations of Scotland, Wales and Northern Ireland demonstrates the benefits of granting places greater control over their own resources. Over the past quarter-century, the devolved administrations have been able to tailor policies to local priorities and circumstances, often choosing different approaches from those pursued by successive UK governments. In many cases, this has reflected a stronger emphasis on universal public services. Wales abolished prescription charges in 2007, while Scotland followed suit in 2011. Scotland also introduced free eye examinations and free university tuition and, alongside Northern Ireland, provides more generous social care, including free personal care.[10]

This policy divergence from the UK Government has been underpinned by greater fiscal autonomy. The Welsh Government has powers over Welsh rates of Income Tax, Land Transaction Tax and Landfill Disposals Tax, alongside wider control over council taxes and business rates. Welsh rates of Income Tax alone are forecast to raise £3.6 billion in 2025–26.[11] Whereas the Scottish Government has powers over the rates and bands of Income Tax, alongside fully devolved taxes including Land and Buildings Transaction Tax and Scottish Landfill Tax. Scotland's Income Tax is forecast to raise £21.5 billion in 2026–27, making it the largest devolved tax revenue stream anywhere in the UK and clear evidence that major tax devolution can be administered "reliably across places" within "well-defined rules" at scale.[12] Scotland also has devolved responsibility for local taxation, including council taxes and business rates.

Holyrood and the Senedd therefore exercise powers over significant tax revenues and have access to fiscal tools that allow them to align revenue with spending decisions. It has enabled devolved administrations not only to administer policies differently, but to make substantive choices about priorities, investment and public services.

England's devolution settlement, on the other hand, has evolved very differently. While successive governments have transferred responsibilities for transport, skills, housing and economic development to strategic authorities, the UK Government has retained overwhelming control over the revenues that fund those responsibilities, despite the economies of many strategic authorities being comparable in size to the devolved administrations of Scotland and Wales. As a result, England has developed a system in

10 Atkins, G. et al. Devolved public services: the NHS, schools and social care in the four nations, Institute for Government, 2022.
11 Adam, S. et al. The Welsh Government's record on tax and benefit policy, Institute for Fiscal Studies, 2026.
12 Phillips, D. What is devolved to the Scottish Parliament and Welsh Senedd, Institute for Fiscal Studies, 2026. Phillips, D. A rocket booster has been fired under the tax devo debate, Municipal Journal, 23 March 2026. Scottish Government, Scottish Income Tax 2026 to 2027: technical factsheet, 2026.

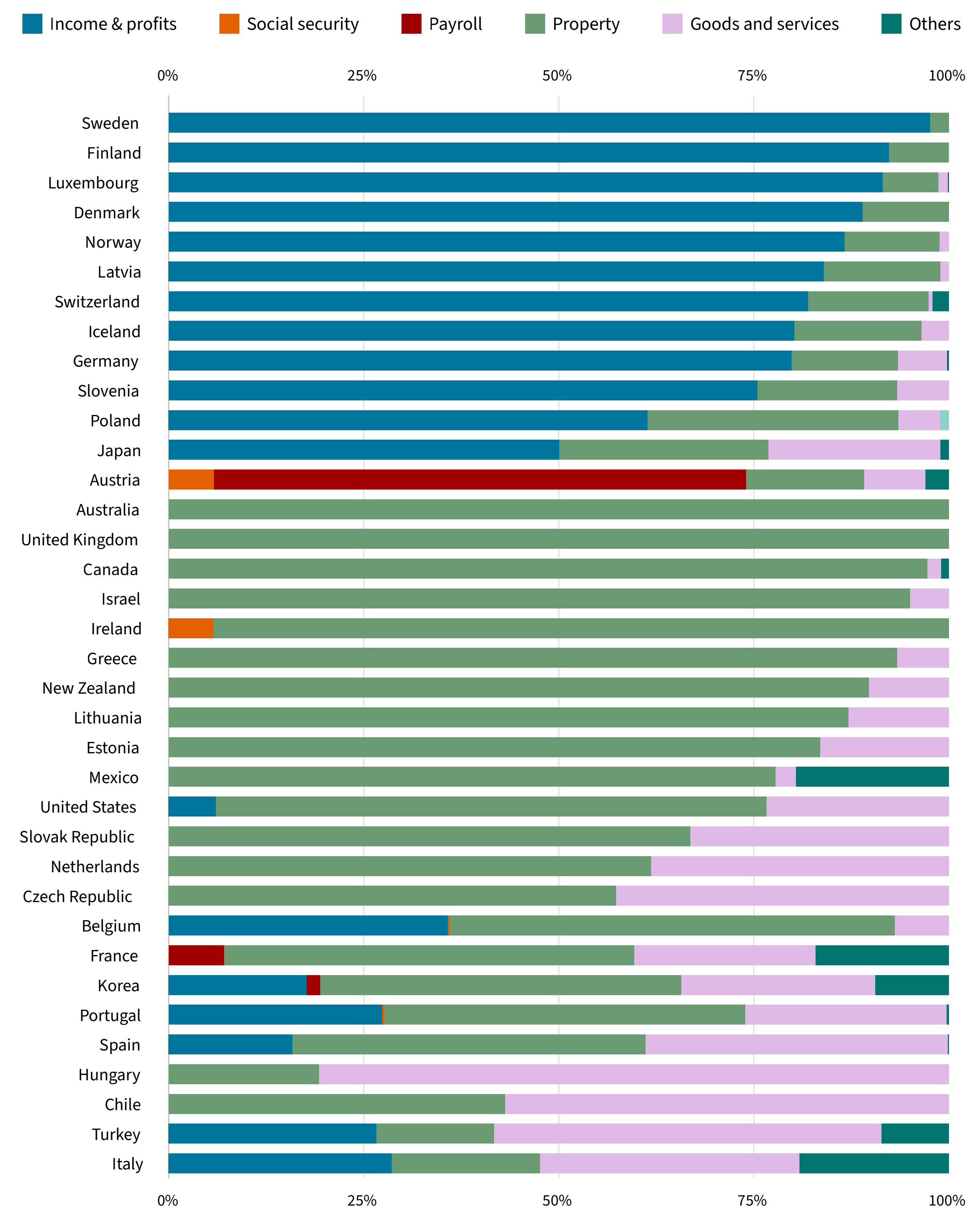
which new competencies have increasingly been devolved but fiscal autonomy has not.

Within England, the introduction of the Integrated Settlement and the anticipated Overnight Visitor Levy for strategic authorities mark a shift towards granting them more autonomy over their finances and greater control over taxation and expenditure, though early evidence suggests that the Integrated Settlement has not been as transformative as anticipated.[13]

There has also been change in England's local authorities. The new Fair Funding Review updated the formulae that underpinned funding since 2013-14. The Government introduced a multi-year Local Government Finance Settlement for the first time since 2016-17, modernised council tax collection and has taken steps to place the Housing Revenue Account of stock-owning authorities on a more sustainable footing. Each reflects an awareness of the acute pressures local authorities are witnessing.[14] But, despite this progress, English councils remain heavily reliant on two property-based taxes: council tax and business rates. Both are subject to extensive central government control. OECD evidence highlights that Australia and the UK are the only countries that rely exclusively on property taxes, as Figure 1 highlights.[15] Council tax increases are constrained through nationally determined Referendum Principles — which were introduced in the Localism Act of 2011 — while business rates are designed, capped and periodically reset by central government.[16] What is more is that for local authorities the direction of travel is not one-way, with signs that the Government will be more interventionist in local government. It warned, for example, that it will take "direct intervention" where authorities take "excessive risks" in their borrowing and investment practices, drawing on powers granted to the Secretary of State under the Levelling Up and Regeneration Act of 2023.[17]

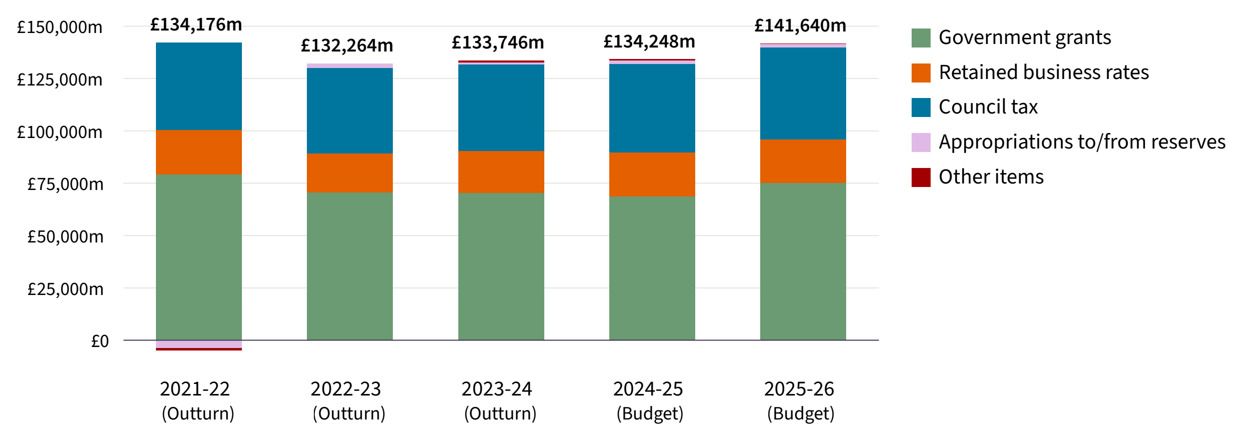
13 HM Treasury and the Ministry of Housing, Communities and Local Government, Visitor Levy Consultation: A consultation on the design of a new Mayoral power to create visitor levies on overnight stays in England, 2026. Shaw, J. Integrated Settlements part two: evolution, not revolution?, Local Government Information Unit, 2026.
14 MHCLG, The Fair Funding Review 2.0, 2025. MHCLG, Modernising and improving the administration of council tax, 2026. Written Evidence — Dr Kevin Muldoon-Smith, Northumbria University.
15 OECD, Revenue statistics, 1965-2017: special feature — convergence of tax levels and tax structures in OECD countries, 2018.
16 MHCLG, The Referendum Principle Report 2026-27, 2026. Written Evidence — Professor Andy Pike and Professor Naoki Fujiwara.
17 Written Ministerial Statement, Local government reorganisation, UIN HCWS1455, 25 March 2026.

Figure 1: Main local government taxes, 2016 (% of total tax revenues of local government, by tax category)



Source: OECD Revenue Statistics 2018, Table 3.18 - Main local government taxes as % of total tax revenues, 2016.

Figure 2: Financing of revenue expenditure, England, outturn 2021-22 to 2023-24 and budget 2024-25 to 2025-26 (real terms)



Source: Ministry of Housing, Communities & Local Government, Accredited official statistics, Local authority revenue expenditure and financing: 2025-26 budget, England

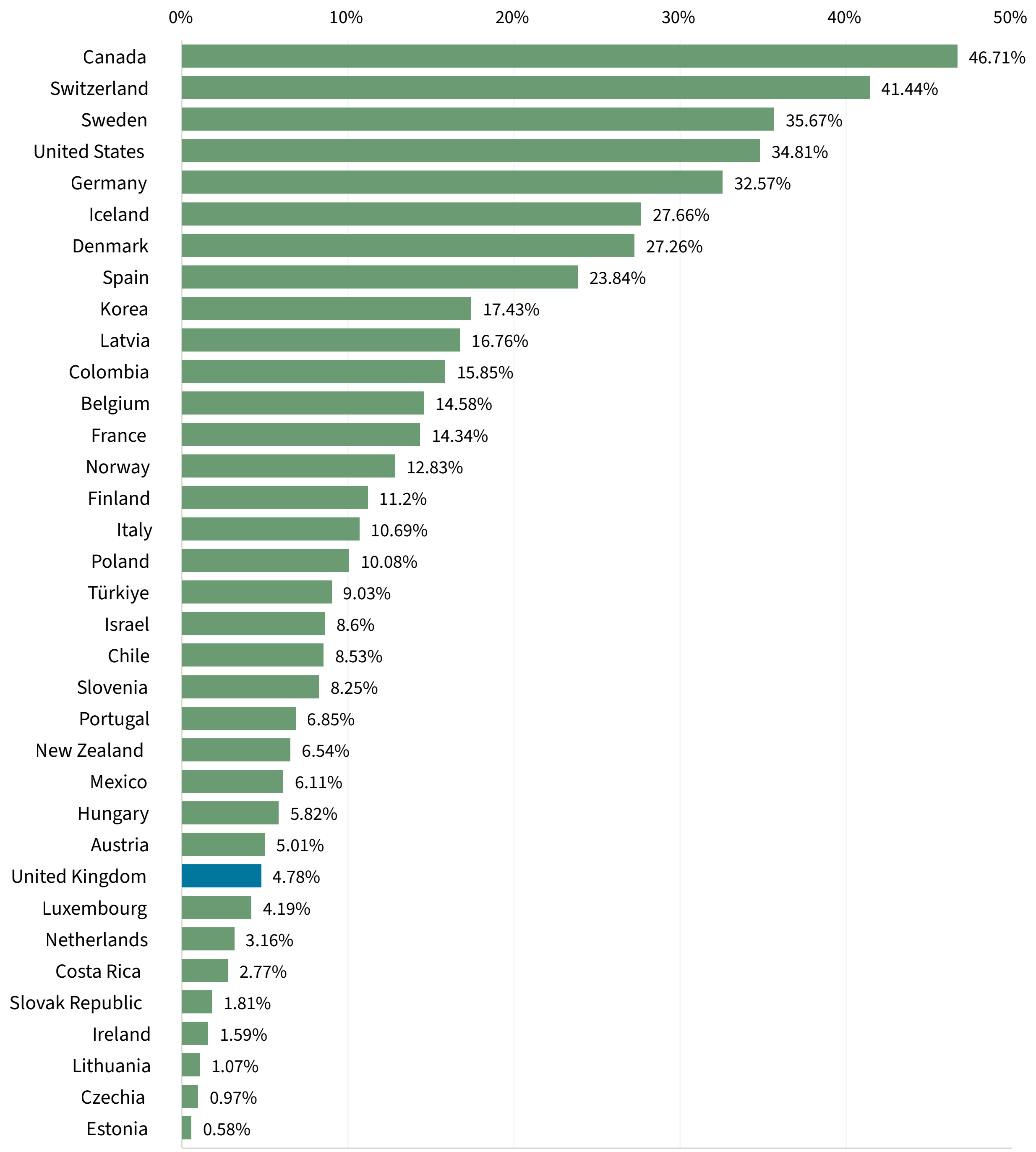
This dependence on Whitehall is reinforced by the fact that in 2025-26, English local authorities were responsible for £141 billion of revenue expenditure while raising only around £44 billion through council tax and £21 billion through retained income from the Business Rate Retention Scheme. The equivalent of 46 per cent of expenditure was raised locally. The remainder came through grants, transfers and funding mechanisms controlled by central government.[18]

International comparisons also illustrate the scale of this centralisation. In 2023, sub-national tax revenue across the UK was 4.8 per cent of total tax revenue, compared with an OECD average of 13.3 per cent.[19] Countries often viewed as England's peers operate significantly more decentralised systems. In France 14.3 per cent of tax revenues are devolved, as are 23.8 per cent in Spain, 32.6 per cent in Germany and more than one third in the United States and Switzerland. The UK would need to almost triple the share of tax revenue controlled sub-nationally simply to reach the OECD average.

The limitations of the Government's approach becomes more apparent when the proposals outlined in the Chancellor's speech are considered against international evidence. The OECD's Taxonomy of Tax Autonomy demonstrates that genuine fiscal devolution encompasses a spectrum of powers, from revenue assignment to meaningful local discretion over tax rates and tax bases. Measured against this framework, the Treasury's current approach risks creating a system that devolves revenues without fully devolving autonomy.

18 MHCLG, Local authority revenue expenditure and financing: 2025-26 budget, England, 2026. See Table 4A. Written Evidence — Local Councils Network.
19 OECD, Tax Autonomy Indicators, 2024.

Figure 3: Sub-national tax revenue as a percentage of total tax revenue, 2023

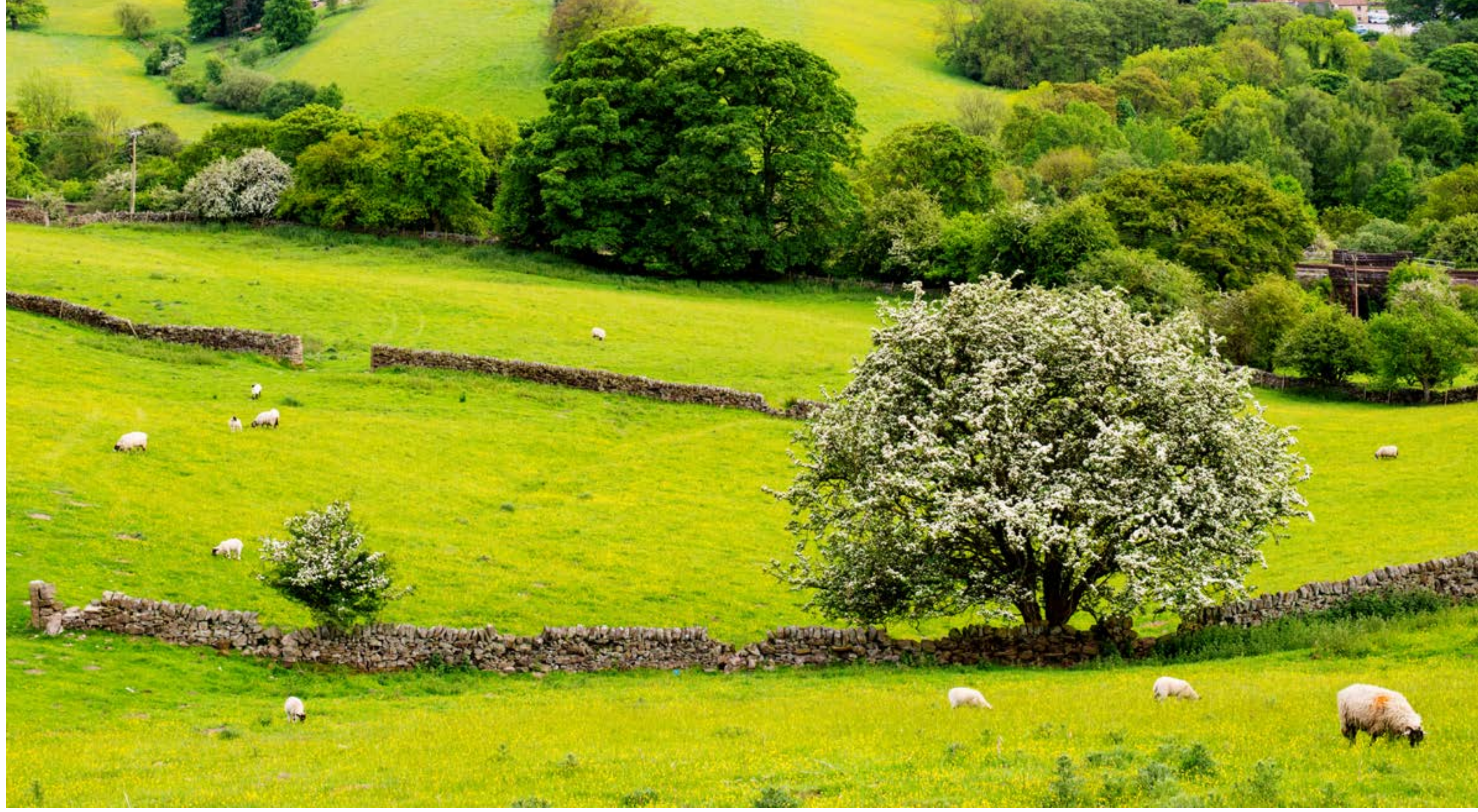


Source: OECD Fiscal Decentralisation Database, 2023. See Table 1, Tax Autonomy Indicators.

Figure 4: OECD taxonomy of taxing power, Categories of sub-central government (SCG) tax autonomy, from most to least autonomous

Code	Category description
a1	The recipient SCG sets the tax rate and any tax reliefs without needing to consult a higher-level government.
a2	The recipient SCG sets the rate and any reliefs after consulting a higher-level government.
b1	The recipient SCG sets the tax rate, and a higher-level government does not set upper or lower limits on the rate chosen.
b2	The recipient SCG sets the tax rate, and a higher-level government sets upper and/or lower limits on the rate chosen.
c	The recipient SCG sets tax reliefs.
d1	There is a tax-sharing arrangement in which the SCGs determine the revenue split.
d2	There is a tax-sharing arrangement in which the revenue split can be changed only with the consent of SCGs.
d3	There is a tax-sharing arrangement in which the revenue split is determined in legislation, and where it may be changed unilaterally by a higher-level government, but less frequently than once a year.
d4	There is a tax-sharing arrangement in which the revenue split is determined annually by a higher-level government.
e	Other cases in which the central government sets the rate and base of the SCG tax.
f	None of the above categories a, b, c, d or e applies.

Source: Blochliger and King (2006), reproduced in OECD Table 1: OECD Taxonomy of Taxing Power. and financing: 2025-26 budget, England



The opportunity

There is an alternative, which an incoming administration could take advantage of. The literature identifies a broader approach to fiscal devolution, citing four themes on which the case for fiscal devolution rests:

- **Growth and productivity**
  Fiscal devolution can improve growth prospects by giving local leaders the incentives and resources to invest in transport, skills and regeneration.
- **Greater democratic accountability**
  Fiscal devolution creates a clearer link between local taxation and spending, making decision-making more visible and strengthening accountability between the public and its elected representatives.
- **Stability and resilience**
  Fiscal devolution gives authorities greater control over local revenues, which can reduce their dependence on fragmented, short-term grants, providing more predictable funding and supporting long-term planning, investment and financial resilience, as well as improving outcomes for public services delivered by local authorities.
- **Reducing geographical inequalities**
  When combined with effective equalisation mechanisms, fiscal devolution can support regional convergence by giving places greater capacity to drive growth while ensuring areas with weaker tax bases are not disadvantaged.

While the relationship between fiscal devolution and these outcomes is not universally straightforward, a substantial body of evidence suggests that places on average perform better when responsibility for raising revenue is more closely aligned with responsibility for spending it. Achieving this alignment requires careful system design.

Growth and productivity

The strongest economic argument for fiscal devolution is that it aligns the incentives of local decision-makers with the economic performance of their places. Economist Paul Johnson described this to the House of Lords' Economic Affairs Committee as providing "sharp" incentives for local growth.[20]

Under the current system, local authorities and strategic authorities are expected to support economic growth, yet the financial benefits of that growth largely accrue to central government through higher tax receipts. Fiscal devolution changes this relationship by allowing those authorities to retain a greater share of the revenues generated by the success of their local economies.

This matters because many of the decisions that influence economic performance are taken locally. Planning decisions, infrastructure investment, skills provision, regeneration programmes and business support can all affect the attractiveness and productivity of a place. When local authorities and strategic authorities share directly in those proceeds of growth, they have a stronger incentive to pursue those investments and to take a longer-term view of economic development.

Empirical evidence from the OECD suggests that fiscal devolution can contribute to stronger economic performance, particularly where sub-national authorities have meaningful tax-raising powers rather than simply discretion over spending. According to Hansjörg Blöchliger from the OECD, greater autonomy over tax-raising is more strongly associated with long-term productivity growth than more autonomy over spending, with a 10 percentage point increase in tax-raising autonomy associated with an increase in annual economic growth of around 0.1 percentage points.[21] While establishing causality is difficult, given the challenges of accounting for exogenous factors, the balance of international evidence suggests that places perform better when responsibility for raising revenue is more closely aligned with responsibility for spending it.[22]

In England, the experience of the Business Rates Retention Scheme and the New Homes Bonus provides some evidence that fiscal incentives can influence local behaviour. An evaluation on behalf of the Ministry of Housing, Communities and Local Government revealed that retaining 100 per cent of business rates encouraged cross-authority collaboration and some regional investment. It was not perfect: it did not consistently create an appetite for long-term investment, and many local authorities used the additional income to protect public services, build reserves or fund one-off projects.[23] The evaluation of the New Homes Bonus provides clearer evidence, stating that payments for building more houses did provide a "powerful incentive" in changing behaviour and in encouraging more support for housebuilding.[24] Although the effects were uneven and often constrained by wider fiscal pressures, the evidence suggests that local leaders are more likely to support growth-enhancing activity when they are able to retain a share of the resulting financial benefits.[25] David Phillips of the Institute for Fiscal Studies told the APPG that enabling local authorities to retain a proportion of Stamp Duty revenues could replicate the incentive effects of the New Homes Bonus in encouraging housebuilding. This is especially pertinent given the Government's commitment to build 1.5 million homes over the course of this Parliament, a target that appears increasingly challenging to achieve.

Not all of the attempts to link local growth and financial reward have proved successful. The Greater Manchester Earn Back Model, agreed as part of the City Deal in 2012, is a case in point. It was intended to provide a stronger incentive to invest in growth-enhancing infrastructure and under the arrangement, the city-region would receive a share of the additional tax revenues generated if its investments succeeded in increasing Gross Value Added (GVA) beyond a baseline agreed with central government.

Yet Earn Back was highly conditional and the Government retained close oversight. As the Fabian Society has argued, the additional tax revenues generated by growth were "hard to determine or forecast, let alone attribute to decisions made, or to enable investment financing."[26] The long time horizon over which benefits emerge further weakens the incentive effect, particularly for elected representatives operating within relatively short political cycles. This challenge applies to other forms of fiscal devolution.

Disagreements over measurement, attribution and evaluation meant that Earn Back was never operationalised at scale and in 2014 it was superseded by a more predictable long-term investment fund. The experience suggests that growth incentives are most successful when they are simple, transparent and automatic rather than dependent on complex negotiations and Treasury assessments.

Geographical inequalities

One of the strongest political arguments for fiscal devolution is its potential to support more balanced economic development across England. Yet the growth-oriented logic underpinning the Mais Lecture proposals, which prioritise areas with the greatest institutional capacity and growth potential, sits uneasily with the objective of tackling regional inequalities. We welcome the explicit commitment set out by Burnham that, should he become Prime Minister, his administration will focus on "every postcode".

England continues to be characterised by stark regional disparities in productivity, earnings, health outcomes and economic opportunity. Concerns about 'postcode lotteries' remain a persistent feature of public and political debate. Successive governments have struggled to respond effectively to the distinct needs of places with different economic histories, labour market conditions and demographic challenges. Against this backdrop, the Government's decision to concentrate fiscal powers in a small number of strategic authorities is misplaced and worse, will entrench, rather than reduce, regional inequalities. Reconciling the objectives of economic growth and territorial equity will therefore be one of the central design challenges of any programme of fiscal devolution in England.

Fiscal devolution can help address this challenge by giving local leaders England-wide greater control over revenues and investment decisions, rather than a small number of strategic authorities. International

20 House of Lords Economic Affairs Committee, Oral evidence: Fiscal devolution in England, 19 May 2026.
21 OECD, Fiscal Federalism 2022: Making Decentralisation Work, 2022.
22 Gemmell, N. et al, Fiscal decentralisation and economic growth: spending versus revenue decentralisation, Economic Inquiry, 2013. Ligthart, J. and van Oudheusden, P. The fiscal decentralisation and economic growth nexus revisited, Fiscal Studies, 2016.
23 MHCLG, Business Rates Retention Evaluation, 2026.
24 MHCLG, Evaluation of the New Homes Bonus, 2024.
25 Blöchliger, H. et al. Fiscal federalism and its impact on economic activity, public investment and the performance of educational systems, OECD, 2013.
26 Written Evidence — Fabian Society.

evidence suggests that local fiscal autonomy can contribute to more balanced economic development when designed appropriately and analysis by the OECD finds that a 10 percentage point increase in subnational tax autonomy is associated with approximately a 0.3 percentage point reduction in regional disparities.[27]

Importantly, this does not imply that fiscal devolution should replace redistribution. Rather, the two are natural companions as fiscal autonomy is most effective when combined with redistribution or equalisation mechanisms that ensure places with weaker tax bases are still able to provide comparable public services and invest in local growth.[28]

Germany provides one of the clearest examples of this approach. Its sixteen Länder enjoy substantial fiscal autonomy and receive shares of major national taxes, including income tax and VAT. However, these powers sit alongside a comprehensive equalisation system, the Länderfinanzausgleich, which reduces differences in tax-raising capacity between richer and poorer states, and the Kommunaler Finanzausgleich, which operates within states, underpinned by a constitutional principle of 'equivalent living conditions', these arrangements ensure that the public can access broadly comparable public services regardless of where they live in Germany.[29]

Japan provides another instructive example. Particularly relevant to England because it is also a unitary state, Japan combines extensive local responsibilities with a robust national equalisation framework. Its Local Allocation Tax (LAT) system is funded through fixed shares of major national taxes, including 33.1 per cent of income tax receipts, 19.5 per cent of corporation tax receipts and 50 per cent of alcohol tax revenues. In 2025 alone, approximately £95 billion was redistributed to local authorities through the LAT, helping to ensure that municipalities can fulfil their responsibilities despite significant differences in local tax capacity.[30]

For England, the objective should therefore be to combine greater local fiscal autonomy with robust redistribution mechanisms. Fiscal devolution should empower places to drive their own economic development while ensuring that communities with weaker tax bases are not left behind. These objectives can be balanced, as Germany and Japan illustrate, but deliberate institutional design is central.[31]

Democratic accountability

Fiscal devolution is often justified not only on economic grounds, but also because it can strengthen democratic accountability. Under the current system, mayors and council leaders are held responsible for outcomes — such as improving public services and supporting economic growth — despite having limited control over the resources available to achieve those objectives. This creates blurred lines of accountability, making it difficult for residents to determine whether outcomes reflect local decisions or national funding choices.

Fiscal devolution can help address this disconnect by aligning responsibility for raising revenue with responsibility for spending it. Where local leaders exercise meaningful control over revenues, the relationship

27 Blöchliger, H. et al. Fiscal decentralisation and regional disparities, OECD, 2016.
28 OECD, Making decentralisation work: a handbook for policy-makers, 2019.
29 Written Evidence — Dr Kevin Muldoon-Smith, Northumbria University.
30 OECD, Making decentralisation work, 2019. Written Evidence — Professor Andy Pike and Professor Naoki Fujiwara. Written Evidence — Japan Local Government Centre.
31 Written Evidence — Institute of Local Government Studies, University of Birmingham.

between taxation, spending and outcomes becomes clearer. Residents are better able to identify who is responsible for decisions and can reward or punish their elected leaders at the ballot box. This is reinforced by OECD analysis, which has argued that assigning a greater share of "own-source" revenues to sub-national authorities can strengthen transparency and reinforce democratic accountability, particularly where reliance on grants is reduced.[32]

There is also an expectation that the public will be more likely to hold authorities with fiscal autonomy more accountable, which in turn encourages authorities to act with stronger budget discipline.

We welcome that the Government has chosen to strengthen formal scrutiny arrangements for strategic authorities, as part of the English Devolution and Community Empowerment Act. Under that legislation a Local Scrutiny Committee will be implemented from April 2027 for strategic authorities with Established Status and from April 2028 for newer authorities. Putting the LSC on a statutory footing will encourage a stronger 'culture of accountability' within strategic authorities.

Similar arrangements already exist in local authorities and the APPG heard from the Local Councils Network and London Councils that sufficient arrangements in local authorities were in place for fiscal devolution.[33] The Local Councils Network told the APPG that:

> ***Regular local elections provide a strong democratic mandate and clear accountability. An ombudsman service offers a route for addressing individual complaints, councils are subject to judicial review, and all must publish audited accounts alongside regular, publicly reported budget monitoring. In institutional terms, local government is ready for fiscal devolution.***

32 OECD, Making decentralisation work: a handbook for policy-makers, 2019.
33 Written Evidence — London Councils and Local Councils Network.

Yet there wasn't universal agreement across the sector. Basildon Borough Council told the APPG that the threshold for introducing new taxes should be high, such as requiring a referendum, suggesting that accountability arrangements made need to change in local authorities to reflect new tax-raising autonomy.[34]

To date, much of the focus has been on top-down accountability from the UK Government. Yet the experience in Greater Manchester from the Earn Back model demonstrated that too many restrictions on new financing arrangements stymied that autonomy in reality. The APPG shares the view set out by the Bennett School for Public Policy, at the University of Cambridge, that bottom-up accountability arrangements could be stronger.[35]

Institutional resilience

Finally, despite the Chancellor's recent focus on empowering "regional leaders" to drive economic growth, there is also a compelling case that fiscal devolution can strengthen the resilience and long-term sustainability of local authorities and public services.[36]

English authorities face acute financial pressures. Research by the Local Government Information Unit found that 39 per cent of authorities anticipate requiring Exceptional Financial Support within the next five years and the performance of local authorities is having an effect on public attitudes towards them, with trust and resident satisfaction at record lows.[37] Although these pressures stem from a range of exogenous factors — including rising service demand, inflation and workforce costs — the current funding system leaves local authorities heavily exposed to decisions taken in Whitehall. Assigned revenue models, as suggested by the Chancellor, do little to reduce this dependency.

This dependence creates risks. Analysis by the OECD finds that local authorities which rely heavily on central government grants often have less flexibility to respond to local circumstances and are more vulnerable to political and economic shocks.[38] Greater control over, or retention of, local revenues would not remove financial pressures altogether, but greater diversity of funding arrangements do help local authorities adapt to changing economic conditions in a way that fragmented and short-term funding and an over-reliance on council taxes do not.

Fiscal devolution should therefore be understood not simply as a growth agenda, but also as part of a wider strategy for strengthening public institutions and improving the financial sustainability of local government. A more resilient system requires greater flexibility and a broader range of financial instruments at the disposal of decision-makers.

Many authorities across Europe and North America already have this autonomy and are able to exercise powers over a much wider range of revenue sources, including property taxes, tourist accommodation taxes, vehicle registration taxes, local sales taxes, payroll taxes, congestion charging schemes, development levies and infrastructure contributions. On top of this, greater flexibility over income tax is already commonplace. In Denmark, for example, its 98 municipalities are able to levy their own income tax, at an average rate of around 25 per cent, alongside property taxes. Municipalities in Italy can levy local income tax surcharges, while Sweden permits variation in local income tax rates between municipalities.[39] While much of the evidence draws on the arrangements that mature federal systems such as the United States, Australia or Canada have in place, European examples demonstrate that local variation in tax autonomy, including income tax rates, is compatible with unitary states.

This debate is not alien to the UK either. In 1976, the Layfield Committee recommended a devolved approach to local government finance, advocating greater fiscal autonomy for local authorities.[40] Its proposals included allowing councils to levy and collect a local income tax, which was seen as a more buoyant revenue source that would better reflect local economic conditions than the existing property-based taxation system. Property taxes were criticised for disproportionately affecting households that were asset-rich but cash-poor. However, the Government at the time under the leadership of Prime Minister James Callaghan rejected these recommendations and instead pursued a "middle way", which in practice largely preserved the status quo.[41]

More autonomy and resilience would support local institutions to make better long-term decisions. Even where multi-year settlements are available, uncertainty around future spending reviews, grant formulas and national policy changes can discourage long-term investment and make preventative spending harder to sustain. By contrast, authorities with access to broader and more predictable revenue streams are better placed to experiment with policy, borrow prudently and invest in services with long-term rewards such as prevention. Wales and Scotland's divergence with the UK in respect of education and health is only possible because they have fiscal autonomy.

The opportunity to improve the resilience of social care services is a case in point. Alongside the ongoing Baroness Louise Casey-led Independent Commission on Adult Social Care, greater local autonomy over investment decisions could help authorities address some of the sector's most pressing challenges. It could support local authorities to better co-ordinate with the NHS to adopt health-first approaches to supporting households with additional needs or tackling temporary accommodation (where institutional collaboration on temporary accommodation is taking place, it is frequently funded by the NHS). With greater fiscal autonomy, local authorities could also work more effectively with schools to tackle persistent absenteeism by funding integrated early intervention and family support services.[42] This autonomy could also allow local and strategic authorities to work closer together, such as by supporting efforts to tackle private sector cost inflation and drive system-wide reform, while preserving councils' responsibility for day-to-day service delivery.

While local authorities are undergoing an acute financial crisis, strategic authorities are at a very different stage of institutional development. The APPG heard from strategic

34 Written Evidence — Basildon Borough Council.
35 Westwood, A. et al. Rebuilding local democracy: the accountability challenge in English devolution, The Productivity Institute, 2024.
36 HM Treasury, Mais Lecture 2026, 2026.
37 Local Government Information Unit, State of Local Government Finance in England, 2026. Local Government Association, Polling on resident satisfaction with councils: round 40, 2026.
38 OECD, Making decentralisation work: a handbook for policy-makers, 2019.
39 Muldoon-Smith, K. and Sandford, M. Is income tax assignment a step change for devo?, The Municipal Journal, 2026. Written Evidence — Institute of Local Government Studies, University of Birmingham.
40 Communities and Local Government Committee, The balance of power: central and local government, 2009.
41 Breach, A. Happy 50th birthday to the Layfield Report, Centre for Cities, 2026.
42 Shaw, J. Reducing the use of temporary accommodation through prevention, in Hurst, G. and Teixeira, L., How to use evidence to end homelessness, forthcoming.

authorities that fiscal devolution can improve their resilience too, and this moment is consequential. With newly-established 'shadow' authorities in the Devolution Priority Programme, and more expected over this Parliament, there is an appetite for certainty so that they can put in place the processes to manage fiscal devolution in the design of these new institutions, rather than 'retrofitting' it at a later stage. That includes giving them more flexibility to design more ambitious Local Growth Plans and investment plans.

The Government's forthcoming fiscal devolution roadmap does present an opportunity to create a more resilient, sustainable and strategically focused system of local government finance, but also in revenue-starved strategic authorities. To realise this, the Government will need to invest in both strategic and local authorities in the short-term, to build more capacity and capability, so that places can benefit from devolution. It otherwise risks overburdening institutions during a period of significant structural reform.

Redesigning the system

What is clear is that fiscal devolution can serve multiple objectives. Few would argue that it is a silver bullet in itself, but achieving the incoming government's ambitions will require a model of fiscal devolution that is significantly broader than that envisaged by the current Chancellor. Without it, there is a risk that city-regions are given the tools to drive economic growth while local authorities, and the public services on which residents depend, continue to operate in a state of crisis. This is the central challenge facing the Government.

The experience of countries with mature systems of fiscal devolution demonstrates that there is no single model. However, successful systems tend to share three characteristics: they balance incentives with redistribution; autonomy with accountability; and they invest in institutional capacity. These three pillars are essential to the success of fiscal devolution.

The Government's roadmap should therefore be guided by a design approach that outlines not only what fiscal tools are devolved, but how they operate in practice. The design approach should build on principles set out in the European Charter of Local Self-Government, which the UK ratified in 1998.[43]

43 Council of Europe, European Charter of Local Self-Government, 2024. Written Evidence — Professor Andy Pike and Professor Naoki Fujiwara; Institute of Local Government Studies, University of Birmingham. Re:State has also set out design principles for fiscal devolution. Re:State, Design principles for the fiscal devolution roadmap, 2026.

Pillar I: risk and equalisation

Fiscal devolution is not risk-free. The most significant risk is that it widens existing geographical inequalities by concentrating tax receipts in places that already possess strong economies, high incomes and buoyant tax bases.

This challenge is particularly acute in England where substantial differences exist in income levels, property values, business activity and demographic pressures. Evidence submitted to the APPG consistently warned that assigning or devolving tax without robust redistribution mechanisms could reinforce, rather than reduce, regional disparities. The Chancellor's statement that reforms will initially focus on places with the greatest capacity and greatest potential to benefit further increases this risk. Fiscal devolution cannot become a vehicle through which already successful places pull further ahead.

Fiscal autonomy and redistribution are not competing objectives but complementary ones. Germany's Länderfinanzausgleich, Australia's Commonwealth Grants Commission and Japan's Local Allocation Tax system all combine devolved fiscal powers with systematic redistribution arrangements designed to ensure that differences in local tax bases do not create unacceptable differences in public service provision.

This is not entirely alien to the UK. The Revenue Support Grant, for example, amounts to £1.9 billion in 2023–24, representing less than one per cent of local government income. The scale of equalisation is much larger elsewhere. By contrast, Japan's Local Allocation Tax distributes the equivalent of approximately £95 billion annually and is specifically designed to ensure that local authorities can provide broadly comparable levels of public service regardless of the strength of their local tax base. In 2025, only 77 of Japan's 1,741 local authorities were sufficiently affluent not to receive LAT payments.[44]

Before introducing new fiscal powers, the Government should undertake detailed modelling of alternative equalisation mechanisms under a range of economic scenarios, including economic shocks, population change, fluctuations in tax yields and long-term regional divergence.[45] The objective should be to understand how different models would affect both local incentives for growth and the distribution of resources across England.

Any future English system should incorporate a transparent, rules-based equalisation framework that reflects both local revenue-raising capacity and local spending needs. Redistribution should be formula-driven rather than discretionary, independently assessed rather than ministerially determined, and updated regularly to reflect changing circumstances. It should be governed by the principles of transparency, predictability and independence and, similar to Australia's Commonwealth Grants Commission, placing this responsibility within the remit of an independent, statutory agency would give it greater durability.[46]

44 Written Evidence — Professor Andy Pike and Professor Naoki Fujiwara.
45 Oral Evidence — David Phillips, Institute for Fiscal Studies.
46 Written Evidence — Professor Andy Pike and Professor Naoki Fujiwara.

Pillar II: accountability

A recurring theme throughout the evidence was that greater fiscal autonomy must be accompanied by stronger accountability arrangements. This is a price worth paying for more autonomy: it provides a shared language of UK Government and strategic authorities, and gives the UK Government confidence that expenditure is in line with value for money principles. But the challenge for the Government is not to over-index on central oversight: we need a more balanced accountability system. As the Fabian Society sets out:

> ***Local scrutiny systems remain weak given the strength of executive power. Accountability to the public is too weak to safeguard devolved institutions' longevity. Accountability to the UK government is too financially driven and dominates all other forms of accountability, creating a chilling effect on local agency.***[47]

We therefore recommend that the Government review the provisions set out in the English Devolution and Community Empowerment Act. We recognise that the Act only received Royal Assent in April, but it was designed before the Chancellor announced her intention to pursue fiscal devolution. While the Local Scrutiny Committee has more muscle than its predecessor, with the power to investigate issues, make recommendations to the Mayor, review the value for money of public expenditure, send reports to a Secretary of State and impose a civil penalty on individuals that fail to attend, there are still significant weaknesses.[48] Committees cannot commission their own research, as the London Assembly can, they receive insufficient official supporting infrastructure and, if strategic authorities are to attain responsibility as the Local Accounting Officer, the LSC will need to ensure that it has the capabilities to scrutinise complex, technical and financial information.

Second, relatedly, the Chief Executive of each strategic authority should become the Local Accounting Officer responsible for the funding their authorities receive. This would loosen departmental accountability as the Permanent Secretary is not held to account in the same manner. MHCLG must continue to play an important role by sponsoring the Local Accounting Officer, and they should — collectively — be responsible to the Public Accounts Committee and, by extension, Parliament.[49] In practice, however, stronger bottom-up accountability should provide Parliament with sufficient assurance that the LAO is subject to robust scrutiny, mirroring the arrangements that apply to accounting officers in the devolved administrations.[50]

Third, given the potential for the roadmap to be a multi-phased one, and given the fluidity of devolution policy over the last decade, the Government should extend the Right to Request available to strategic authorities to both the statutory Local Scrutiny Committee within strategic authorities, where it specifically relates to their ability to discharge their functions, as well as to local authorities, for reasons we set out later in this report.

47 Johns, M. Democracy to delivery: how strategic accountability for strategic authorities can unlock devolution's promise, 2026. We are grateful to Marcus Johns and the Fabian Society for sharing an embargoed copy of their forthcoming report.
48 English Devolution and Community Empowerment Act 2026, Schedule 5.
49 Ganesharatnam, L. et al. Taxing to take-off: a new plan for fiscal devolution, Re:State, 2026.
50 Johns, M. Accountability gap: how robust accountability can unlock devolution's promise, Fabian Society, 2026.

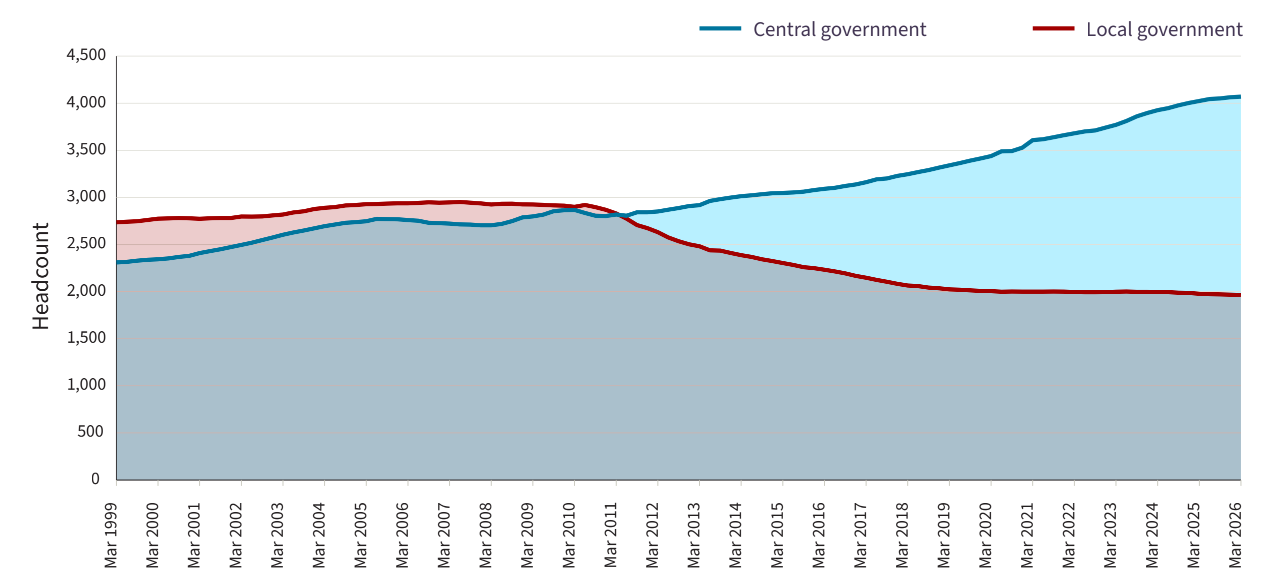
Pillar III: readiness and capability

A third pillar essential to making fiscal devolution a success is the readiness, capacity and capability of places. One of the most common objections to fiscal devolution is that local institutions lack the capability to manage it. These constraints vary significantly and are unevenly distributed.

At the strategic authority level, the Greater London Authority and Greater Manchester, which have proved the most durable, have developed relatively mature and sophisticated finance and analytics functions. Recently established strategic authorities have limited in-house fiscal expertise. The APPG received evidence from Dr Kevin Muldoon-Smith who highlighted that analytical capacity, financial forecasting, tax administration, risk management, and baseline negotiation were capabilities that are not sufficient in all strategic authorities, especially newer ones.

Meanwhile local authorities have experienced significant change in overall staff capacity, falling substantially between 2010 and 2026. Alongside this, authorities have witnessed reductions in finance functions over the past decade. The 'interim market' has seen experienced finance officials move between authorities, denying authorities long-term security. This has been further exacerbated by the contraction of the audit market, and a delay of auditing across the sector, which continues to present a material risk to Whole of Government Accounts.[51] Until it is resolved, it is questionable whether local authorities have the financial reporting and governance in place to manage the more complex arrangements that fiscal devolution will create.

Figure 5: Public sector employment, March 1999 to March 2026



Source: Office for National Statistics, Public sector employment, UK, March 2026. Note: changes in local and central government employment partly reflect the conversion of local authority maintained schools to academies

51 HM Treasury, Whole of Government Accounts: Year ended 31 March 2025, 2026.

These concerns should be taken seriously. Yet they should not become a justification for indefinite delay. Capacity and capability can be built. The Welsh Senedd and Scotland's Holyrood did not begin as mature institutions; they developed them over time as responsibilities expanded.

The Government should invest in strategic authorities by increasing the Mayoral Capacity Fund. A baseline allocation has been determined for mayoral strategic authorities (MSAs) of £2.3 million in 2026-27. This rises to £2.6 million by 2028-29. For this Spending Review period, where MSAs have existed for less than five years, the Government has uplifted the baseline allocation by 25 per cent.[52] Meanwhile, Foundation strategic authorities (FSAs) receive a comparatively smaller figure of £250,000. We therefore recommend that strategic authorities that take on fiscal devolution should benefit from a similar 25 per cent uplift of their annual capacity funding. [53]

At local authority level, the New Burdens doctrine is not fit for purpose either. Under the New Burdens doctrine, departments give local authorities additional funding when they place new duties, powers or targets on them. They do this in order to "keep the pressure on council tax bills to a minimum".[54] However, recent examples illustrate that the New Burdens doctrine has not reliably funded local authorities. When the Government placed a duty on local authorities to have regard to new guidance on litter enforcement, authorities were given £101 each, meanwhile local authorities continue to cover the cost of the long-term underfunding of temporary accommodation. As a result, the Government should review the New Burdens doctrine so that local authorities can invest in financial and analytical capability to support any new forms of fiscal autonomy they benefit from.

The Government could build further capability by investing in existing initiatives such as the Mayoral Data Council and the Office for Public Service Innovation (OPSI). Research from The Productivity Institute at the University of Manchester has highlighted the value of the OPSI model in strengthening local analytical capability and supporting more effective public service reform.[55] Extending similar support to all strategic authorities, in partnership with local authorities, would help strengthen decision-making.

These capacity and capability constraints are not novel to strategic and local authorities; they apply to central government. The Office for Budget Responsibility will need to ensure it is able to forecast sub-national tax receipts, which may require them to develop new methodologies. This information is currently not published. The APPG also heard evidence from the Institute for Fiscal Studies that HM Revenue & Customs may find it difficult to keep records up to date, which could have distortionary effects on allocations to strategic authorities.

Readiness and capability are therefore not arguments against fiscal devolution, but prerequisites for making it succeed. By investing in institutional capacity across all levels of government, the Government can ensure that greater fiscal autonomy is matched by the analytical, financial and governance capability needed to deliver better outcomes for places.

52 MHCLG, Explanatory note on mayoral strategic authority funding 2026 to 2027, 2026.
53 The Chartered Institute of Housing made the point that strategic authorities are not homogeneous and capacity varies significantly. Written Evidence — Chartered Institute of Housing.
54 MHCLG, New burdens doctrine: guidance for government departments, 2022.
55 Shaw, J. and Peck, J. Local productivity, national impact: the role of local authorities, The Productivity Institute, 2026.

A model for English fiscal devolution

The task for the Government is not simply to decide whether a proportion of existing national taxes should be assigned to places. It is to act as a "guarantor": to define – in partnership with strategic and local authorities – the objective of fiscal devolution, which tools are best suited to achieving those aims, how equalisation and safeguards should operate, and what long-term institutional settlement should be built. It is part of a broader rebalancing of power within England.

Properly designed, fiscal devolution can strengthen accountability, improve resilience, catalyse investment, create stronger incentives for locally-led growth and reduce territorial inequality. Poorly designed, it could entrench volatility, widen territorial inequality, and leave local authorities at greater risk and with more exposure but little real autonomy.[56]

While taxes should be kept as low as possible to avoid increasing the tax burden on the public, given the cost-of-living crisis, there is also a clear need to address structural weaknesses in our public services. It is possible to design a system of fiscal devolution that pursues the four objectives set out in the previous chapter, but only through deliberate architectural choices.[57]

These are significant challenges, but they are ones that the Government must confront. The new administration will need to be more ambitious to meet the moment.

Tax assignment and devolution

The Government has indicated that a proportion of income tax may be assigned to England's strategic authorities. There is a widespread expectation that this could replace the Integrated Settlement, reflecting the Government's commitment to fiscal neutrality. The Integrated Settlement for strategic authorities stands at £16 billion annually, whereas income tax generated £329 billion in 2025-26, meaning approximately five per cent of income tax would need to be assigned to achieve this.[58]

The APPG recognises the attraction of income tax assignment as an initial step. Income tax is a large, stable revenue stream. It creates a direct connection between economic success and local fiscal capacity, strengthening accountability between residents, employers and local elected leaders. It is also considerably easier to equalise at the scale of strategic authorities than individual local authorities.

56 Written Evidence — Carnegie UK.
57 Written Evidence — Dr Kevin Muldoon-Smith, Northumbria University.
58 Office for Budget Responsibility, Income tax, 2026. Shaw, J. Integrated settlements part one: what is the journey of integrated settlements, Local Government Information Unit, 2026. National Audit Office, England and devolution: funding and accountability, 2026.

Though the Layfield Committee recommended assigning income tax to local authorities, the practical challenges of doing so remain substantial. Earnings and tax bases vary significantly between individual councils. Areas with older populations, lower wages, seasonal economies or weak labour markets would require extensive equalisation to avoid large disparities in service provision. Rural and coastal authorities, as well as island communities such as the Isle of Wight and the Isles of Scilly, would be particularly affected.[59]

By contrast, strategic authorities encompass larger and more economically diverse geographies. Differences in tax-raising remain, but they are less extreme than between individual local authorities. This makes equalisation more manageable and reduces the risk that fiscal devolution becomes a driver of territorial inequality. The relative simplicity of equalisation arrangements are a critical determinant of their success, as Greater Manchester's Earn Back model demonstrates.

However, the APPG believes that the Government's approach should not be limited to the assignment of a proportion of income tax alone, and through a balanced mix of fiscal devolution, strategic and local authorities could benefit from up to £79 billion in devolved funding.

Different forms of tax assignment create different incentives. According to Dr Kevin Muldoon-Smith:

> ***Different taxes have different strengths and weaknesses. Some are stable but weak incentives. Some are powerful incentives but highly volatile. Some are straightforward to allocate geographically; others are difficult to estimate reliably below national level.[60]***

Turning to specific taxes, Income Tax assignment rewards places that increase earnings and employment, but they can also change because of national policy changes. Income Tax has grown much quicker in London because of freezes to the higher-rate tax threshold, dragging people more into tax

59 Oral Evidence — David Phillips, Institute for Fiscal Studies.
60 Written Evidence — Dr Kevin Muldoon-Smith, Northumbria University.

and increasing the receipts to the Exchequer. Under a devolved model, London would benefit.

Higher revenues also depend upon stronger labour market participation, improved skills, greater productivity and wage growth. Yet the institutions expected to benefit from these incentives do not currently possess all the levers necessary to influence those outcomes. Strategic authorities have gained responsibility for the Adult Skills Fund and play an increasing role in shaping Local Skills Improvement Plans, but major components of the skills and employment system remain fragmented across Whitehall and national agencies, including the Careers & Enterprise Company, the National Careers Service, and elements of Jobcentre Plus. Post-16 technical education and employment support programmes, such as Pathways to Work and the Guarantee Trailblazer, are also largely centrally controlled. The Government's growth-enhancing incentives are most effective when accompanied by the policy tools necessary to influence them. That requires further devolution among strategic authorities, but also greater resilience among local authorities.

The lesson from international experience is that successful fiscal devolution rarely relies upon a single source of revenue. Instead, combining multiple taxes creates a balanced set of incentives while reducing exposure to volatility in any individual tax base. A diversified fiscal framework is typically more resilient, more predictable and more closely aligned to the outcomes local institutions are expected to deliver. A more balanced toolkit would also support the Government deliver its wider objectives, which include not just economic renewal, but reforming public services, housebuilding at scale and providing employment opportunities to those that need them the most, as the Milburn Review commissioned by the Department for Work & Pensions highlighted.[61]

For this reason, the APPG recommends that the Government consider a broader programme of tax assignment. As institutional capacity matures, the Government should move from tax assignment toward tax devolution, by granting strategic authorities discretion to vary rates within nationally determined parameters, as occurs in many comparable countries.

61 Department for Work & Pensions, Independent report: young people and work — interim report, 2026.

There are a wide range of potential taxes that could form part of a long-term settlement. These include:

Figure 6: Options for fiscal devolution

Tax or Duty	Amount [Indicative]	Spending Control	Collection	Rationale
Business Rates	£28.4 billion (England) in 2024-25.[62]	Partially ring-fenced through Business Rates Retention.	Collected by billing authorities.	Operational already, making it administratively simpler to devolve in full.
Income Tax	£16.5 billion (5 per cent of England's tax receipts) in 2025-26.[63]	Not ring-fenced.	Collected through PAYE and Self Assessment.	Common in Europe and identified as an option by the Chancellor in her Mais Lecture.
Stamp Duty Land Tax	£13.7 billion (England) in 2024-25.[64]	Not ring-fenced.	Collected on property transactions.	Devolved to Scotland and Wales under the name Land and Buildings Transaction Tax in Scotland and Land Transaction Tax in Wales.
VAT	£7.3 billion (5 per cent of England's tax receipts) in 2024-25.[65]	Not ring-fenced.	Collected by VAT-registered businesses.	Common in Europe and North America.
Vehicle Excise Duty	£7 billion (England) in 2024-25.[66]	Not ring-fenced.	Collected by the Driver and Vehicle Licensing Agency from vehicle owners.	London Finance Commission has previously recommended this as Transport for London cross-subsidies road investment from public transport revenue.[67]

62 A significant portion of business rates is already retained, under the Business Rates Retention Scheme. London, Greater Manchester and the West Midlands have bespoke arrangements in place, as does Cornwall. MHCLG, Explanatory note for authorities with increased business rates retention arrangements: final local government finance settlement 2026 to 2027, 2026. Written Evidence — Cornwall Council.
63 Office for Budget Responsibility, Income tax, 2026. Income tax receipts are forecast to be £329 billion in 2025-26 and rise to £427 billion by 2030-31. ONS, Country and regional public sector finances revenue tables: financial year ending 2025 edition, 2026.
64 Stamp Duty Land Tax is already devolved to Scotland and Wales. ONS, Country and regional public sector finances revenue tables: financial year ending 2025 edition, 2026.
65 This is net of refunds. ONS, Country and regional public sector finances revenue tables: financial year ending 2025 edition, 2026.
66 OBR, Vehicle Excise Duty, 2026. OBR, Economic and fiscal outlook, 2025.
67 London Finance Commission, Devolution: a capital idea, 2017.

Tax or Duty	Amount [Indicative]	Spending Control	Collection	Rationale
Growth and Skills Levy	£4 billion (England) in 2025-26.[68]	Mostly ring-fenced, but HM Treasury consistently provides less for apprenticeships than the Growth and Skills Levy raises.	Paid by employers with a payroll above £3 million.	Strategic authorities have significant responsibility over skills policy. Andy Burnham has committed to devolving business support.
Tobacco Duty, Alcohol Duty and Betting and Gaming Duty	£850 million (5 per cent of England's tax receipts) in 2024-25.[69]	Not ring-fenced.	Paid by manufacturers and importers.	
Landfill Tax	£480 million (England) in 2024-25.[70]	Not ring-fenced.	Paid by operators of landfill sites.	Devolved to Scotland and Wales.
Overnight Visitor Levy	£430 million (England).[71]	Yet to be confirmed, but not expected to be ring-fenced.	Collected by hoteliers and accommodation providers and expected to be allocated to MSAs, if they decide to introduce a Visitor Levy. The Government is currently designing the levy, but there is a strong case for it to be allocated between strategic and local authorities.[72]	It has received Royal Assent in the English Devolution and Community Empowerment Act. The Visitor Levy (Scotland) 2024 already gives Scottish local authorities this autonomy.
Soft Drinks Industry Levy (SDIL)	£270 million (England) in 2024-25.[73]	Not ring-fenced, but the Coalition Government stated it would be spent on school sport and breakfast clubs in 2016.	Paid by manufacturers and importers of sugary drinks.	Strategic authorities have a new competency for addressing the wider determinants of health. Local authorities already receive a Public Health Grant.

68 The allocation for 2026-27 is £3.3 billion, but this is £700 million less than the £4 billion that the Growth and Skills Levy raised. Camden, B. Apprenticeship budget to rise to £3.3 billion amid savings scramble, FE Week, 19 March 2026.
69 ONS, Country and regional public sector finances revenue tables: financial year ending 2025 edition, 2026.
70 OBR, Landfill tax, 2026. ONS, Country and regional public sector finances revenue tables: financial year ending 2025 edition, 2026.
71 The APPG has drawn on figures from the Northern Powerhouse Partnership in the absence of publicly available figures from UK Government. The Government is currently analysing feedback from the Visitor Levy consultation and at least three strategic authorities — Hull and East Yorkshire, Greater Lincolnshire and Tees Valley have ruled out introducing a Visitor Levy. Northern Powerhouse Partnership, £1 tourism levy could raise £428 million a year in tax for English councils, 2023.
72 Written Evidence — Brent Council.
73 ONS, Country and regional public sector finances revenue tables: financial year ending 2025 edition, 2026.

Reforming existing local taxes

Fiscal devolution, if designed to provide a broader and more stable revenue base for local government as a whole, would address the structural weaknesses in public service delivery. There is a significant amount the Government could do without giving local authorities unilateral tax-raising autonomy.

Property taxes

The UK Government has ducked council tax reform for more than three decades. In England, council tax bills are still based on property valuations from 1991. The result is a tax system that has become increasingly detached from both property values and the ability to pay, creating one of the most regressive elements of the local government finance system.

Wales and Scotland have shown greater political courage. Wales revalued properties in 2003 and has legislated for regular five-yearly revaluations from 2028 onwards.[74] We hope Plaid Cymru retains that commitment. A tax based on decades-old property values cannot command long-term legitimacy and England should follow suit and set out in its fiscal roadmap a clear route for revaluation.

We recognise revaluation has been long-debated and will require long-term planning. We also recognise that it is deeply politically contentious. But it must be led by the Government. Local authorities cannot revalue their council tax because revaluations at different points in time would make subsequent redistribution extremely complex without a common framework.[75]

However, ministers do not need to pursue full revaluation to act. There are immediate steps available to ease the pressure on local authorities struggling with structural deficits and repeated rounds of service reductions. One example is removing the referendum principles, which place a ceiling on the percentage of council tax local authorities can raise. Despite the political costs tax raises would place on local authorities, there is widespread acknowledgement that this is a necessary step, as South East Councils had told us in their Written Evidence.[76]

The absurdity of the current arrangements is illustrated by Exceptional Financial Support (EFS). EFS is not new money; it is simply permission granted to local authorities to use capital resources to support day-to-day spending. Yet alongside EFS, local authorities are also granted permission to exceed national council tax referendum limits. For 2026–27, Trafford, Warrington, Windsor and Maidenhead, North Somerset, Shropshire, Worcestershire, and Bournemouth, Christchurch and Poole were all allowed to increase council tax above the five per cent threshold.[77] This raises an obvious question: if councils facing acute financial pressures can be trusted to set higher council tax rates – some because of their own poor leadership – why can't all local authorities do so?

The referendum principles were first introduced in the Localism Act 2011. Before then, local authorities had the freedom to

74 Institute for Fiscal Studies, Wales leads on council tax revaluation — but has followed England on a range of ill-advised tax policy changes, 2026.
75 Oral Evidence — David Phillips, Institute for Fiscal Studies.
76 Written Evidence — South East Councils.
77 MHCLG, Exceptional financial support for local authorities for 2026-27, 2026. MHCLG, The referendum principles relating to council tax increases, report 2026-27, 2026.

determine their own council tax levels. Parish and town councils still enjoy that freedom today. Strategic authorities are technically subject to referendum principles, yet no government has ever chosen to apply them. Ministers could restore this autonomy simply by choosing not to issue referendum principles for 2027–28, restoring the position before the Localism Act was introduced.[78]

The Government could go further by following Wales's example and instruct the Valuation Office Agency to establish a new upper council tax band for the highest-value properties. Wales created an additional Band I to capture the most valuable homes. England's system remains frozen with Band H as the ceiling, meaning owners of the most expensive properties often pay a smaller proportion of their property's value in council tax.

Creating additional upper bands would not constitute a new tax, but simply modernise an existing one, meaning it is consistent with the Chancellor's self-imposed rules in the Mais Lecture. The next administration may not wish to be held to them. This change would make council tax more progressive, better reflect contemporary property values, and ensure that those with the greatest housing wealth contribute a fairer share towards local services. Councils are entitled to apply discretionary relief to households that could demonstrate that they were unable to pay such as, for example, households that are asset-rich but cash poor, mitigating any unintended consequences from an additional banding.

The evidence from Wales demonstrates that expanding the number of bands is both administratively straightforward and politically achievable. The UK Government must grasp the 'English nettle'. Reform is not impossible and ministers must learn from the parts of the UK that have already taken the steps to achieve it.

Business rates

Alongside the retention of business rates, which has reportedly been under consideration by the Ministry of Housing, Communities and Local Government, local authorities should also be granted greater discretion over the business rates multiplier within a nationally determined framework.[79]

In Germany, municipalities exercise the Hebesatzrecht, a constitutional right that allows them to set local multipliers on nationally defined tax bases. The federal government establishes the base rate, while municipalities determine the final multiplier. This provides genuine fiscal autonomy while preserving consistency across the wider tax regime.

In England, this approach isn't unprecedented. The City of London applies a City Premium through the Court of Common Council, while local authorities have had the power to introduce a Business Rates Supplement since 2009.[80] In practice, however, the conditions attached to the supplement have been sufficiently restrictive that only the Greater London Authority has used it, helping to finance the Elizabeth Line.[81]

The APPG believes that a more flexible system of local multiplier-setting would provide stronger incentives for growth than the current model determined by the UK Government. We understand that such powers raise complex questions, which is why it is important that the Government is clear about the degree of variation that it is willing to tolerate. For example, differences in tax rates between neighbouring areas can create horizontal spillover effects, encouraging tax competition and influencing the location decisions of households and businesses. They may also generate vertical spillover effects, where decisions taken by strategic or local authorities affect revenues available to central government, affecting the UK Government's overall tax receipts, as well as local receipts.[82]

Fees and charges

The APPG also heard from witnesses that reform to the fees and charges schedule could give local authorities more autonomy.

The Government's approach to planning fees is a case in point. The Planning and Infrastructure Act gave local authorities the ability to set their own planning application fees up to 'cost-recovery level', which the Government has determined is 90 per cent of costs. This is a welcome step forward, helping to ensure that local planning authorities can recover the vast majority of the costs associated with processing applications while incentivising service improvements.[83]

However, we do not agree that local authorities should be prevented from recovering 100 per cent of the cost of providing a statutory service. The remaining 10 per cent funding gap means that local taxpayers continue to subsidise planning applications through general council expenditure, despite the fact that these costs arise directly from the development process. This effectively transfers costs from applicants to residents.

The Local Government Association has called for full cost recovery on this basis.[84] We share that view. Where local authorities can demonstrate that fees are being used efficiently and transparently, there is no principled reason why local taxpayers should be required to subsidise planning applications. Full cost recovery set at 100 per cent would provide a fairer, more sustainable funding model, strengthen planning capacity, and reduce financial pressure on already stretched local authorities.

Planning fees are not the only example of a fragmented approach to local fee-setting. Parking enforcement provides a further illustration. While local authorities are free to determine parking charges, penalty charge notices (PCNs) outside London remain set by central government. Outside the capital, authorities may only apply penalty bands prescribed by the Secretary of State unless they obtain explicit approval to depart from them. One such example is Bournemouth, Christchurch and Poole Council, which secured approval to pilot higher PCN levels, bringing them into line with those operating in London. In doing so, the authority more than doubled the level of some penalties. It reports that the changes have had a significant deterrent effect on illegal parking and has subsequently asked the Department for Transport to make the revised charging regime permanent.[85]

78 The Government applies a maximum for the Police and Crime Commissioner component, which was £15.00 in 2026-27, and for the Greater London Authority more widely. MHCLG, Referendum principles, 2026. Written Evidence — Local Councils Network.
79 Stacey, K. Ministers could give billions raised by business rates to England's regions, The Guardian, 15 June 2026.
80 City of London, How your bill is calculated, 2026.
81 Business Rate Supplement Act, 2009. Greater London Authority, Paying for Crossrail: business rate supplement, 2026.
82 OECD, Fiscal Federalism: Making Decentralisation Work, 2021. Oral Evidence — David Phillips, Institute for Fiscal Studies.
83 MHCLG, Consultation: fees for planning applications, 2026. Baker, J. et al. Counting the cost: proposed default national application fees, Lichfields, 2026.
84 Local Government Association, LGA submission to MHCLG's consultation on reforms to planning fees, 2026.
85 Bournemouth, Christchurch and Poole, Overview and Scrutiny Board, 2026.

What is clear, however, is that these arrangements not only fail Andy Burnham's Makerfield Test — with London continuing to enjoy preferential treatment on penalty charges for reasons that are difficult to justify — but also reflect a piecemeal approach that has evolved over decades. Rather than continuing to layer new powers onto an already complex framework, the Government should undertake a holistic review of fees and charges to determine the role they should play within a modern, coherent system of local government finance

Implementation: a phased approach?

Fiscal devolution is not a single policy intervention that can be delivered through a single Spending Review. It is a long-term process of institutional reform in which fiscal powers, accountability arrangements and equalisation mechanisms evolve together over time. This approach reflects the reality that fiscal devolution is not simply about assigning revenues. It requires decisions about risk-sharing, democratic accountability, redistribution, administrative capacity and the relationship between central and local government.

The Government's roadmap should therefore set out a clear long-term pathway, providing certainty to local and strategic authorities while allowing reforms to be tested, evaluated and built upon over time.

The APPG is concerned by the lack of transparency surrounding the Government's approach to fiscal devolution and we hope this will be addressed under the new administration. The proposal was absent from the King's Speech and, despite the Chancellor's comments on fiscal devolution, little information has been provided about the process for designing the roadmap, the period it will cover or how local and strategic authorities will be involved in shaping its contents. As Professor Andy Pike and Professor Naoki Fujiwara told the APPG:

> ***HM Treasury will decide upon the roadmap, what shares of what national taxes, and which places are deemed to have the capacity to deliver them and potential to benefit. There is, to date, no criteria for making such decisions in a transparent and accountable way or detail on how the voices of local governments and their residents will be taken into account.***[86]

Different models of fiscal devolution place different emphasis on growth incentives, equalisation, local autonomy and institutional stability. Unless the Government clearly articulates the objectives it is seeking to achieve, in detail, there is a risk that reforms become a series of disconnected measures rather than part of a coherent settlement.

The APPG therefore believes that the Government should publish a formal consultation and Policy Statement setting out the objectives, principles and intended scope of fiscal devolution.

We recognise that the Government is likely to begin with those strategic authorities that have achieved Established Status. This would be consistent with the approach taken by successive governments through Trailblazer Deals, the Integrated Settlement and other forms of what has been described as 'earned autonomy', whereby greater powers and flexibilities are granted to institutions that have demonstrated readiness and capability.[87]

There is a practical logic to this approach. Established strategic authorities generally possess stronger governance arrangements and greater administrative capacity than other strategic authorities and an economic geography at a more appropriate scale than local authorities. They are therefore well placed to pilot and adopt new fiscal arrangements and help inform wider implementation.

However, the APPG does not believe that fiscal devolution should stop there. Many strategic authorities remain centred on large city-regions. If fiscal devolution is confined to these areas, rural, coastal and non-metropolitan communities risk being left behind. Moreover, some of the authorities best positioned to benefit from fiscal devolution are already among the most economically successful parts of the country. Local authorities with statutory responsibilities for public services should also benefit from fiscal devolution.

Without a clear pathway for wider participation, there is a danger of creating a 'two-speed' system in which better-resourced places enjoy both greater fiscal autonomy and stronger growth dividends, while other authorities remain dependent on a grant system over which they exercise little control.[88]

The Government's roadmap should therefore make clear from the outset how fiscal devolution will be extended beyond the first wave of strategic authorities and what conditions places will need to meet in order to participate.[89]

The APPG understands that it may be practically difficult for multiple forms of fiscal devolution to be introduced simultaneously. In the short term, revenue-sharing arrangements may provide a practical means of strengthening local incentives while limiting risk. Yet over time, as institutions mature and equalisation arrangements become established, the Government should consider how further fiscal powers should be devolved.

In determining which revenues are suitable for devolution, the Government should consider the characteristics of different tax bases, including their stability, geographical concentration, administrative complexity and susceptibility to behavioural change. Property based taxes are likely to present fewer implementation challenges than those that can be easily shifted across administrative boundaries, but as we set out in this report there is a long list of options available to the Government.

A durable settlement

Finally, a durable system of fiscal devolution requires more than new powers; it requires a mature relationship between central government and local government founded on trust, cooperation and mutual respect.

The APPG recognises that there are mechanisms through which elements of fiscal devolution could be introduced without primary legislation. Tax assignment can be delivered under existing Treasury arrangements, while some forms of fiscal autonomy could, in principle, be implemented through secondary legislation. During oral evidence, the APPG also heard that the General

86 Written Evidence — Professor Andy Pike and Professor Naoki Fujiwara.

87 Newman, J. and Shaw, J. Trouble ahead for the deals-based approach to England devolution?, The Bennett School of Public Policy, 2023.
88 Written Evidence — Dr Kevin Muldoon-Smith, Northumbria University.
89 Written Evidence — Localis.

Power of Competence established by the Localism Act 2011 — which expressly excludes the power to raise taxes — could be amended to provide local authorities with greater discretion over locally determined fees and charges.

We also heard support for placing the relationship between central and local government on a more formal footing, drawing on models such as the Verity House Agreement in Scotland. Such agreements can help foster collaboration and establish shared expectations between different tiers of government. However, they cannot substitute for legislation. The Scottish Government's decision to depart from the Verity House Agreement when seeking a council tax freeze as part of an election commitment demonstrated the limits of non-statutory arrangements when political priorities change.

For that reason, the APPG believes that the long-term framework for fiscal devolution should ultimately be placed on a statutory footing. If fiscal devolution is to represent a genuine rebalancing of responsibilities between central and local government, it must rest on more than administrative agreements or policy commitments that can be amended or withdrawn at short notice. Primary legislation would provide greater certainty for local institutions, investors and taxpayers, while establishing clear and enduring rules governing fiscal autonomy, equalisation and accountability.

The APPG recognises that parliamentary time is limited. However, major constitutional and fiscal reforms can be delivered within a single Parliament where there is sustained political commitment and institutional focus.

International experience demonstrates that implementation need not be unduly protracted. Japan's Trinity Reforms in the early 2000s fundamentally reshaped the relationship between central and local government, reducing reliance on conditional grants and expanding access to shared tax revenues within a single parliamentary term.[90] Closer to home, the implementation of fiscal devolution in Scotland and Wales also illustrates that, once the legislative framework is established, significant new fiscal powers can be introduced relatively quickly. The Scotland Act 2016 received Royal Assent in March 2016, with devolved income tax powers becoming operational in April 2017. Similarly, the Wales Act 2017 confirmed income tax devolution, which came into force in April 2019, although successive Welsh Governments have chosen not to diverge from English income tax rates.

England's governance arrangements are more complex than those of the devolved nations, and implementation will inevitably require careful design. Nevertheless, these examples demonstrate that ambitious fiscal reform can be delivered within a relatively short timeframe once there is political commitment.

A realistic programme of fiscal devolution will therefore take several years to design, legislate for and implement. The Government should use this Parliament to establish that framework, ensuring that every part of England has a credible pathway to benefit from a more durable, devolved and accountable system of local government finance.

90 Written Evidence — Dr Kevin Muldoon-Smith, Northumbria University.

Recommendations

Fiscal devolution presents an opportunity to take a transformational step forward in how England is governed. Realising that opportunity requires the new leadership to take bold steps, in a departure from the incrementalism seen over the past two decades.

With the roadmap already underway, the next Prime Minister can use that vehicle, in the Autumn Budget, to set out an ambitious roadmap of their own. It must be a long-term programme of reform rather than a series of isolated policy changes.

In the first instance, this means creating the conditions necessary for success, as the APPG has set out in three pillars: establishing a robust equalisation framework so that the pursuit of growth is matched by a commitment to fairness; building the institutional capacity required to manage greater fiscal responsibility; and providing the certainty and accountability necessary to create a durable settlement.

Pillar I: Risk and equalisation

- Model equalisation before devolving new fiscal powers.
- Introduce a transparent, rules-based equalisation formula that reflects both tax capacity and spending need, and updates automatically as circumstances change.

Pillar II: Accountability

- Strengthen the powers, resources and research capacity of Local Scrutiny Committees.
- Designate strategic authority Chief Executives as Local Accounting Officers and make them accountable to Parliament through the Public Accounts Committee.
- Extend the Right to Request to Local Scrutiny Committee where it relates to their ability to discharge their functions and to local authorities to support the next phase of devolution.

Pillar III: Readiness and capability

- Increase the Mayoral Capacity Fund for strategic authorities taking on fiscal devolution responsibilities, with a 25 per cent capacity funding uplift.
- Review and reform the New Burdens doctrine to ensure local authorities are adequately funded when their responsibilities increase.
- Expand support for initiatives such as the Mayoral Data Council and Office for Public Service Innovation to support stronger analytical and data capabilities across all strategic authorities, working in partnership with local authorities.

Acknowledging that the Government will need to take a phased approach to fiscal devolution, the APPG recommends the following:

Phase I: Objective-setting

- Publish a formal consultation and Policy Statement setting out the objectives, principles and scope for fiscal devolution. We anticipate the Government can make meaningful progress within the remainder of this Parliament.
- Set out from the outset a clear pathway for extending fiscal devolution beyond the first wave of strategic authorities, and establish transparent criteria for determining which authorities participate in fiscal devolution, how readiness is assessed and how decisions are made.
- Place the long-term fiscal devolution framework on a statutory footing through primary legislation, rather than non-binding agreements or secondary legislation.

Phase II: Tax assignment and devolution

- Identify a package of assigned revenues to support fiscal devolution, including Income Tax, Stamp Duty Land Tax, the Growth and Skills Levy and Landfill Tax, reducing reliance on any single revenue source and creating a more resilient funding framework.
- Align fiscal devolution with further devolution of economic development, skills and employment powers, ensuring that strategic authorities possess the policy levers needed to grow local tax bases, increase revenues and contribute to national economic growth.
- As institutional capacity and governance arrangements mature, move progressively from tax assignment towards genuine tax devolution by granting strategic authorities limited discretion to vary tax rates within nationally determined parameters and safeguards.

Phase III: Reform to local taxes

- Modernise council tax by creating additional bands for the highest-value properties and restoring local discretion by removing referendum principles, while retaining protections for households where support is most needed.
- In the longer-term, establish a national revaluation programme, addressing the regressive nature of England’s council tax regime owing to its failure to re-evaluate English properties.
- Increase the local retention of Business Rates and allow local authorities to vary the multiplier within nationally determined parameters.
- Give local authorities greater discretion over fees and charges and permit full cost recovery for statutory services, including planning applications, ending the requirement for local taxpayers to subsidise employers and consumers.

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