



HM Treasury

# The Fiscal Devolution Roadmap: Reforming the Funding Model for Regional and Local Government in England

October 2026



# The Fiscal Devolution Roadmap: Reforming the Funding Model for Regional and Local Government in England

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# Ministerial Foreword

Good growth in every postcode is this government's central mission, and we need to fundamentally rewire the state to achieve that. That is not abstract. It means trusting the people who know their places best to make the decisions necessary for those places to grow and thrive, across all tiers of regional and local government.

For too long, too many decisions have been taken by central government. The result is that the difference in productivity between regions of England is among the greatest in the developed world. A transport bottleneck in South Yorkshire, the East Midlands or the West of England is too often invisible from Whitehall, yet it holds back jobs and investment all the same.

Following the publication of the Rewiring the State Cabinet Statement at the end of his first two weeks in office, the Prime Minister will present a Command Paper to Parliament before the end of the year that details the plan for devolution in full, and the timeline for its delivery.

Ahead of that, at this Budget, the Chancellor is setting out details of the biggest fiscal devolution in a generation. We are calling time on central government thinking it knows best and giving control to those who do: local leaders with skin in the game.

Success is not simply a line on a spreadsheet at the Treasury or in a local finance department. It is the new tram stop that puts a good job within reach, the derelict site that becomes homes young families can afford, the empty shop that opens its doors again.

Local leaders will now have the certainty to drive that kind of change, from Leeds South Bank in West Yorkshire Combined Authority to Atom Valley in Greater Manchester Combined Authority and St James Quarter in the North East Combined Authority. The investment decisions and strategic approaches taken by local leaders will help give confidence to private sector partners, supporting businesses of all sizes, across the nation, to succeed.

Our roadmap for fiscal devolution establishes a reformed funding system for local and regional government in England. It moves decisively away from central government holding the purse strings and doling out short-term, uncertain grants and instead focuses on shifting power, funding and accountability closer to the people who are affected by the decisions that are taken.

At the heart of the new system is a new partnership on income tax, giving every mayoral strategic authority a direct stake in its area's growth. This is not a new tax: rates and thresholds will continue to be the same across England. But from April 2028, part of the income tax people pay will start flowing to their local mayor, so that they can use it to invest in infrastructure and help grow the local economy. This means

local ownership over a share of income tax, with more of your tax revenues kept and spent in your local area.

The long-term certainty that comes from access to tax revenues will enable mayors to invest more in projects that create the conditions for businesses to succeed and for local economies to grow. As this happens, and the amount of tax receipts locally increases, local areas will benefit from their mayors having more resources to go further. That means places will always share in the growth they create, whilst mechanisms in the system will make sure nowhere falls too far behind the rest of the country.

The principle of local areas and their leaders sharing in the proceeds of growth is not just limited to mayors. We will give local areas a bigger stake in the business rates retention system too – by the end of this decade, we intend for local authorities and strategic authorities to retain all of the business rates they raise. This means that all of that income, including future growth, will be retained by local government, who are best placed to judge where that is spent on local services and economic regeneration.

As a first step towards this, we will give mayors a share of locally retained business rates from 2027 in place of Investment Funds, Mayoral Capacity Funding and Local Growth Funds. This will be delivered without impacting local authorities' core funding position. This share will increase in line with inflation, and Mayors will additionally benefit from 20% of any growth in business rates generated in their region.

All strategic authorities across the country will also be given powers to implement a new Overnight Visitor Levy. This will give all strategic authorities greater control over how they raise and invest funding locally. The levy gives mayors and local leaders the option, where they choose to do so and in consultation with local business and other stakeholders, to raise revenue to support local growth priorities, including investment in the visitor experience.

Good Growth Funds will enable local leaders to bring together different funding tools into a single local investment approach and align Public Financial Institutions, pension funds and private capital behind local growth priorities to invest in catalytic regeneration and development.

We are working with local leaders as they get ready for responsibilities to be transferred from Whitehall. We are investing £150 million in extra capacity and capability funding in 2027-28, so that strategic authorities are equipped to operate at this enhanced scale, whilst at the same time considering how central government will need to change to account for this.

We know that strategic authorities are only as strong as the local authorities that comprise and work alongside them. So, at the same time, we are strengthening the tools available to local authorities to

support their role on the frontline, delivering services to communities across England.

Rewiring the state is not an end in itself. It is how we give the people closest to the challenges faced by our places the power to fix them, and people closest to opportunities the chance to shape and realise them. It is how we deliver good jobs where you live, a high street to be proud of, and a government that backs local leaders. Every town, city, and rural area in this country has untapped potential. Potential that we have a plan to unlock. By putting local people in control of their economic future, we can deliver good growth in every postcode and fresh hope for the future.

A handwritten signature in black ink, appearing to read 'J Murray', with a stylized, looping flourish extending from the end.

The Rt Hon James Murray MP  
Financial Secretary to the Treasury and Paymaster General

A handwritten signature in black ink, appearing to read 'D Tomlinson', with a stylized, looping flourish extending from the end.

Dan Tomlinson MP  
Exchequer Secretary to the Treasury

A handwritten signature in blue ink, appearing to read 'Jim McMahon', with a stylized, looping flourish extending from the end.

Jim McMahon OBE MP  
Minister for Local Government, Devolution and Regional Growth

# Chapter 1: The Case for Change

## Introduction

**1.1** The future prosperity of the UK depends on empowering local leaders to deliver good growth in every postcode. For too long, power, funding and decision-making have been held centrally, limiting the ability of places to shape their own future.

**1.2** This roadmap is a critical part of the government's mission to rewire the state: shifting power, funding and accountability closer to people and places. It reflects a simple principle that local leaders who know their areas are best placed to unlock growth, improve public services and lift living standards.

**1.3** To succeed, local leaders need more than powers alone. Like their counterparts around the world, they need genuine control over the resources required to deliver change and the certainty to plan beyond annual funding cycles. Stable finances will allow strategic authorities across England to make long-term investments in transport, skills, housing and regeneration, while giving businesses and investors greater confidence to co-invest in the future of their regions.

**1.4** Mayors and council leaders will receive greater rewards for the actions they take to grow their local economies, creating a virtuous cycle which allows them to re-invest in their areas.

**1.5** This document sets out the first steps to deliver this critical transition towards more fiscal devolution in England. It outlines a new funding system, one that moves us decisively away from short-term, uncertain grants and towards rewarding local leaders for their economic performance, building on the progress made by the introduction of integrated settlements and the first multi-year Local Government Finance Settlement in a decade. These strengthened fiscal powers will be accompanied by a proportionally strengthened accountability framework.

**1.6** The approach set out in this roadmap has been informed and developed in collaboration with mayors, local leaders and external experts. The government has also drawn on evidence and challenge from academics, businesses and think tanks.

**1.7** This roadmap sets out the government's immediate priorities for fiscal devolution and confirms its ambition to go further in future. The government will continue to work with strategic authorities, local authorities and other partners to strengthen and explore the evidence base for how further fiscal devolution can support local leaders to drive growth and improve people's lives.

**1.8** Later this year, the government will publish the Rewiring the State Delivery Plan. This will establish how the government will deliver a new vision for how the state is organised to deliver good growth everywhere. It will set out how different tiers of government will work together, with a radical shift in where power and resources lie. Mayors and strategic authorities will be championing their areas, promoting regional growth, and enabling a rewiring of public services. They will work in partnership with strong and sustainable local authorities, shaping local economies, integrating public services and delivering place-based solutions.

**1.9** The government will continue to engage collaboratively as we consider further detail on the operation and parameters of the income tax assignment model. The funding baselines which underpin the model for income tax assignment will be set out at the Spending Review. These allocations will reflect the unique context, needs, and opportunities of different areas.

**1.10** Local government is at the heart of this government's ambition to rewire the state, and the Rewiring the State Delivery Plan will set out our plan for supporting councils to deliver their role in the new model of government. Alongside the roadmap, this represents the next step in the process of building a stronger and more equitable partnership with all tiers of sub-national government, empowering local leaders to take greater responsibility for the prosperity of their areas.

**1.11** This roadmap sets out plans for fiscal devolution in England but our ambition for good growth reaches every postcode in the UK. The UK government respects each nation's distinct devolution settlement. Working with No. 10 North, the Offices for the Nations and other Government Departments, Ministers will work with leaders from every tier of government in the nations to push power closer to communities so that the whole of the UK can benefit from local empowerment.

**1.12** The government's ambition is not simply a different funding system, but a more equal country where opportunity is more evenly spread and every place has the tools it needs to succeed.

## **Economic Rationale**

**1.13** The UK is one of the most centralised advanced economies in the world. Sub-national government in the UK receives the smallest share of its funding from taxes and is the most reliant on grants from central government of any country in the G7.<sup>1</sup>

**1.14** This overreliance on grant creates significant challenges for local and regional government. This government believes that strengthened and empowered local leadership is needed to meet these challenges.

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<sup>1</sup> OECD Data Explorer [Subnational government revenue by category 2024](#) Percentage of revenues in the same institutional sector

However, local leaders are constrained by bureaucracy and lack of certainty, meaning they do not have the genuine flexibility to invest across services in a holistic way and focus on the long term. The result is that they are not sufficiently empowered to invest in the infrastructure and services that make places attractive for residents, businesses and visitors, and places do not reap the rewards of the growth that they drive.

**1.15** OECD research suggests that fiscal decentralisation is positively associated with GDP per capita, while emphasising that outcomes depend on how reforms are designed and implemented.<sup>2</sup> The government believes that devolution can support growth because:

- **Local leaders are closer to the people and businesses they serve**, giving them better insight into local strengths and challenges which helps target policy and investment most effectively;
- **Giving regions greater freedom to respond to local needs encourages policy innovation** and lets successful approaches be shared and adapted elsewhere; and
- **Joining up decisions on transport, housing, skills and economic development captures the wider benefits** of coherent regional strategies and coordinated investment.

**1.16** To support this vision, it is therefore essential that local leaders are given the ability to control the resources to deliver change and that they are rewarded for unlocking growth. Fiscal devolution sets up the funding system to do this by:

- **Strengthening fiscal rewards for economic growth at the regional level.** Mayoral strategic authorities (MSAs) will retain a proportion of additional revenues generated by growth in assigned tax bases. This should create a virtuous cycle as MSAs see a direct financial benefit when they use devolved powers to address locally specific productivity constraints. MSA geographies generally align more closely with functional economic areas than individual local authorities because they cover wider labour, transport and housing markets that often extend across local authority boundaries. This means MSAs are well placed to balance costs and benefits of alleviating constraints on growth, working closely with their constituent local authorities.
- **Increasing flexibility and autonomy** for local authorities and MSAs to invest in local priorities. The existing integrated settlements provide some flexibility for MSAs to move funding

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<sup>2</sup> Jong, D. et al. (2021), "A comprehensive approach to understanding urban productivity effects of local governments: Local autonomy, government quality and fragmentation", *OECD Regional Development Papers*, No. 11, OECD Publishing, Paris, *Making Decentralisation Work: A Handbook for Policy-Makers*. OECD Multi-level Governance Studies. Paris: OECD Publishing. DOI: 10.1787/g2g9faa7-en

between policy priorities such as housing, transport and economic development. Fiscal devolution will provide significantly more flexibility and local control on how money is spent. The government is already simplifying 38 revenue streams for local authorities, worth £56 billion over three years. The government intends to continue increasing local authorities' flexibility and autonomy by simplifying further grants, including by exchanging them for a higher share of business rates income by the end of the decade.

- **Increasing funding stability** for local leaders, supporting the development of evidence and longer-term strategies for investing in the local economy. By removing the cliff edges in current grant arrangements local leaders will be able to hire the best talent and build strong institutions.
- **Providing longer-term funding certainty** gives local leaders the confidence to make upfront investment and create sustained economic growth. This will unleash investment as MSAs will be able to borrow to invest in transport and infrastructure, leading to larger and deeper labour markets that improve the matching of people to job opportunities. It will also facilitate knowledge spillovers, and increase the expected returns to private capital investment, which encourages further business investment.
- **Strengthening local accountability** by creating a clearer link between local leaders, the decisions they take and the funding that they use to deliver their priorities.

**1.17** Fiscal devolution will give local leaders the flexibility and stability to tackle the barriers holding their economies back and reward them for the growth they drive in their local economies. With the right powers and resources, local leaders can turn local knowledge into better opportunities and good growth in every postcode. Fiscal devolution is therefore fundamental to this government's objectives.

# Chapter 2: A Reformed Funding Model for Regional and Local Government in England

## Overview of the new funding model

**2.1** The government's overarching objective for fiscal devolution is to support local leaders at all levels to drive growth and make people's lives better, while maintaining a framework that safeguards the UK's fiscal and macroeconomic stability.

**2.2** Mayoral strategic authorities (MSAs) will in future be largely funded through assigned and local taxation, giving them the certainty and autonomy to drive transformational investment in their regions. Grant will only need to be used on an exceptional basis, where there is a clear policy rationale for this.

**2.3** Foundation strategic authorities (FSAs), alongside their Mayoral counterparts, will be able to introduce an Overnight Visitor Levy and the government will explore options for ensuring that grant is provided to FSAs in a way that meets the government's ambition of enabling appropriate flexibility for local leaders.

**2.4** Local authorities are already primarily funded through taxation via council tax and retained business rates. The government intends to increase the share of business rates retained by local government, in place of grants from central government, as part of its intent for business rates to be fully locally retained by the end of the decade.

**2.5** The government's policy has been guided by six principles distilled from domestic and international evidence on effective fiscal devolution.

- **Empowerment**, giving local leaders the right levers and funding arrangements to drive growth and rewarding them for growth generated locally;
- **Accountability**, strengthening the link between local taxation and spending decisions with appropriate transparency and supporting arrangements;
- **Sustainability**, ensuring reforms are fiscally responsible and supported by appropriate revenues while managing revenue volatility risks;

- **Fairness**, for people and places, balancing local autonomy with national equalisation;
- **Administrative feasibility**, ensuring reforms can be implemented efficiently and cost-effectively; and
- **Legal and regulatory compatibility**, ensuring consistency with UK law, treaties, constitutional arrangements and the integrity of the UK internal market.

**2.6** Informed by these principles the government has worked closely with stakeholders to identify which national taxes are best suited to supporting devolution and growth. The government's engagement and supporting evidence indicate that income tax assignment and business rates retention are the strongest candidates to meet these objectives.

**2.7** These major reforms are deliverable in this Parliament, provide the right flexibility of funding and create the right incentives between national and sub-national government. These taxes complement one another and provide rewards for different actions taken to drive growth; retained business rates reward growth in commercial premises, while income tax assignment rewards growth in employment and earnings.

**2.8** Our immediate focus is therefore on income tax assignment and business rates retention, sitting alongside the Overnight Visitor Levy and Good Growth Funds to create a new funding model for local and regional government.

- **Income tax assignment** will in future constitute the majority of MSA revenue. Income tax revenues are large enough to replace grants for MSAs and receipt performance has links to mayoral responsibilities regarding local economic growth, employment and productivity;
- **Business rates** are a locally raised tax that already provides vital revenues to local authorities for the delivery of public services. As a tax on commercial property, it has strong links to the local economy. Increasing the revenue retained locally and bringing mayors into this system for the first time on a systematic basis will strengthen rewards for actions taken to grow the local tax base. This also provides a complementary set of incentives to income tax;
- **The Overnight Visitor Levy** will provide mayors and local leaders in MSAs and FSAs with a discretionary power to introduce a levy on overnight stays in their region. This will raise revenue for vital growth investments, including in the visitor experience, and incentivise local leaders to improve infrastructure and services that are important for visitors and residents alike; and
- **Good Growth Funds** will be rolled out across England. Alongside fiscal devolution, this will allow local leaders to bring together different funding tools into a single local investment approach

and align Public Financial Institutions, pension funds and private capital behind local growth priorities to invest in catalytic regeneration and development.

**2.9** The government intends that local and regional government will retain 100% of their business rates income before the end of the decade in place of grants from central government. The first step towards this will be allocating MSAs a 20% share of locally retained business rates from 2027. In recognition of the importance retained business rates to local authority funding, local authorities will retain at least 70% of business rates revenues by the end of the decade. We will set out further detail at detail at through the Local Government Finance Settlement process later this year.

**Table 2.A Funding proposals by type of authority**

| Measure                          | For Who?                                                                                                    | From When?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share of retained business rates | Local authorities, MSAs                                                                                     | MSAs receive 20% share from 2027. Aiming for 100% retention across local and regional authorities before the end of the decade, with local authorities receiving at least a 70% share.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Good Growth Funds                | Local authorities transitioning towards a devolution agreement or strategic authority status, FSAs and MSAs | Grant funding will be available in 2027-28 - extending funding to areas that did not receive the City Densification Fund announced earlier in the year.<br><br>A bespoke borrowing facility of £1.5 billion for MSAs will be operational from April 2028.                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Overnight Visitor Levy           | FSAs and MSAs                                                                                               | Local leaders expected to be able to set out plans by March 2028.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Share of income tax              | MSAs                                                                                                        | From April 2028                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Business Rates Retention Zones   | MSAs, FSAs and local authorities                                                                            | Subject to business case, from 2027 for some MSAs. The government remains open to receiving proposals from MSAs who did not put a proposal for a Business Rates Retention Zone forward as part of the first wave.<br><br>The government intends to provide an opportunity to put forward Business Rate Retention Zone proposals to areas with FSAs and local authority areas that come forward for devolution as they work through the process of establishing strategic authorities. This will be subject to proposals demonstrating exceptional economic additionality. Proposals will be considered alongside the impact of the existing 286 business rate retention zones. |

**2.10** Implementing this model consistently across England will allow all places to benefit from the new funding model by the end of this Parliament. The highest levels of fiscal devolution, including income tax

assignment, will only be available to areas with mayors. This is because this model affords the strongest form of direct accountability.

**2.11** Central government will work with strategic authorities and local authorities to ensure that this new funding system is delivered in a sustainable way. In line with our commitment to fiscal responsibility, the government will introduce appropriate safeguards in a proportionate way. Further detail is set out in Chapter 3 of this roadmap.

**2.12** The vision set out in this roadmap is the first step in this journey. Ahead of the upcoming Spending Review, the government will continue to engage closely with local leaders and external experts to inform final decisions on the detailed arrangements for income tax assignment. This will include engagement to determine how the government establishes the funding starting points for income tax assignment.

**2.13** In the medium term, the government will continue to work with strategic authorities, local authorities and other stakeholders to strengthen and explore the evidence base for how further fiscal devolution could support greater local accountability and stronger rewards for actions taken locally to drive growth.

**2.14** The government recognises that the changes in this roadmap may have an impact on the funding of the devolved governments. Our approach to fiscal devolution in Scotland, Wales and Northern Ireland is already well established, however, the government will engage with devolved governments on any implications for their budgets in the usual way to ensure they continue to be funded to deliver a comparable policy offer.

## **Income Tax assignment model**

**2.15** Beginning in 2028, all MSAs will be assigned a share of the income tax generated in their areas. This is a significant step forward for devolution, giving mayors a stronger stake in local economic success, and strengthening accountability by linking local funding more clearly to growth.

**2.16** The model outlined below offers mayors a long-term funding settlement, which recognises the importance of fairness between regions by reflecting local differences from the outset, while giving all places an equal shot at benefitting from growth and ensuring a minimum level of funding certainty over time.

**2.17** The government is not devolving the power to set income tax rates or thresholds to mayors but will be granting significantly more flexibility as to how assigned revenues are spent locally. Mayors will be able to choose where to target funding, for example whether to maintain funding for local transport or prioritise other interventions. Our principled approach to the accountability and scrutiny arrangements that will underpin this system are set out in Chapter 3.

Further detail on this will be provided as part of the Rewiring the State Delivery Plan.

**2.18** This is the government's emerging proposition, reflecting engagement with MSAs and others over the last few months. In the coming months, ahead of next year's Spending Review, the government will continue engagement with areas to ensure that the parameters of this model are set in a way that empowers Mayors to deliver real change on the ground.

**2.19** In the first financial year of assignment (2028-29), the government proposes that the core model operates in the following way:

- Each MSA will receive an initial, bespoke funding allocation. These allocations will take into account a range of factors: existing funding commitments, new responsibilities the government is devolving to MSAs (which will be outlined in the Rewiring the State Delivery Plan), regional disparities, economic factors and the strength of regional tax bases;
- Giving MSAs bespoke starting points will limit regional disparities over time. This is because MSAs have very different income tax bases; if the government just assigned each MSA the same share of local revenues, there would be significant inequalities across regions; and
- These initial allocations will be set at the Spending Review. This will allow us to strike the right balance of funding between central and regional government, within the overall path for UK public spending. These allocations will also form the starting point for an ongoing baseline for each MSA.

**2.20** Each year after that, MSAs will be rewarded for growing their local economies. The level of reward will flow from the amount of assigned income tax – calculated as a set number of pence for every pound of local income that is assigned. This pence in the pound rate will be consistent across England.

- The difference between each MSA's assigned income tax revenue and their starting allocation will establish their initial equalisation adjustment. This adjustment will then be indexed to average income tax growth across MSAs in each year;
- If an MSA's assigned income tax revenues grow in line with, or faster than average across MSAs, they will then be able to benefit from a share of the additional revenue above their baseline. Where an MSA's assigned revenues grow below average rate, they will bear some of the downside risk;
- The practical effect of linking funding rewards to the growth of assigned income tax revenues, whilst indexing adjustments to average income tax growth across MSAs, is to give all areas a fair

shot at benefitting from growth and maintain the relative value of equalisation adjustments over time;

- To limit excessive divergence between areas and manage overall fiscal costs, gains above a specified level relative to an MSA's baseline will be progressively tapered away; and
- The income tax that is assigned will be protected from volatility that is driven by national tax policy changes, making MSAs' funding more stable. Where a national tax policy change impacts income tax revenues – such as a change to rates or thresholds – this will not automatically feed through to MSA funding. The Spending Review will set out more detail on how and when the government may adjust allocations in response to national policy changes.

**2.21** Unchecked, this model could lead to runaway divergence between MSAs over time. It therefore also has the following features:

- **Funding floor:** A hard funding floor will protect MSAs whose revenues fall below a minimum level set as a proportion of their baseline. While we will want to engage further to agree where this should be set, it could be around 95% of the annual baseline. This protects against economic shocks and the impact of sustained below average growth; and
- **Rolling resets:** The features above will guarantee that growth is always rewarded while also protecting against economic shocks. However, on their own, there is still a risk of sustained divergence over time. We want MSAs to have sufficient long-term certainty to invest in transformational projects and avoid cliff edges in funding allocations. Therefore, to avoid sizeable year on year changes, the government intends to introduce a rolling reset, which will phase out one year of historic performance at a time. This will ensure that MSAs are rewarded for growth over a set period e.g. the last 10 or 15 years.

**2.22** Tax will be assigned to MSAs based on where taxpayers live and, generally, vote rather than where they work. This will strengthen Mayors' accountability to their voters and reflects the address data HMRC holds.

**2.23** MSAs will be assigned revenue from employment and self-employment earnings and pensions income in their area, linking assignment with local economic activity. Assigned revenue will be from the basic rate of income tax. This will reward the creation of new jobs as well as pay and hours progression at the basic rate and provide a stable and predictable revenue stream for MSAs. The government will work with MSAs to consider the case for assigning a proportion of the higher rate band too, recognising the need to balance incentives and the level of redistribution across MSAs.

**2.24** Taken together, the model sets out a framework that gives MSAs greater funding certainty and a meaningful reward for growing their local economies. This will enable mayors to invest flexibly in local priorities and retain a share of the resulting gains. At the same time, tapered gains, a hard funding floor, and the intention to introduce rolling resets should protect areas from economic shocks, ensure growth incentives are balanced with fairness between places, and ensure the system is sustainable over time.

**2.25** The model set out above is the starting point for further co-design and collaboration. Over the coming months, the government will work with mayors and other stakeholders on the detailed arrangements, including the share of growth retained locally, the level of the funding floor, the level at which gains are tapered, and the timing and operation of resets. The government will carefully consider the balance of tapering and rolling resets to ensure the best balance between growth incentives, stability and managing Exchequer impacts. This will include consideration of whether any necessary transitional arrangements are required to provide additional certainty as MSAs move into this new system. The final parameters will be confirmed by the next Spending Review.

## **Business Rates Retention Model**

**2.26** The government intends that local and regional government will retain 100% of their business rates income before the end of the decade in place of grants from central government. The first step towards this will be allocating MSAs a 20% share of locally retained business rates from 2027. In recognition of the importance retained business rates to local authority funding, local authorities will retain at least 70% of business rates revenues by the end of the decade. We will set out further detail at detail at through the Local Government Finance Settlement process later this year. Business rates income will progressively replace fragmented and often restrictive grant funding with a more flexible and predictable income stream, allowing local leaders to make effective decisions for their areas and have more of a stake in the growth of their local economy.

**2.27** From 2027, mayors will be able to receive a share of business rates income in place of Investment Funds, Mayoral Capacity Funding and Local Growth Funds (where relevant), as well as a 20% share of growth in their areas. More grants can be exchanged for increased locally retained rates in future. MSAs' core business rates funding position (Baseline Funding Level) will increase annually in line with the Consumer Price Index. There will be a process of consultation before implementation.

**2.28** The new mayoral share of business rates will not affect constituent councils' core funding, including the allocations set out through the multi-year Local Government Finance Settlement. Business rates retention zones will also not be affected. Whilst we think this represents a positive step forward for mayoral funding

arrangements, we will not impose new arrangements and want local leaders to agree it is the right model.

**2.29** To support the transition to their new funding arrangements, 100% of MSAs' core business rates funding will be protected through a safety net in 2027-28. As per the wider business rates retention system, this safety net will be funded by a levy applied to MSAs experiencing growth. This is designed to balance providing meaningful reward for business rates growth and funding protection. Further detail will be set out in the Local Government Finance Settlement.

**2.30** Strategic authorities are only as strong as the local councils that underpin them. Fiscal devolution must therefore go hand in hand with a sustainable settlement for local government, including through increased business rates retention for councils by the end of the decade.

**2.31** Since 2013, local authorities in England have retained 50% of business rates income across the sector. This is redistributed between local authorities through top-ups and tariffs, with allocations determined through the Local Government Finance Settlement. In increasing the sector's level of business rates retention to 100%, the government will retain the structure of the existing system, including the use of top-ups, tariffs, resets, safety nets and levies. The government will work with local government to develop an approach which balances the rewards for driving growth with fairness and financial risk and reflects the different roles of local authorities and MSAs.

**2.32** The new arrangements will, in the long-term, apply consistently across England. This will create a simpler, fairer landscape, ending the complex system of bespoke arrangements in which specific areas – Greater Manchester, West Midlands, West of England, Liverpool City Region and Cornwall – benefit from retaining a higher share of business rates but rely on central government to extend these arrangements on an ad-hoc basis. Areas with existing enhanced arrangements will have the option to continue these arrangements until their current endpoint or move to the new approach ahead of this. Given its unique governance structures, services and funding arrangements, a bespoke approach may be needed for Greater London from 2028-29 onwards. The government will work with the Greater London Authority and London boroughs to develop this.

**2.33** Increasing business rates retention will empower local leaders and encourage investment in business growth by rewarding areas for growing their business taxbase. As part of this, the government is considering whether capital grant funding for assets and infrastructure could be best delivered through the business rates retention system. More broadly, the government will continue to engage with local authorities and MSAs to develop the long-term approach to business rates retention. Further detail will be provided as part of the Local Government Finance Settlement process.

## Business Rates Retention Zones

**2.34** Business rates retention zones (BRRZs), including those established through Enterprise Zones, Freeports and Investment Zones programmes, currently allow LAs to retain 100% of the growth in business rates within a designated area, protected from business rates retention resets, typically for 25 years. These arrangements, including the temporary protection from resets, will be unaffected by the move to 100% retention, and thus provide greater long-term certainty to support local authority or MSA borrowing in order to finance large capital projects.

**2.35** The Budget sets out the government's intention to take forward the first wave of new MSA Business rates retention Zones in 9 MSAs, subject to Full Business Case approval and legislation. The government remains open to receiving proposals from MSAs who did not put one forward as part of this wave.

**2.36** The government intends to provide an opportunity to put forward Business Rate Retention Zone proposals to areas with foundation strategic authorities and local authority areas that come forward for devolution as they work through the process of establishing strategic authorities. This will be subject to proposals demonstrating exceptional economic additionality. The government will set details out shortly on how this offer can be taken up.

**2.37** The retained rates from each MSA zone will be collected by the local authority as the billing authority. These zones will therefore provide areas with an additional revenue stream protected from business rates retention resets for 25 years.

## Overnight Visitor Levy

**2.38** The introduction of the new Overnight Visitor Levy power to all strategic authorities is a significant step forward for fiscal devolution. Where local leaders choose to introduce the levy, it will provide a new income stream, empowering them to deliver transformational investment. This will support areas across England to build their reputation as world-leading destinations and improve their local visitor experience.

**2.39** Local leaders are best placed - in consultation with local businesses, residents and others - to determine whether a levy is right for their area and how the revenues should be used. The government has sought to balance the principle of local choice over whether to apply the levy and how to invest the proceeds, with a national framework for its design and administration, including ongoing work to explore how the collection system used can prioritise simplicity, consistency and efficiency. This approach provides consistency and certainty for accommodation providers, including those operating across multiple regions.

**2.40** This includes maintaining a standardised framework for the rate type of the levy, which will be set as a percentage of the accommodation cost. This ensures that charges are proportionate to the price of the stay, meaning that low cost holidays will stay low cost.

**2.41** The levy will apply to short-term, commercially let visitor accommodation, with limited exemptions. National exemptions will apply to non-commercial accommodation or land uses. Strategic authorities will also have the option to exempt certain types of accommodation in their areas, such as tent pitches, caravan pitches and hostels.

**2.42** Unlike with income tax assignment and business rates retention, strategic authorities will also be the tax authorities responsible for the administration and collection of the levy. This is because where a local leader chooses to introduce a levy, it is right that their authority is accountable to local communities and businesses for its delivery. As well as consulting locally on the introduction of the levy, they must provide businesses with advance notice of its introduction and any subsequent significant changes to the design.

**2.43** The accommodation provider will be the party liable for the levy. This approach is common across other countries with similar levies and means that providers will be legally responsible for calculating and collecting the levy and for paying it to the relevant authority.

**2.44** Strategic authorities are expected to be able to set out plans for how revenues raised from the levy will be invested by March 2028. The government will provide more detail shortly on the national framework when the Overnight Visitor Levy legislation is introduced shortly.

## **Good Growth Funds**

**2.45** The government will support the roll out of Good Growth Funds across England. Alongside fiscal devolution, this will enable local leaders to bring together different funding tools into a single local investment approach and align Public Financial Institutions, pension funds and private capital behind local growth priorities to invest in catalytic regeneration and development.

**2.46** The government is determined to help local leaders deliver good growth immediately and at Budget confirmed £285 million in 2027-28, comprising £165 million of funding for places with a mayor in 2027 to establish Good Growth Funds and £120 million of incubator capital funding for areas transitioning towards a devolution agreement or strategic authority status - extending funding to areas that did not receive the City Densification Fund announced earlier in the year.

**2.47** Funding for MSAs will be incorporated into fiscal devolution baselines, which will be set at the Spending Review alongside the transfer of responsibilities from departments, so MSAs can have certainty that the funding provided in 2027-28 will continue into future years.

**2.48** To support Good Growth Funds, the government is also confirming a bespoke borrowing facility of £1.5 billion for MSAs. This facility will be operational by April 2028, allowing MSAs to build up the capability necessary to operate devolved loan funding. The government will work in partnership with MSAs to develop this borrowing facility, and this will include mechanisms to enable concessional lending to support a broad range of locally determined projects. The devolved governments will receive additional funding through the Barnett formula.

**2.49** Principles of the borrowing facility are set out in the devolved chapter of the Financial Transaction Control Framework.

## Transition arrangements

**2.50** In future, MSAs will be largely funded through assigned and local taxation. However, there will be some exceptional circumstances where grant funding remains necessary, particularly where new functions are devolved or new MSAs are established between Spending Reviews, or for significant time-limited projects.

**2.51** Where new functions are devolved to MSAs mid-way through a Spending Review, the government expects that grant funding would be required until those functions can be reflected in baselines. In these circumstances, the government would expect that grants should be designed to be as equivalent as possible to income from retained taxation, with maximum local flexibility and proportionate reporting requirements, which reflect the strengthened local accountability system for MSAs.

**2.52** Where new MSAs are established part way through a Spending Review period, the government expects they would be funded by central government grants until they could be brought into the new income tax assignment system or existing business rates retention system. In line with the principles set out in the Cabinet statement on Rewiring the State, the government expects that grant funding will have flexibilities to move funding between policy areas and between financial years as appropriate.

**2.53** The full suite of fiscal devolution, including receiving a share of income tax, will only be available to areas with a directly elected mayor, as this represents the strongest form of accountability. FSAs will have the ability to introduce an Overnight Visitor Levy. On-going grant funding from central government will therefore continue to be required to enable FSAs to fulfil their responsibilities. The government will explore options for ensuring that this funding is provided in a way that supports appropriate flexibility for local leaders.

**2.54** The government wants all areas to benefit from devolution and has set out an ambition that everywhere in England will be covered by a strategic authority by the end of 2028.

**2.55** The Rewiring the State Cabinet Statement committed to immediately working to streamline the integrated settlement

Outcomes Framework for existing Established MSAs. Additional integrated settlement flexibilities and streamlined outcomes frameworks will be in place before the end of the year. The government will also work with Established MSAs to ensure integrated settlement Programme Boards are used to support transition into the new funding model from April 2028.

**2.56** Currently, ahead of a MSA's first integrated settlement, MHCLG requests an external confirmation of readiness via an external 'readiness check' to prepare for and provide assurance of readiness for the settlement. The government expects to move away from this system and instead work closely with MSAs to support their readiness to deliver through fiscal devolution. Wider changes to supporting sector capacity and capability will be set out in full in *Rewiring the State*.

## **Going further on fiscal devolution: the government's medium-term ambition**

**2.57** The generational reforms described in this roadmap will transform the balance of power across England, with regional and local government empowered with new responsibilities and resources. These plans are not the limit of the government's ambition. As the role of strategic authorities and local authorities develops, the government will keep under review how the tax system and wider fiscal framework can support greater local accountability and stronger rewards for actions taken to drive growth, while maintaining sustainable public finances and fairness between places.

**2.58** In doing so, the government will be guided by the overarching objective of aligning powers and resources at the most appropriate tier of government, within a framework that manages UK-wide fiscal and economic risks; and will adhere to the principles described at paragraph 2.5 of this roadmap.

**2.59** Local taxation will be central to this, and the government has announced a number of reforms to business rates at Budget 2026, including supporting local high streets by increasing the Small Business Rates Relief (SBRR) thresholds for qualifying Retail, Hospitality and Leisure properties; and plans to support the Mayor of London to build on the success of the Elizabeth Line Business Rates Supplement, due to end by 2041, by enabling a successor supplement that will have ballot requirements no more restrictive than those enacted in 2009. Given the importance of thriving high streets to local communities and economies, and the wider plans for Business Rate Retention set out above, the government will continue to work with regional and local government to explore how greater local control of business rates policy could support local growth and resilience, while protecting business certainty, local government funding and fairness between places.

**2.60** Where local land values increase as a result of development, regeneration and public investment, more of the benefit should accrue

to local communities and be used to support investment in local housing and infrastructure. The government's reforms to business rates retention will play an important role here, and the government will explore how further reforms, including to property-related taxation, could support this objective.

**2.61** Where there is a clear link between devolved responsibilities and economic activity, the government will consider options for assigning or retaining more of the relevant tax revenues locally – strengthening the links between the taxes people pay, the local representatives they elect and the local policies that are pursued. Further reform will be guided by the considerations set out above and will consider the overall tax burden, complexity of the tax system and impacts on businesses and other groups.

# Chapter 3: Building a Sustainable System

## Managing the fiscal and financial risks

**3.1** Fiscal credibility is the bedrock of economic stability and national security. That is why the government will continue to meet the fiscal rules, retaining a buffer to protect against uncertainty.

**3.2** Local, regional, and central government will need to work together to ensure that fiscal devolution is delivered in a sustainable way that is consistent with the fiscal rules and the government's overall fiscal strategy. This will be done in a proportionate way that balances autonomy with maintaining appropriate fiscal safeguards, while noting that the increased funding stability afforded by fiscal devolution should provide strategic authorities with greater capability to invest in local priorities.

**3.3** As outlined in Chapter 2, sustainability is one of the six principles that has guided policy design. The government is committed to ensuring that reforms are fiscally responsible to safeguard UK-wide fiscal and macroeconomic stability. To support this, baselines for income tax assignment will be set as part of the next Spending Review, meaning that allocated revenues will align with the amount of grant removed. Levers within the model, including a taper on growth retention and the government's intention to introduce rolling resets, will need to be set so that funding develops at a sustainable rate over time. The government will also work with mayoral strategic authorities (MSAs) to consider how the model can accommodate fiscal consolidation at the national level whilst still providing the certainty required to invest.

**3.4** There is already a strong prudential framework in place for ensuring oversight and effective management of local government finances. Local authorities and strategic authorities have a statutory duty to determine and comply with affordable borrowing limits. They must also make prudent provision from their revenue budgets each year in respect of capital expenditure financed by debt, known as Minimum Revenue Provision ("MRP"), to ensure that debt can be repaid. The government has the legal powers to investigate and remediate excessive financial risk, relating to a local authority or strategic authority's investment and borrowing practices. This framework aligns with OECD guidance on best practice.

**3.5** As fiscal devolution increases, the government will consider new, proportionate safeguards to make sure all levels of government are aligned on fiscal discipline. This could include implementing a maximum limit on the exposure of the public finances to additional MSA borrowing. Local borrowing is still borrowing, and this national

limit will therefore ensure that local actions are consistent with the government's wider fiscal strategy. The government will also consider the case for applying controls to balance the mix of capital and resource spending, in a proportionate way, to support adherence to the fiscal rule on day-to-day spending.

## **Accountability and governance**

**3.6** Fiscal devolution is central to how the government is rewiring the state and will require new accountability and governance arrangements. A core principle of the government's approach is that where decisions are made locally and funding is spent locally, accountability should primarily be at the local level too.

**3.7** The government has already committed to strengthen local accountability by committing to designate Chief Executives of MSAs as Local Accounting Officers and establishing Local Scrutiny Committees. The government will set out further detail in the Rewiring the State Delivery Plan, including on the role of Members of Parliament in local accountability.

**3.8** The stronger focus on local accountability will require a different relationship between MSAs and central government. The government will move away from detailed, programme-level control and fragmented reporting towards a more strategic role. This will principally include setting minimum national expectations to prevent unacceptable variation in service provision across England and ensure adherence to statutory responsibilities, setting a small number of transparent outcomes, and retaining the ability to intervene in case of serious and persistent performance concerns.

**3.9** MSAs will continue to be subject to existing national frameworks, for example on accounting, borrowing, and audit. More detail on the future accountability arrangements for strategic authorities will be set out in the Rewiring the State Delivery Plan, which will be published by the end of the year.

## **Building capacity and capability**

**3.10** Strategic authorities across the country are at different stages of maturity. Ensuring that all strategic authorities have sufficient capacity and capability to deliver new funding responsibilities is vital to their ability to deliver good growth in every postcode. The government expects that strategic authorities will need to develop and enhance their investment and strategic finance capabilities, building on the progress that they have already made to date. It is only with strong, capable institutions in place that the full potential of these reforms to funding delivery can be realised.

**3.11** That is why, at this Budget, the government is taking a significant step to support strategic authorities to develop their capacity and capability by providing additional £150 million capacity and capability funding in 2027-28. This funding will ensure that strategic authorities

are able to begin building the resource required to manage greater powers, funding flexibility and fiscal responsibilities that they will take on including Good Growth Funds. Allocations for this funding across strategic authorities will be set out in due course.

**3.12** This is only our first step. As part of the Rewiring the State Delivery Plan the government will set out a long-term strategy for capacity and capability, including setting out the core capabilities the government expects strategic authorities to have, and the programme of support needed to realise the ambitions of Rewiring the State.

**3.13** The government is clear that alongside this, central government will need to adapt to make fiscal devolution work. Building on the action already taken through the integrated settlement, detailed programme controls and burdensome reporting will shift towards a more strategic relationship focused on clear minimum expectations, outcomes and transparency.

**3.14** The growth and development of strategic authorities will not ultimately increase the overall size of the state. Central government departments will be expected to identify roles and functions that will no longer be required due to responsibilities being devolved, to ensure work is not duplicative and that the government is achieving best value for the taxpayer. Alongside this, departments will be expected to support strategic authorities to develop the capacity and capability required to exercise greater autonomy and accountability.

**3.15** Ahead of the Spending Review, the government will work closely with strategic authorities as trusted partners to undertake a full assessment of Strategic Authority capacity and capability to inform funding baselines set at the Spending Review.

# Chapter 4: Delivering a New Funding Model

## Next steps to implement the new system

**4.1** Ensuring that government gets the implementation right will be critical to turning the ambition set out within this roadmap into visible change within this Parliament. This approach will protect the sustainability of the public finances as the new model for regional funding beds in.

**4.2** The government will bring forward the legislation required to put this system on a statutory footing as soon as Parliamentary time allows. Delivery of the ambition set out in this roadmap will be underpinned by a partnership between national, regional and local government. The government will set out further detail through the Rewiring the State Delivery Plan, the 2027-28 Local Government Finance Settlement, and the subsequent Spending Review. The government will continue to engage openly with the sector on policy design and implementation and ensure places are able to help shape the new arrangements, as set out below.

- For the **Overnight Visitor Levy**, the government will continue to work closely with strategic authorities on implementation through a joint delivery architecture, designed to ensure local preparations proceed alongside passage of the legislation;
- For **income tax assignment**, the government will continue to engage closely with mayoral strategic authorities (MSAs), external experts and other stakeholders on the parameters of the model and the approach to setting MSAs' baselines; and
- For **business rates retention**, the government will set out further details at the 2027-28 Local Government Finance Settlement and continue to engage closely with local authorities and MSAs.

**4.3** These reforms are an important next step, but they are not the limit of the government's ambition for fiscal devolution to local authorities and strategic authorities. The government will continue to consider whether further revenue assignment, local retention or tax-policy options could strengthen local accountability and reward local interventions that drive growth. Further reforms will be evidence-led and assessed against the principles in this roadmap, including fairness between places, administrative feasibility and the need to maintain sustainable public finances.

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This document can be downloaded from [www.gov.uk](http://www.gov.uk)

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