

The danger of devolving economic power and tax to Engli...

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I have not read the Adonis Review on devolving power to English regions that is being published by the Labour Party this morning but I am worried about it, nonetheless.

The plan, [as summarised by Labour List](#), is apparently as follows:

The Adonis Growth Review argues for creating Combined Authorities. Such authorities — formed when a group of local authorities take collective responsibility for functions previously carried out by central government, particularly with regard to transport and economic policy — would act as a means to give cities and regions more power.

The plans that Miliband will unveil (which you can read in further detail below) outline the importance of devolution — moving powers away from Westminster — by using £30 billion to give more power to Combined Authorities, existing local authorities and [Local Enterprise Partnerships](#) (LEPs — partnerships between local government and local business, which decide how investment should be made in local roads, buildings and facilities).

In principle the idea of devolving power to localities is good. The problem is that what is being devolved is largely a power to spend. The power to raise money that is proposed should be devolved is on a quite different in scale: each of the proposed new authorities is to be given power over raising its own business rates. Whilst the sums involved with business rates are significant they are not enough to cover the devolved spending.

In that case and, before we get too excited about local income taxes (which I do not support), land value taxation and even local borrowing (both of which I do support) let me be abundantly clear that there are real problems with devolving power over spending without providing control over a matching revenue source and that there are massive problems inherent in devolving control of business rates to local authorities.

Like it or not, these problems are going to come the light if this proposal is implemented, and need to be explored now.

Firstly, and Margaret Thatcher was right on this one, if there is to be effective fiscal

policy then there has to be central control over the economy to ensure that the overall targeting of resources is appropriate in combination with any monetary policy in operation. Devolving too much power over revenue raising undermines this.

Secondly, and perhaps much more importantly, the centre needs to keep power precisely because English regions will never be able to raise sufficient funding from their own potential tax bases to pay for the investment that they need at present because economic wealth is concentrated in the south-east of England. If we are to have any prospect of effective redistribution of both income and wealth in the UK then those redistributed funds have to be passed through central government through general taxation, and not through any form of devolved revenue raising power. The risk is that devolved revenue raising powers will give rise to the obscene prospect of much higher tax rates in deprived areas than would arise, for example, in London, let alone some of the most prosperous greenbelt shires.

Thirdly, and alternatively, if local authorities are given the power to control the level of the business rate as well as to spend its proceeds then the real chance of tax competition between English regions will arise, and that will undermine any chance of raising the revenue that is needed to promote infrastructure spending that is vital to development, rather than advance it. This is the experience, for example, of the USA, where States regularly compete with each other for the location of business, and the absurd situation of negative corporation tax rates arising at local level has now resulted. This has, incidentally, been achieved by refunding part of the equivalent of PAYE contributions to companies to subsidise their activities.

So my word on this one is tread very carefully: this policy in the wrong hands could give rise to massively increased regional inequality in this country, which is the exact opposite of what Labour wants.