

SUMMER 2026 FORECAST: WEAK REGIONAL GROWTH AS GOVERNMENT SIGNALS SUPPORT FOR REBALANCING

KEY MESSAGES

- UK regional growth will remain modest in 2026–2030, and weak by historical standards. The North West is among the fastest-growing regions, with average growth of 1.5% per year between 2026 and 2030, though still below its recent and pre-Covid-19 pace. Some regions, such as the North East, will improve on their 2020–2025 performance while still lagging the UK average.
- Muted growth will make the government's ambition to rebalance the economy more difficult, constraining the economic benefits of the devolution agenda. While Mayoral Combined Authorities (MCAs) should gain new responsibilities, the economic context will make it harder to reap the benefits. We also do not expect any loosening of the fiscal rules, nor a significant shift in spending away from welfare, under Prime Minister Andy Burnham, meaning that the prospect of the government significantly increasing infrastructure investment is unlikely.
- In the short term, we do not expect devolution to drive major changes in the economic performance of MCAs. Greater Manchester is forecast to remain the fastest-growing MCA from 2026–2030, outpacing Cambridgeshire and Peterborough and the West of England. A significant gap is expected to persist between these leading authorities and weaker-performing MCAs, such as Liverpool City Region, South Yorkshire, and the West Midlands.
- However, even if the short-term impact is modest, we think devolution—including devolution of fiscal powers—could support growth over time. Allowing Mayoral Combined Authorities to retain a share of local Income Tax could incentivise more effective and tailor-made investment strategies, and a clearer link between policy and financial returns.
- We forecast UK employment to grow by a modest 0.6% a year, but city performance will vary widely—from 1.4% in Cambridge and 0.9% in London and Manchester, to just 0.3% in Sheffield. Business services and health-related activities are expected to drive much of this growth, suggesting an increasing demand for higher and more specialised skills. This reinforces the role of devolution in aligning local skills provision with labour market needs.

NEW GOVERNMENT PUTS REGIONAL GROWTH AT THE CENTRE OF POLICY

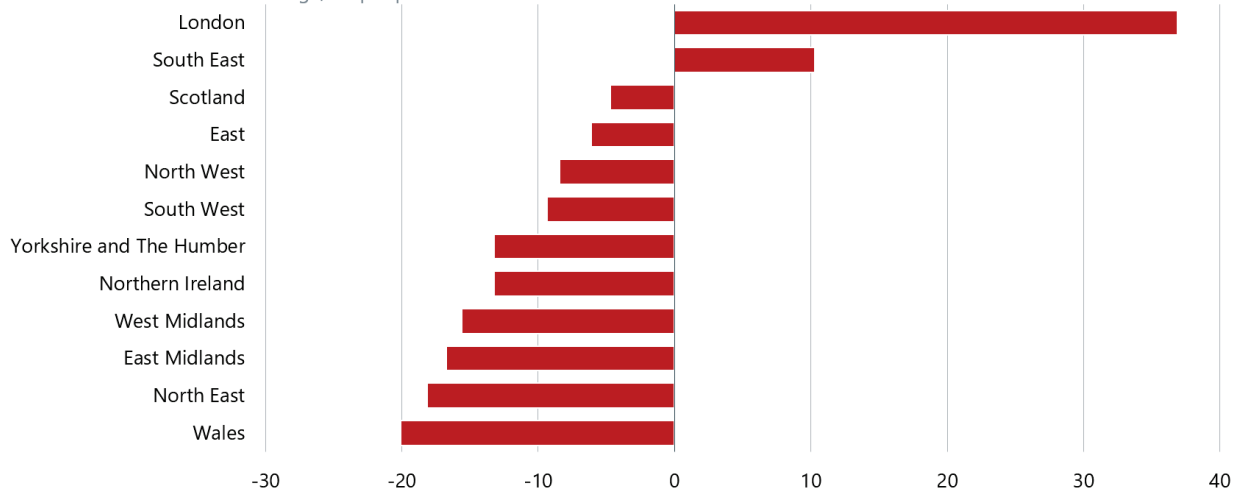
While regional growth has now been a focus of successive UK governments, Prime Minister Andy Burnham's government is placing particular emphasis on devolving powers and fiscal responsibility to local government. The core argument is that to unlock growth regionally, places must have both the right set of responsibilities and sufficient autonomy to pursue policies as they see fit.

A regionally focused growth strategy is particularly relevant in the UK. London and the South East are typically the two outperforming regions, with productivity levels exceeding the national average (in London, productivity is 40% higher than the UK average). Meanwhile, most other parts of the country—including some of the largest cities—have struggled to close the gap in output per worker, business investment, and skills attainment. **Chart 1** shows the regional disparities in terms of productivity across the UK. Closing even part of the gap between higher and lower productivity regions would raise aggregate output materially, making regional economic performance central to the government's growth strategy.

Chart 1: Regional productivity differences are substantial across the UK

Productivity differences to the UK average, 2026

% difference from national average, output per worker



Source: ITEM Club

THERE IS A STRONG NEED FOR FISCAL DEVOLUTION

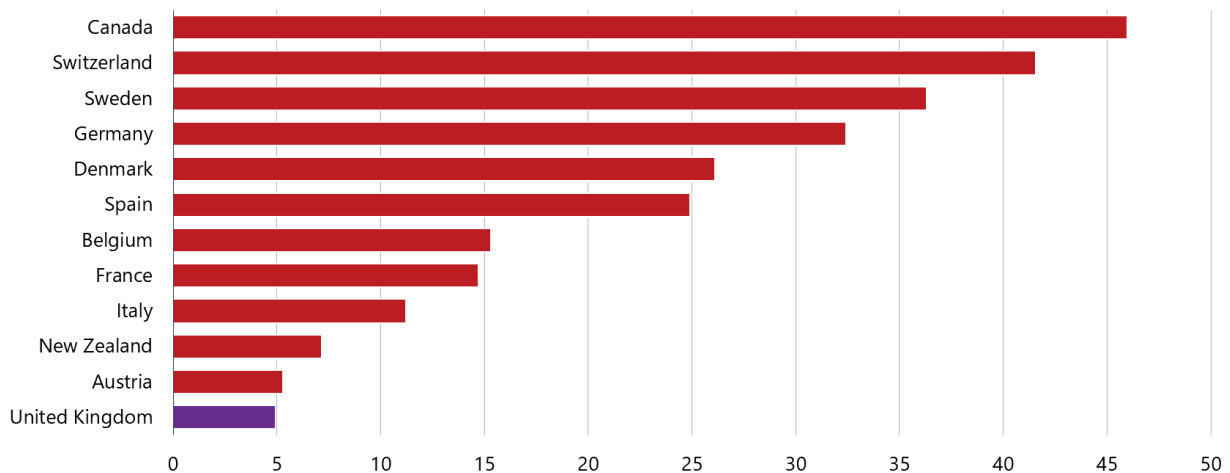
Fiscal devolution could still support the regional growth agenda, even if the immediate effects are likely to be limited. Prime Minister Burnham has announced that [Mayoral Combined Authorities \(MCAs\) will be able to retain a share of income tax and business rates revenues generated locally](#).

Indeed, the UK is a highly centralised economy. Council Tax is the only locally devolved tax, and it accounts for just 5% of the country's tax revenue, which, as shown in **Chart 2**, is lower than most OECD countries. In comparison, in France—another highly centralised economy—local government gets to [retain close to 15% of the country's taxes](#). Effectively, this means that local government in the UK is highly dependent on central government grants, has limited flexibility over how these funds are spent, and has few levers to increase its own-source revenues.

Chart 2: The UK is among the most centralised countries in the OECD

Global: Local tax revenue as a share of total government revenue

% of total government revenue



Source: OECD. Note: 'Local' includes both local government and states in federal countries.

Devolving tax revenues, and in particular revenue streams that are closely aligned with local economic performance, could provide local leaders a stronger financial incentive to grow their economies, while also giving them greater flexibility over how resources are allocated in line with local needs and priorities. While Burnham is suggesting a tax-sharing arrangement rather than full tax devolution, the effects would be similar in that it would give local authorities more autonomy over local spending, allowing them to make more effective investment where they see fit—whether that is in skills, employment support, infrastructure, or public realm improvements. If well targeted, such measures could help existing residents move into higher-income employment, while also making places more attractive to higher-income households and private investors, thereby strengthening the local tax base. This is one of the main potential benefits of devolution: it creates a stronger link between effective local policy, economic growth, and financial returns.

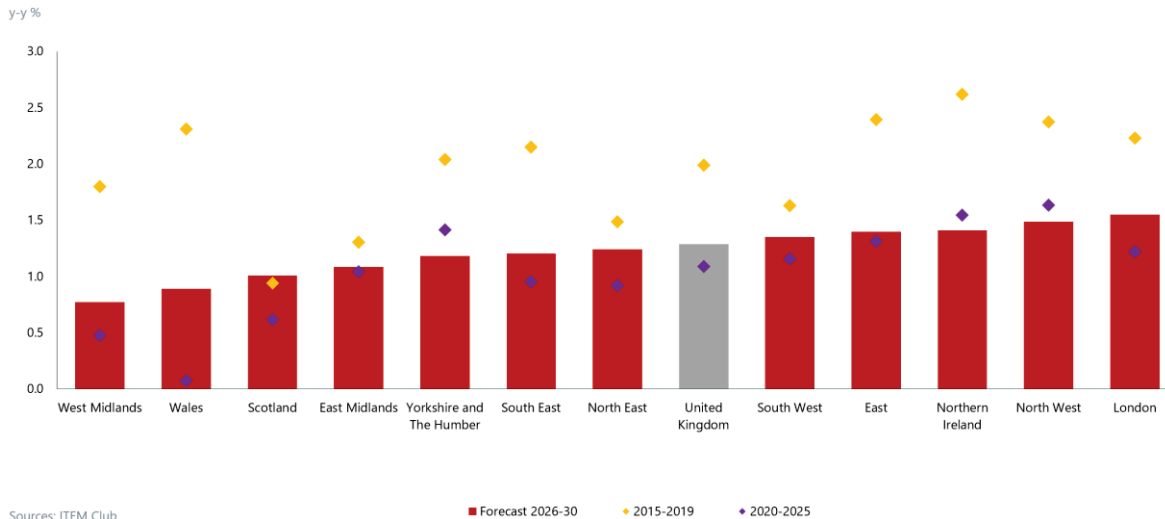
MUTED GROWTH WILL CONSTRAIN THE ECONOMIC BENEFITS OF THE DEVOLUTION AGENDA

A key challenge for Andy Burnham is that the economic outlook remains subdued. We expect growth to be modest across the UK and in most regions over the next five years (**Chart 3**), as well as weak relative to historical performance. For instance, although the North West is set to record the second-fastest regional growth after London, averaging 1.5% a year in 2026–2030, this will still be slower than in 2020–2025 (1.6% a year) and well below the pre-Covid-19 average of 2.4% a year in 2015–2019.

Still, there are several regions expected to outperform their previous five-year performance. For example, we forecast average growth of 1.2% a year in the North East in 2026–2030, up from an average of 0.9% a year in 2020–2025 (albeit still below the UK average of 1.3% a year).

Chart 3: GVA growth is expected to remain below historical averages

UK: Expected average annual GVA growth (2026-2030) compared to historical growth



This overall muted growth will constrain the economic benefits of the devolution agenda, for two key reasons. First, it will make it harder for MCAs to reap the benefits of their newly gained powers and fiscal streams. With a weaker underlying economic base, there will be less scope to generate additional revenues, attract investment, and deliver productivity gains, limiting the resources available to support further growth. For policymakers, this means that the ambition to lift regional growth will run up against a near-term reality of limited economic momentum and tight fiscal constraints.

Second, the scale of investment required to materially shift regional growth trajectories presents a further challenge. Capital spending has historically been very uneven across UK regions, and it is widely accepted that substantial investment in transport, housing, energy, and digital infrastructure will be needed to start closing the gap. Yet the current macroeconomic and fiscal environments make such an increase in spending unlikely. We do not expect any significant fiscal loosening or shift in spending away from welfare. We do not expect any significant fiscal loosening or shift in spending away from welfare, which places the prospect of notable increases in regional investment—unless funded through increased spending or borrowing—most likely off the table.

A further challenge is the potential impact on regional redistribution. If more revenues are retained locally rather than transferred to the Treasury, less is made available in the central pot for redistribution. The fastest-growing mayoral authorities are typically also the wealthiest, and reducing the funding available for weaker economies could widen existing disparities rather than narrow them. This creates a clear policy tension: a system designed to strengthen local incentives for growth may also leave poorer places with fewer resources to address the issues holding them back.

THE OUTLOOK REMAINS MIXED FOR MAYORAL COMBINED AUTHORITIES

We do not expect devolution to cause major changes to the economic performance of Mayoral Combined Authorities, at least in the short term. Greater Manchester is expected to be the fastest-growing MCA, with an average growth rate of 1.7% per year between 2026 and 2030, followed by Cambridgeshire and Peterborough (1.5%) and the West of England (1.5%). The gap to other MCAs such as Liverpool City Region (1.1%), South Yorkshire (1.0%), and West Midlands (0.8%) will likely remain by 2030.

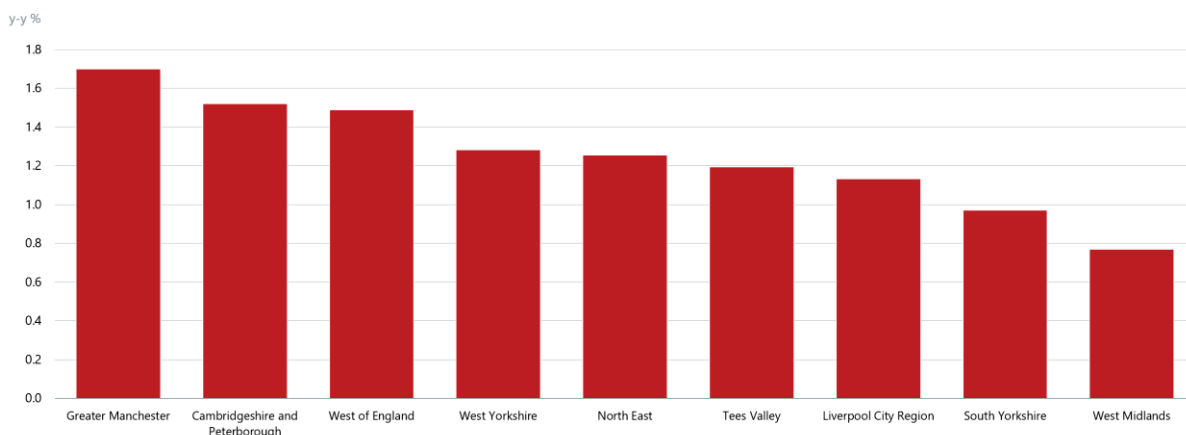
Ultimately, much of the difference between places reflects their sectoral structure. Areas such as Greater Manchester and Cambridgeshire and Peterborough have been more successful in attracting higher-value activities, including professional services, digital, technology, and other innovation-led sectors. Their strength comes from a combination of skilled labour, better infrastructure, access to research and innovation assets, and dense business networks. Together, these factors make these places more attractive to high-value industries and create a self-reinforcing growth dynamic.

As noted, devolution could reinforce these advantages by giving local leaders greater control over investment decisions and more flexibility to align spending with local economic priorities. Over time, that could support more coherent policymaking and improve the delivery of infrastructure, skills, and regeneration strategies. It may also help weaker-performing places respond more effectively to local constraints and develop clearer long-term growth plans.

But it is a slow-moving process. While devolution can improve the conditions for growth, it is unlikely to transform local economies quickly, particularly where structural weaknesses are deep rooted. Nor is this the UK's first attempt at decentralisation, and past rounds of reform have delivered only limited progress in narrowing regional disparities.

Chart 4: The outlook remains mixed for Mayoral Combined Authorities

Mayoral Combined Authorities: GVA growth, 2026-2030



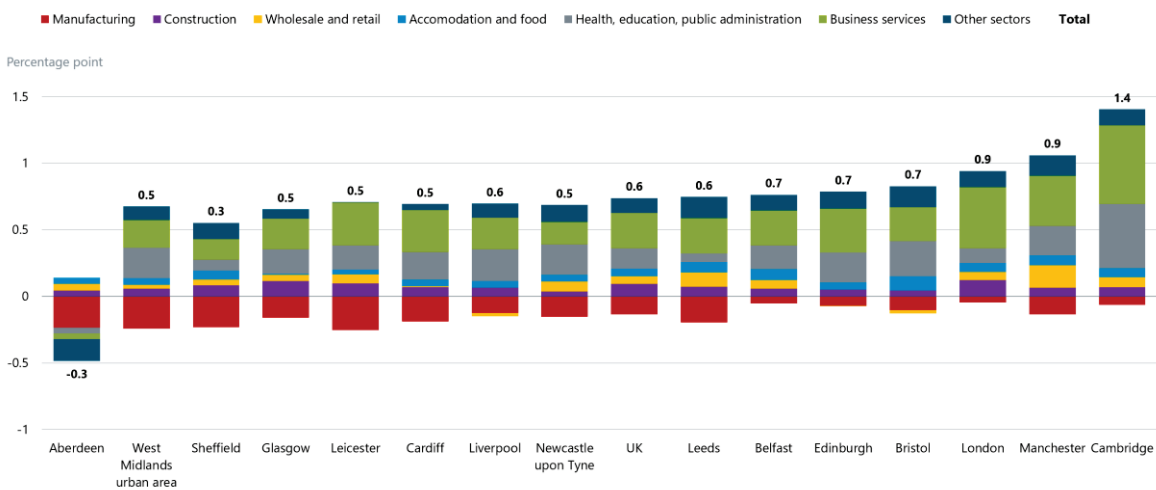
Source: ITEM Club

EMPLOYMENT GROWTH WILL INCREASE DEMAND FOR HIGHER-SKILLED LABOUR

Employment across the UK is expected to grow at a modest annual rate of 0.6% over the period 2026–2030, although performance will vary across cities. Edinburgh and Bristol are projected to record slightly faster growth, at 0.7% per year over the period, while London and Manchester are expected to expand by 0.9% annually. Cambridge stands out, with employment growth of 1.4% per year. By contrast, we expect weaker growth in places such as Sheffield (0.3%), Glasgow (0.5%), and Leicester (0.5%).

Chart 5: Business services will contribute the most to employment growth across cities

Functional Urban Areas: Forecast employment growth by sector, 2026-2030



Sources: ITEM Club

The employment forecast points to the importance of ensuring that local labour markets have the skills needed to meet changing demand. In most cities, business services—which include professional services, financial and insurance activities, and information and communication—are expected to make the largest contribution to employment growth. These sectors tend to have a relatively high concentration of higher-skilled occupations, pointing to an increasing demand for workers with higher and/or specialised skills. We also expect strong growth in health-related activities, which require specific qualifications and capabilities.

Skills policy therefore provides a clear example of where devolution can have a significant role in supporting local economic growth. Skills and employment support have become increasingly central to the devolution agenda, with much of the Adult Skills Fund now devolved to MCAs. This gives local leaders greater scope to align skills provision with the sectors expected to drive demand locally. In faster-growing economies where demand for business services is expected to increase strongly, such as Cambridge and Manchester, this means ensuring that local skills pipelines can keep pace with expanding demand. In weaker places, the challenge will be to support the existing workforce with the skills needed to access emerging opportunities. Devolution will not be a silver bullet, but it could help local leaders respond to these challenges more effectively.

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About the ITEM Club

The ITEM Club is the only non-governmental economic forecasting group to use the HM Treasury's model of the UK economy. Its forecasts are independent of any political, economic or business bias.

ITEM stands for Independent Treasury Economic Model. HM Treasury uses the UK Treasury model for its UK policy analysis and Industry Act forecasts for the Budget. ITEM's use of the model enables it to explore the implications and unpublished assumptions behind Government forecasts and policy measures. Uniquely, ITEM can test whether Government claims are consistent and can assess which forecasts are credible and which are not.