Enabling Regional Growth:

Institutional and Fiscal Lessons from England and Japan

Abigail Taylor, Jeffrey Matsu, Naoki Fujiwara, Anne Green

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Foreword

Birmingham and Osaka are more than 14,000 km and continents apart. They share neither language, alphabet nor currency. Yet there is much these two second cities, and their wider regions, can learn about each other, and through that, about themselves.

Economic inequalities plague all countries and their regions to greater or lesser degrees. Both central and local governments have important roles to play in developing and implementing policies that reduce these inequalities and drive regional growth.

CIPFA and City-REDI at the University of Birmingham have collaborated on a number of studies examining real life policy and practice in a range of cities and city-regions from Cleveland in the US to Leipzig in Germany and from Fukuoka in Japan to South Yorkshire in the UK. What is emerging from these studies is a clear picture of the common success factors for policy and strategy, funding and investment, partnership and collaboration, and monitoring and evaluation. We are beginning to build a solid evidence base for the interventions that will make a different to reducing regional inequalities.

For this study, we return to the UK and Japan – specifically the cities of Birmingham and Osaka and their wider regions: the West Midlands and Osaka Prefecture. We are also delighted to welcome Naoki Fujiwara from the Otemon Gakuin University in Japan to the research team. Insights from Japanese academics and practitioners, as well as their UK counterparts, have been invaluable in drawing out the complexities and nuances, strengths and weaknesses of two very different, and still evolving, local governance systems. We look forward to further collaborations in the future.

We know from our deep dive into the approach of English city-regions to regional development that mutual learning and knowledge exchange is itself an important factor in developing successful policies and strategies, albeit one that is easy to overlook or to fail to make time for.

This research, we hope, demonstrates the value of mutual learning and knowledge exchange. Our intention is to offer policymakers and practitioners in England and Japan, and indeed across the world more widely, some practical insights into how devolution frameworks, regional groupings, funding mechanisms and monitoring and evaluation practices can be harnessed to best effect to secure sustainable and inclusive growth for their regions.

Second cities so often live in the shadow of their capitals. By focusing on Birmingham and Osaka, we hope to have brought these second cities out of the shadows to light the way for others.

Owen Mapley
CEO, CIPFA

Toshihiko Ishihara
President, CIPFA Japan

Executive summary

This report examines how regional growth can be enabled outside of national capitals. It draws on lessons from two second cities: Birmingham in England and Osaka in Japan, and focuses on four critical issues:

1. institutional conditions for growth
2. regional group formation
3. funding mechanisms
4. monitoring and evaluation.

By comparing the experiences of the West Midlands metropolitan regions and Osaka Prefecture, the report provides fresh insights into how local and regional actors can build stronger, more responsive governance frameworks – and how national governments can better support them.

For UK practitioners and policymakers, the findings offer practical guidance for implementing the government's evolving devolution agenda and regional growth strategies. For Japanese counterparts, the report highlights transferable models of regional finance and governance innovation. For both countries, it opens the door to deeper bilateral policy learning and knowledge exchange.

Key findings

Stable institutions enable long-term impact

Japan's enduring governance arrangements and formalised processes for requesting additional powers contrast with England's frequent institutional change and ad hoc devolution deals, which can hinder regional momentum and strategic coherence.

Japan has had positive experiences with formal processes for proposing and piloting additional devolved powers in the National Special Strategic Zones. Therefore the proposal in the 2024 English Devolution White Paper for established mayoral strategic authorities to recommend new devolved functions or to test them locally could be beneficial.

Functional, flexible regional groupings work best

The formation of effective regional groupings depends less on rigid administrative boundaries and more on functional economic relationships, shared identity and political leadership.

Flexible structures, as seen in both the West Midlands Combined Authority and the Union of Kansai Governments, can support collaboration across diverse local areas and foster regional narratives with national resonance.

Funding must be empowering and equitable

Devolution without adequate finance can limit outcomes. The UK's shift towards single departmental-style settlements (such as the West Midlands Integrated Settlement) reflects an appetite for locally driven investment strategies, while Japan's long-established Local Allocation Tax system provides a model for redistribution.

However, both systems raise important questions about capacity, incentives and fairness – particularly in light of regional economic disparities.

Monitoring systems must be embedded and support learning, not just compliance

Evaluation frameworks should be embedded in the policy cycle, with shared responsibility between central and local actors, although short-term funding, fragmented data and limited capacity can all inhibit progress.

A key challenge lies in moving beyond output-focused frameworks to those that track progress toward long-term social and economic outcomes and feed learning back into policy development. The West Midlands Combined Authority's development of an outcomes framework shows potential for more strategic regional learning. Nonetheless, consistent data, capacity and shared expectations remain essential across all levels of government.

Looking ahead: key gaps and opportunities

The research surfaced several important knowledge gaps. These include a need to better understand the tipping point at which regions can form durable governance arrangements, and how local authorities can build financial and institutional resilience amid change. The role of civil service relocation and anchor institutions in enabling regional transformation also deserves closer scrutiny. Additionally, as functional economic geographies evolve post-pandemic, there is a growing need for shared metrics and monitoring frameworks that can underpin meaningful international policy learning – particularly between the UK and Japan.

Looking ahead, opportunities exist to strengthen bilateral policy dialogue, deepen joint monitoring initiatives and expand local capacity for data-driven planning. Future research could explore how flexible governance and funding models can be designed to both reflect and shape regional ambition. Embedding the lessons from this report into practice will depend on ongoing collaboration between academics, policymakers and practitioners – and a shared commitment to adapting national frameworks to unlock local potential.

Introduction

Context

Funding mechanisms and devolution play crucial roles in promoting local growth and addressing regional inequalities. The availability of local funding is vital for both the delivery of statutory services and the development of innovative economic development initiatives. Transferring powers from national to local governments can support the development of policy that is better tailored to respond to local needs.

Previous research by CIPFA and City-REDI at the University of Birmingham has stressed how the availability of adequate and responsive funding, as well as a commitment to long-term funding, has been a key reason for success in addressing regional inequalities in international city-regions such as Leipzig in Germany and Cleveland in the United States.[1]

Recent studies in England have criticised the distribution of sub-national funding for local economic growth. Key points of criticism include:

1. shift in funding approach from large-scale and long-term projects to more numerous, smaller, short-term interventions[2]
2. an overly complex and inflexible funding system[3]
3. increased reliance on competitive bidding, which fosters competition, discourages collaboration and can disregard local needs and ambitions[4]
4. limited clarity on future funding availability for local government[5]
5. limited revenue-raising powers.[6]

Insights from other countries' local government funding mechanisms are important in the context of the planned and much delayed Fair Funding Review, promised by the UK government. The review aims to revise the way funding is allocated to local authorities, updating funding allocations, simplifying the system and ensuring fairness in allocations.

Recent decades have seen an important drive to push more power to the local level in Japan. Discussion about promoting strong city-regions outside of the capital is also more advanced in Japan than in the UK. Local government in Japan benefits from "both more power and more freedom to act how it chooses" than its counterparts in the UK.[7] Better understanding how local leaders in Osaka are experiencing and driving the reconfiguration of the national system to address local socio-economic needs is therefore of key interest in the UK and internationally. UK advancement in devolution policy, particularly the establishment of combined authorities, is also of interest in Japan.

Aims

This report aims to:

1. provide international insights from practitioner and academic perspectives into the strengths and weaknesses of current devolution structures and finance mechanisms in England and Japan
2. assess the transferability of this learning internationally.

Our analysis is based on case studies of experiences in the West Midlands metropolitan region (hereafter referred to as the West Midlands) of England and Osaka Prefecture in Japan.

We selected Birmingham (the main city in the West Midlands) and Osaka (the main city in Osaka Prefecture) and their wider regions as the case studies for this research for several reasons.

First, they are both second cities. Secondly, they share similarities as former industrial cities that have experienced recent regeneration. Thirdly, they offer an interesting comparison in terms of how cities have used/are using global events to raise their profile and promote economic growth.

The boxes below summarise the key questions we explored:

Institutional conditions for growth outside of capital city-regions:

What powers/competences do institutions in the West Midlands and Osaka Prefecture have?

How have institutions in the West Midlands and Osaka Prefecture sought to use devolution to develop growth narratives as their countries' second city/region?

What do their experiences tell us about how regions outside of capital regions can promote growth narratives through increased devolution?

Determining regional groupings:

How should the inclusion/exclusion of local places in a broader regional authority be determined?

Which factors (eg geography [administrative and functional], socioeconomic circumstances, culture, history) are most important in producing successful conurbations?

Funding mechanisms:

What type of finance mechanisms are in place for local and regional governments?

What are the strengths and weaknesses of these mechanisms?

How, if at all, do governments tackle issues of redistribution of finance across different spatial scales?

Monitoring and evaluation:

What frameworks are in place to monitor progress and ensure the delivery of stated goals?

What mechanisms are in place to hold funding recipients to account?

How is local government expenditure audited?

Methods

We adopted a mixed methods approach for this analysis.

First, we conducted a detailed desk review of funding/governance structures in England and Japan. This incorporated both academic literature, reports and policy briefings.

Secondly, the research team undertook exchange study trips to Osaka Prefecture and the West Midlands in summer 2024. During the trips, we conducted interviews and focus groups with stakeholders from local, regional and central government, as well as politicians, academics and members of research institutes. Quotes from our interviews referenced in this report have been edited slightly for concision and comprehension.

23 interviews/meetings in Osaka with central/regional/local government, business representatives, academics and politicians

15 interviews/meetings in the West Midlands with central/regional/local government, business representatives, higher education representatives

02 knowledge exchange events in Osaka and Birmingham

Comparing the West Midlands and Osaka Prefecture

This report compares experiences in devolved governance across the West Midlands in England and Osaka Prefecture in Japan. Within each chapter, we draw on examples from cities within the West Midlands and Osaka Prefecture. This section provides an overview of the geography and key socio-economic characteristics of the West Midlands and Osaka Prefecture.[8]

Located in the centre of England, the West Midlands Combined Authority area includes seven metropolitan councils. These authorities have full voting rights:

- Birmingham City Council (the largest city in the West Midlands)
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Council
- City of Wolverhampton.[9]

Figure 1: *Map of constituent members of the West Midlands Combined Authority and footprint of former Local Enterprise Partnerships in the metropolitan West Midlands*

Osaka Prefecture is one of ten prefectures in the Kansai region, located in the southern-central region of Honshu, the main island of Japan. Osaka Prefecture includes 43 municipalities, 33 cities and nine towns. Osaka is the largest city.

Figure 3: Comparison of key socio-economic indicators for the West Midlands and Osaka Prefecture compares key socio-economic indicators in the West Midlands and Osaka Prefecture.

Although Osaka Prefecture (8.8 million population) and Osaka City (2.8 million population) are significantly larger than the West Midlands (2.9 million population) and Birmingham (1.14 million population)[10], Birmingham (1.7%) and Osaka City (2.2%) make up a similar proportion of their national populations.[11]

Figure 2: *Map illustrating regions (in capital letters) and prefectures (in lower-case letters) in Japan*

	West Midlands Combined Authority	Osaka Prefecture (2023)
Total population	2.91 million (2021)	8.76 million
Unemployment rate	5.9% (October 2023–September 2024)	3.2%
Employment rate	73.9% (October 2023–September 2024)	96.8%
Major employment sectors (% of employee jobs)	Human health: 14.6% Wholesale and retail trade, repair of vehicles 14.2% Education: 9.8% Administration and support services: 9.7% Manufacturing: 9% (2023)	Manufacturing: 15.1% Distribution and logistics: 23.1% Tourism: 9% Finance: 2.4%

Figure 3: *Comparison of key socio-economic indicators for the West Midlands and Osaka Prefecture*

The regions share notable similarities in their economic histories. Both Birmingham and Osaka were pivotal during their countries' industrial revolutions and experienced subsequent economic decline.

Birmingham

Known as the 'city of a thousand trades', Birmingham has long been a centre of the metal-working industry, particularly iron goods. It emerged as a major industrial, technological and commercial hub during the UK's industrial revolution of the 18th and 19th centuries. James Watt's famous steam engine was invented in Birmingham. The city also developed a significant canal network to transport raw materials and manufactured goods. In the late 19th century Birmingham was a pioneer of a new model of civic governance, which saw slum clearances, the creation of city parks and libraries, and public utilities such as gas, water and street lighting brought under local control.

Birmingham faced significant economic difficulties during the late 1970s and early 1980s. The West Midlands saw a 50% reduction in manufacturing jobs between 1971 and 1981, resulting in rapid industrial decline, rising unemployment and numerous social and economic issues.[12] Birmingham and other cities in the West Midlands such as Coventry, which was also badly impacted by the decline in manufacturing, began their economic revival in the late 1980s. Birmingham City Council (BCC) led innovative redevelopment efforts, building world-class facilities and revitalising the canals to position Birmingham as a centre for financial and business services, while also boosting the visitor economy.

Osaka

Osaka has been a key centre of trade and governance in Japan for over 1,500 years. In the 5th century, it served as a gateway for exchange with China and Korea and the capital was temporarily relocated to Osaka in 645. In the late 16th century, the construction of Osaka Castle marked the city's rise as a political hub. During the Edo period (1603–1868), Osaka became known as 'the nation's kitchen' for its central role in the rice trade and national distribution networks. After the Meiji Restoration in 1868, Osaka industrialised rapidly and emerged as one of Japan's leading modern cities. After sustaining heavy damage during World War Two, it rebuilt quickly and has remained the economic and cultural heart of western Japan.[13]

Amid the robust economic growth of the post-war period, during which Japan's economy expanded rapidly with an average annual growth rate of 10% from 1955 to 1970, Osaka attracted many people and enjoyed significant prosperity. The city hosted the 1970 World Expo. Starting in the 1980s, Osaka City faced difficulties in adjusting to shifts in its industrial landscape, leading to a period of stagnant growth.[14] Today Osaka is a leading economic and cultural city in western Japan.

Structure

The remainder of this report is structured as follows:

- Chapter 1 contrasts institutional structures and devolution processes in Japan and England and examines how the West Midlands and Osaka Prefecture have aimed to craft growth narratives as their nations' secondary regions by obtaining and leveraging increased devolved powers.
- Chapter 2 analyses factors motivating the formation of regional groupings in the West Midlands and Osaka.
- Chapter 3 provides an overview of local government funding mechanisms in Japan and England. It then identifies strengths and weaknesses of systems in operation in the West Midlands and Osaka Prefecture.
- Chapter 4 compares national approaches to monitoring and evaluation in England and Japan, before analysing the strengths and challenges of how these systems operate in the West Midlands and Osaka Prefecture.
- The conclusion reflects across the chapters, providing a summary of learning identified.

Each chapter distils practical insights from the experiences of the West Midlands and Osaka Prefecture, offering valuable guidance for practitioners engaged in the design of local government devolution and funding mechanisms, as well as the planning, implementation, monitoring and evaluation of local government programmes.

Chapter 1: Institutional conditions for growth outside of capital regions

Successful devolution needs to be underpinned by a stable framework and clear roles through which institutions can understand, build and use their powers to drive growth in their localities. Frequent changes can disrupt momentum.

This chapter analyses how the West Midlands and Osaka have sought to develop growth narratives as their country's'second regions through securing and using enhanced devolved powers.

Institutional structures in Japan

Japan's local governance system is based on a three-tier structure: the central government, prefectural governments and basic municipalities. These are shown in Figure 4: Overview of tiers of government in Japan. The country is divided into 47 prefectures, which serve as the highest local administrative units. These include one *To* (Tokyo), one *Do* (Hokkaido), two *Fu* (Osaka and Kyoto), and 43 *Ken*. Each prefecture is governed by an elected governor and assembly. Prefectures vary in size from Tokyo Metropolitan Government with a population of over 13 million to Tottori Prefecture, which has a population of 560,000.[15]

Below the prefectural level, cities (*Shi*) form the second-largest administrative division. Cities are categorised based on factors such as population and economic status into designated cities (*Shitei Shi*), core cities (*Chukakun Shi*) and special cities (*Tokurei Shi*), each with its own mayor and city council.[16] However, the classifications of special and core cities have recently been consolidated.

The smallest administrative units are towns (*Machi*) and villages (*Mura*), which provide governance in rural and less populated regions.[17] Designated cities have a population of over 500,000 and are delegated functions which are ordinarily the responsibility of prefectures. With a population of over 2.8 million, Osaka is one of the 20 designated cities.

Level	Structure
National	Unitary State of Japan
Regional	47 prefectures
Local	1,724 municipalities

Figure 4: *Overview of tiers of government in Japan*

The territorial boundaries of the prefectures, including Osaka, Kyoto, Hyogo, Shiga, Nara and Wakayama in the Kansai region, have remained unchanged for over 130 years. In contrast, the number of municipalities has decreased significantly from around 15,000 entities following the Great Meiji Consolidation in 1889 to the current figure, mainly due to successive mergers aimed at enhancing administrative capacity.

Three waves of mergers of municipalities have taken place:

The Great Merger of Meiji (1888–89): equipped local government with new administrative duties over education, tax collection, civil engineering, disaster relief and census registration. Established towns and villages as official municipalities.

The Great Merger of Showa (1953–56): streamlined administrative operations and gave municipalities new responsibilities including management of junior high schools, organisation of fire stations and enhancing social welfare, health and hygiene services.

The Great Merger of Heisei (1999–2010): almost halved the number of municipalities from 3,229 to 1,718 but devolved greater administrative and financial authority, along with enhanced capabilities to address social and economic development.[18]

In Japan, central-local relations are defined by a collaborative approach where authority is centralised within the national government, and both central and local governments work together to advance public administration.[19] Japanese municipalities uphold a broad array of services, incurring high costs to align with the national philosophy of offering comprehensive services. This is designed to ensure residents in any municipality have access to the same types of services.[20] One interviewee suggested that where municipalities have the capacity and resources to deliver services and build infrastructure they do so, and where they do not, prefectures fill the gap:

> **"In the Osaka City area, there are a lot of social houses built by the city government. But in other areas outside the Osaka city area, most social housing is built by the prefecture government." (Int-1OS)**

Local government in Japan appears to be well staffed. Survey evidence in 2023 indicates that prefectures employed on average 30,530 public officials, of whom 5,033 employees were in general administration roles, 17,243 in education, 6,151 in the police and 1,698 in public corporations.[21] Osaka Prefecture reduced[22] its number of public employees from 96,523 in 1996 to 74,512 in 2023, a reduction of approximately 23%.[23] Osaka City also reduced its number of public employees by approximately 23%, from 47,470 in 2005 to 36,472 in 2021. In addition, the city's outstanding municipal debt was reduced by approximately 44%, from ¥5.5022tn to ¥3.0871tn over the same period.[24]

At the national level, Japan also pursued a shift toward smaller government during the period of administrative reform from 2005 to 2010. Under the Intensive Reform Plan implemented during this time, efforts were made to reduce overall personnel costs through measures such as salary revisions and non-replacement of retiring staff. As a result, the number of local government employees across the country was reduced by approximately 230,000 over this five-year period.[25]

According to the statistics from the Ministry of Internal Affairs and Communications (MIC) (2023c), only the prefectural and ordinance-designated city averages are confirmed, as the municipal average values are not listed, but they are both quite large. The average for prefectures is 30,530 public officials, of which 5,033 are in general administration, 17,243 in education, 6,151 in the police, and 1,698 in public corporations.

Devolution processes in Japan

Since the early 2000s, Japan has pursued state decentralisation guided by neoliberal principles.[26] As shown in Figure 5: Responsibilities by tier of government in Japan, regional and local government are responsible for varied public services, including a wider range of responsibilities than combined and local authorities in England.[27]

Level	Public Infrastructure	Education	Welfare	Others
National	Expressways National roads Class A rivers	Universities Subsidies for private universities	Social insurance Medical licence Licensing of medical products	Defence Diplomatic affairs Currency
Regional	National roads (exc. those managed by national gov) Prefectural roads Class A rivers (exc. those managed by national gov) Class B rivers Ports Public housing Urban districts and adjustment regions	High schools, special schools Salaries and personnel of elementary and middle school teachers Subsidies for private schools Public universities (designated prefectures)	Livelihood protection (town and village areas) Child welfare Public health centres Hospitals	Police Vocational training Communication and co-ordination affairs relating to municipalities Museums
Local	Urban planning (zoning, urban facilities) City, town and village roads Quasi-class rivers Ports Public housing Sewerage systems	Elementary and middle schools Kindergartens Libraries	Livelihood protection (city areas) Child welfare National health insurance Nursing insurance Waterworks Waste sewage treatment Public health centres (designated cities)	Family register Resident registration Fire department Public halls Citizens' halls

Figure 5: *Responsibilities by tier of government in Japan*[28]

A 1999 Decentralisation Law was introduced to reduce unclear central decision-making regarding local responsibilities and provided a clearer definition of competencies. The Omnibus Local Autonomy Law ended a system where regional governors and mayors had acted as agents of the central government, thereby enhancing subnational autonomy and responsibilities. It also amended over 475 existing laws.

Following this, further reforms have aimed to enhance municipal autonomy, clearly outline responsibilities and ensure adequate financing. From 2002 to 2006, the Trinity Reform established the financial foundation for decentralisation, focusing on three key areas: the creation of a tax-sharing system between national and subnational levels, the reform of the equalisation tax (Local Allocation Tax), and the elimination of several national earmarked grants. In 2006, the Second Decentralisation Promotion Reform was launched to build on the first reform by granting additional authority to local governments, streamlining their functions and continuing municipal mergers.[29] Japanese municipalities have expanded over time to effectively manage the increased administrative responsibilities brought about by new local autonomy systems and ongoing decentralisation. This growth has also enabled them to develop the administrative and financial capabilities needed to address the more complex and advanced issues associated with social and economic progress.[30]

Central government decides the powers of municipalities, and the services that city and prefectural governments offer. While prefecture and municipal governments in Japan differ in population and size, they each have similar powers and handle similar responsibilities.[31] Once granted, local government can decide the service level that they offer. For example, an interviewee explained that Osaka could refuse to provide support to people with complex needs but so far, they have not done so as part of a socially inclusive choice to “show friendliness and humanity” with residents experiencing a variety of needs (int-1OS).

Local autonomy in Japan is enshrined in the constitution and regarded as an essential component of democracy. Japan’s 1946 Constitution establishes the foundation of local autonomy through four key articles: Article 92 defines the principle of local autonomy, Article 93 introduces legislative assemblies and direct elections for local officials, Article 94 grants local entities the right to self-governance within legal limits and Article 95 requires a referendum for special laws affecting a single local entity.[32]

The functions (tasks) of local governments are divided into two types:

Statutory entrusted functions: originally the responsibility of central government, these functions have been entrusted to local government through laws or ordinances. Central government retains responsibility for ensuring proper implementation.

Examples include issuance of passports, management of national roads and the collection and production of designated statistics for the national government.

Local autonomy functions: all other functions of local government. Examples of local autonomy functions include the provision of welfare services for children, the elderly and people with disabilities, subsidies for infant and toddler medical expenses and the management of public facilities such as cultural halls and sports centres.[33]

The key difference between statutory entrusted functions and local autonomy functions is that stronger central government involvement is permitted in the former compared to the latter.[34]

Local government in Japan is assured the autonomous right to legislate, enabling local authorities to establish and implement their own laws, referred to as ordinances and regulations. This system provides adaptability in addressing local community issues.[35]

Another key feature of the Japanese system is the relative stability of key institutions and the direction of devolution policy. Prefectures were first established in Japan in 1868, and their number has remained the same since.

Where instability occurs, this appears to be the result of party politics rather than national system change. For example, Osaka City, which has benefited from considerable power over recent decades, has seen this power squeezed over recent years by Osaka Prefecture. This has included the prefecture dispatching officers to work in the city government. The change has been driven the rise of the Osaka Restoration Party, which won both the Osaka City and Osaka Prefectural elections. The frequent structural reforms led by the Osaka Restoration Party (such as the Osaka Metropolis Plan; see Chapter 3) since the 2000s suggest a notable degree of institutional instability specifically in Osaka City.

Since 2013, 16 National Strategic Special Zones have been established in Japan. These zones are designed to promote economic growth through implementing regulatory reforms (eg introducing start up visas for foreign residents who found businesses, authorising the construction of skyscrapers).[36]

Institutional structures in England

The following sections provide insights for England. We first discuss institutional structures in England before considering devolution processes that have taken place in England since 2014.

Institutional structures in England are complex and continue to experience change (see Figure 6: Local government structures in England), with the number of combined authorities increasing and the number of two-tier councils decreasing.

Regional authorities	11 combined authorities Greater London Authority
Single-tier councils	36 metropolitan boroughs 62 unitary councils 33 London boroughs
Two-tier councils	21 county councils 164 district councils
Parish and town councils	10,000 parish and town councils

Figure 6: *Local government structures in England*[37]

Note: two additional authorities also exist – City of London Corporation and Isles of Scilly (unitary).

Some areas have single tier councils, where a single council is responsible for local government functions. In 'two-tier' areas, a county council and a district council split local government functions and are mostly found in England's more rural and semi-rural areas.[38] In some parts of England, an additional more local tier of government operates below district and borough councils – parish or town councils.[39] In 2024, the English Devolution White Paper outlined government plans to simplify local government structures, including inviting two-tier areas and neighbouring small unitaries to propose plans for a joint programme of devolution and local government reorganisation.[40] The UK does not have a single document or constitution that defines all institutions and procedures.

Since 2014, in certain parts of England, councils have come together to create combined authorities, which are granted extra powers and funding by central government. In 2017, six regions elected metro mayors, and by 2021, three additional areas had followed suit. Combined authorities play a crucial role in shaping transport and economic policies within their respective regions.[41]

A 2024 report by the Local Government Association (LGA), the Society of Local Authority Chief Executives (Solace) and CIPFA found that local authority finances in England are facing unprecedented strain due to considerable grant funding cuts over the last decade, rising and increasingly complex service demands, and increasing inflation and wage costs.[42]

Devolution processes in England

Devolution to regions has involved 'devolution deals' being signed between central government and combined authorities, made up of constituent local authorities. The UK government has faced criticisms for a lack of standardisation across the subnational governance system.[43] In 2024, only 60% of the population of England lived in a place covered by a devolution deal.[44]

Devolution in England has progressed gradually over the last 30 years. The London Assembly and the role of the Mayor of London were established in 2000 in the first instance of English devolution in recent years. Subsequently, the Local Democracy, Economic Development and Construction Act 2009 enabled the establishment of combined authorities covering multiple local authority areas. The Greater Manchester Combined Authority was established in 2011, followed by four further local authorities in 2014, a wave of mayoral combined authorities between 2015 and 2019, several combined authorities in 2024 and announcement of additional combined authorities in 2025.

The West Midlands Combined Authority was established in 2016 and the first West Midlands Mayor was elected in 2017. It became a pioneer in terms of devolution deals, being one of the first two (along with Greater Manchester) to sign a trailblazer devolution deal with government in 2023. The 2023 trailblazer deal transferred greater control and influence over economic growth and transport levers. The devolution White Paper published in 2024 sets out plans to create a clearer pathway for devolution and its expansion across England.

While recent years have seen progress in devolving power from Westminster to some city regions, England continues to be a largely centralised country.[45] Although local authorities in England have some responsibility for economic development and growth (for example, in relation to land assets and business growth), they have limited statutory powers and defined roles. One interviewee explained:

> **"Even the really big local authorities, like the core cities and Birmingham [...] are really quite limited in terms of the sort of statutory powers and defined roles that we have in the field of economic development and growth. We are [...] basically seen as service delivery vehicles." (Int-13WM)**

Cities often rely on wider non-statutory levers, such as physical assets that they own, to influence economic development policy. Such assets, however, are coming under greater pressure in the context of increasingly constrained local government finances.

The complexity of the UK's system, with its overlapping tiers and lack of clarity on responsibilities, poses significant challenges for successful devolution. One interviewee noted:

> **"If you're trying to make devolution successful in Britain [...] you need to have clarity of roles." (Int-6WM)**

This clarity is essential to avoid confusion over who is responsible for various functions. While some areas, like health and social care, can be clearly mapped, economic development remains ambiguous due to its national direction and the involvement of multiple delivery partners at different levels. Interviewees emphasised the need to clarify rules on economic development, including the role of councils, which currently lack a legal basis for involvement in this area.

Furthermore, compared to Japan, local authorities in England possess significantly less legislative power. What they do have is primarily limited to creating bylaws and handling certain licensing responsibilities.[46]

Summary of key differences in institutional structures and devolution processes in Japan and England

Japan	England
Largely **stable** structures at the national level although institutional instability in Osaka City.	**Regular** institutional **change** over the last three decades.
Constitutional protection of local government, although constitution does not codify local government responsibilities.	**No single documentary source** defines all institutions and procedures.
Local authorities benefit from an **autonomous right to legislation** that grants local authorities the ability to create and enforce their own laws. This provides local authorities with greater levers to address local issues.	Local authorities have **significantly less legislative power.**
High level of devolved powers in Japan.	**Traditionally strongly centralised administrative approach. Ad-hoc devolution** over the last decade or so has created a patchwork of devolved structures across England with uneven and varied distribution of governance structures and devolved powers across regions.
Formal processes to propose and pilot additional devolved powers tailored to specific regional needs through National Special Strategic Zones.	Devolution to combined authorities has involved government negotiating **waves of bespoke devolution deals with** groups of local authorities. Government announced plans in 2024 to create a clearer pathway for devolution and its expansion across England.
Local government is **generally well-resourced** although over recent decades the number of employees in Osaka Prefecture and Osaka City has declined as part of efforts to reduce capital debt.	Local government has faced **considerable financial challenges** since 2010 resulting in ongoing capacity challenges.

Figure 7: *Similarities and differences between institutional structures and devolution processes in Japan and England*[47]

Institutional lessons from experiences in Osaka for growth in non-capital regions

The 2024 English Devolution White Paper proposes that established mayoral strategic authorities will have the ability to suggest, either alone or in collaboration, new functions to be added to the statutory devolution framework or to test locally. This process aims to promote innovation and experimentation, ensuring continued leadership and progress in their areas of competence.

An important feature of the Japanese system is the National Strategic Special Zones, through which there is a formal process by which prefectures can request additional powers. Experiences in Japan suggest that formal processes can be important in enabling local areas to experiment with new powers.

> **"[Under this] Special Zone system, the idea is that you can trial in some districts new policies and it tends to be very useful or effective." (Int-12OS)**

Successful initiatives trialled within these zones are often scaled up nationally, illustrating the effectiveness of controlled, place-based policy innovation as a mechanism for reform. However, one interviewee said the number of suggestions for National Special Strategic Zones is decreasing as many serious issues have now been solved.

Following this decline in proposal numbers, the government moved to an open call for applications. Reflecting the scale of powers enjoyed by prefectures in Japan, one organisation interviewed stated there were no powers they were currently seeking to obtain from national government although they were suggesting ideas for increased deregulation (relating to language requirements for foreign workers).

> **"In the last 14 years most of the serious issues are solved. Powers have been transferred to the local authorities [...] Now most of the [powers requested] are really small and very near to the citizens, not big system changes." (Int-12OS)**

The formalised process enabling Prefectures to trial new powers through the National Special Strategic Zones reflects a broader transformation in Japan's governance model: from a traditional, top-down system toward a more open and decentralised model of policy co-creation.

In this emerging model, local governments, who are best positioned to understand and identify regional challenges, actively propose deregulation measures and act as agents of innovation. Central government, in turn, provides legal and institutional support to test such measures locally. If successful, these policies can be rolled out nationwide. This system offers a compelling example of how local initiative and national support can combine to produce responsive and adaptive governance. It provides valuable insights for the UK's evolving devolution agenda – particularly in relation to empowering strategic authorities to both design and deliver experimental reforms within a structured and supportive system.

Japanese interviewees identified several bureaucratic processes that are local government's responsibility but would be better passed back to national government. Activities identified were generally those that were unlikely to differ much by region such as housing standards.

> **"Some social and welfare facilities and standards [can now] be set by cities rather than the Ministry. But in fact [...] many municipalities are following the guidelines of the Ministry of Welfare and Labour. So, it's almost the same standard, even when local government has the power [...] So, we'd like to [refer] this power [back] to the national government." (Int-6OS)**

This example shows care must be taken when deciding which powers to devolve to ensure they offer meaningful opportunities for the development of place-responsive policy rather than passing on bureaucratic burdens.

Beyond the Special Strategic Zones, municipalities in Japan have benefited from a Decentralisation Law, introduced in 1999. According to one interviewee, since this date power has been "gradually" devolved from central government. Lobbying by municipalities and the prefecture government as well as the positive impact of powers that have been included were cited as important facilitating increased transfers of powers to the local level over time:

> **"Municipalities and the prefecture government are lobbying, and requiring the central government to devolve such powers." (Int-1OS)**

Experiences in Japan illustrate how city and regional governments working in unison and collaborating with national government can help places capitalise on the opportunities for growth offered by devolution. Collaboration across city, prefectural and national government is enabling Osaka to host Osaka Expo 2025, a large world fair held from April to October 2025 and expected to attract 14 million people. By 25 April 2025, 10.4 million tickets, or three-quarters of the 14 million target, had been sold. The Asia Pacific Institute of Research has estimated that final demand for Expo-related projects will reach ¥727.5bn (£3.771bn) and consumption expenses ¥891.3bn (£4.630bn). Collaboration is underpinned by national government contributing ¥164.7bn, with Osaka City and Prefecture expected to almost match this, bearing over ¥134.8bn.[48] The substantial financial powers devolved to Osaka City and Prefecture are likely pivotal in enabling them to allocate such significant amounts of money.

Interviewees flagged the success of Kyoto Prefecture in successfully bidding for the relocation of Japan's Agency of Cultural Affairs in 2016. Three actions were crucial to attracting the agency and beating off competition from six other bidders:

1. proactively identifying potential locations for the agency
2. outlining support that the prefecture and Kyoto Chamber of Commerce and Industry would provide to facilitate the move, including building new offices and providing staff accommodation
3. leveraging Kyoto's established reputation as a major cultural centre in Japan.

The importance of face-to-face and 'friendship-based' relations between central and local government was also highlighted as an important factor in brokering the move.

Japan is also interesting from a governance perspective because of the presence of regional branches of central government departments. METI Kansai was established in 1947 as a regional bureau of the Ministry of Economy, Trade and Industry (formerly the Ministry of Commerce and Industry), and is actively engaged in supporting startups and industrial development in the region. This role differs from evaluating local government subsidies, devolution of powers or local governance reforms.

A key observation here is that industrial support policies in Osaka and the Kansai area are implemented both by local governments (such as Osaka Prefecture and Osaka City) and by central government regional offices like METI Kansai, often based on their own policy perspectives. This creates a unique system where national and local entities operate in parallel within the same region, with a loosely co-ordinated division of roles.

In the UK, local governments primarily operate under the principle of ultra vires, meaning they can only perform functions officially devolved by the central government. By contrast, Japanese local governments operate under a general administrative authority, allowing governors or mayors to implement policies based on local needs without requiring explicit national approval, such as Osaka City's own startup support initiatives. This system has both advantages and drawbacks. Having overlapping functions between the central and local governments (eg in startup support) can be viewed as inefficient. However, it also reduces transaction costs associated with negotiating powers and responsibilities. Moreover, it allows both levels of government to respond swiftly to emerging policy challenges, fostering healthy competition and co-operation, which may ultimately lead to better policy outcomes.

Institutional lessons from experiences in the West Midlands for growth in non-capital regions

A notable distinction between the operational systems of partners in the West Midlands and those in Japan is the higher frequency of institutional and policy changes in England. As illustrated in Figure 8: Timeline of key institutions delivering regional growth in the West Midlands (adapted from LIPSIT, 2020), the West Midlands has seen considerable change in regional institutions. For example, the West Midlands County operated a Strategic Planning Authority for 12 years before it was disbanded by central government. In the late 1990s the Labour government created Advantage West Midlands, one of eight regional development agencies (RDAs) established to drive sustainable economic development and social and physical regeneration through a business-led approach. RDAs were subsequently disbanded by the Conservative-led coalition government in the early 2010s.

At the same time, government introduced Local Enterprise Partnerships (LEPs). Designed to bring business, the public sector and further and higher education bodies together, LEPs focused on driving economic growth, creating jobs, and increasing residents' quality of life. Three LEPs operated in the West Midlands: Greater Birmingham and Solihull, the Black Country, and Coventry and Warwickshire. LEPs, in turn were abolished by the Conservative government in 2023 with functions (and in some cases staff), moving to combined and local authorities following the ending of LEP funding in 2024.

Frequent changes within institutions have complicated efforts to promote regional growth, resulting in lack of continuity in both priorities and personnel. One interviewee commented:

> **"There hasn't been a consistent approach [from national government] really, which is a bit of a shame." (Int-9WM)**

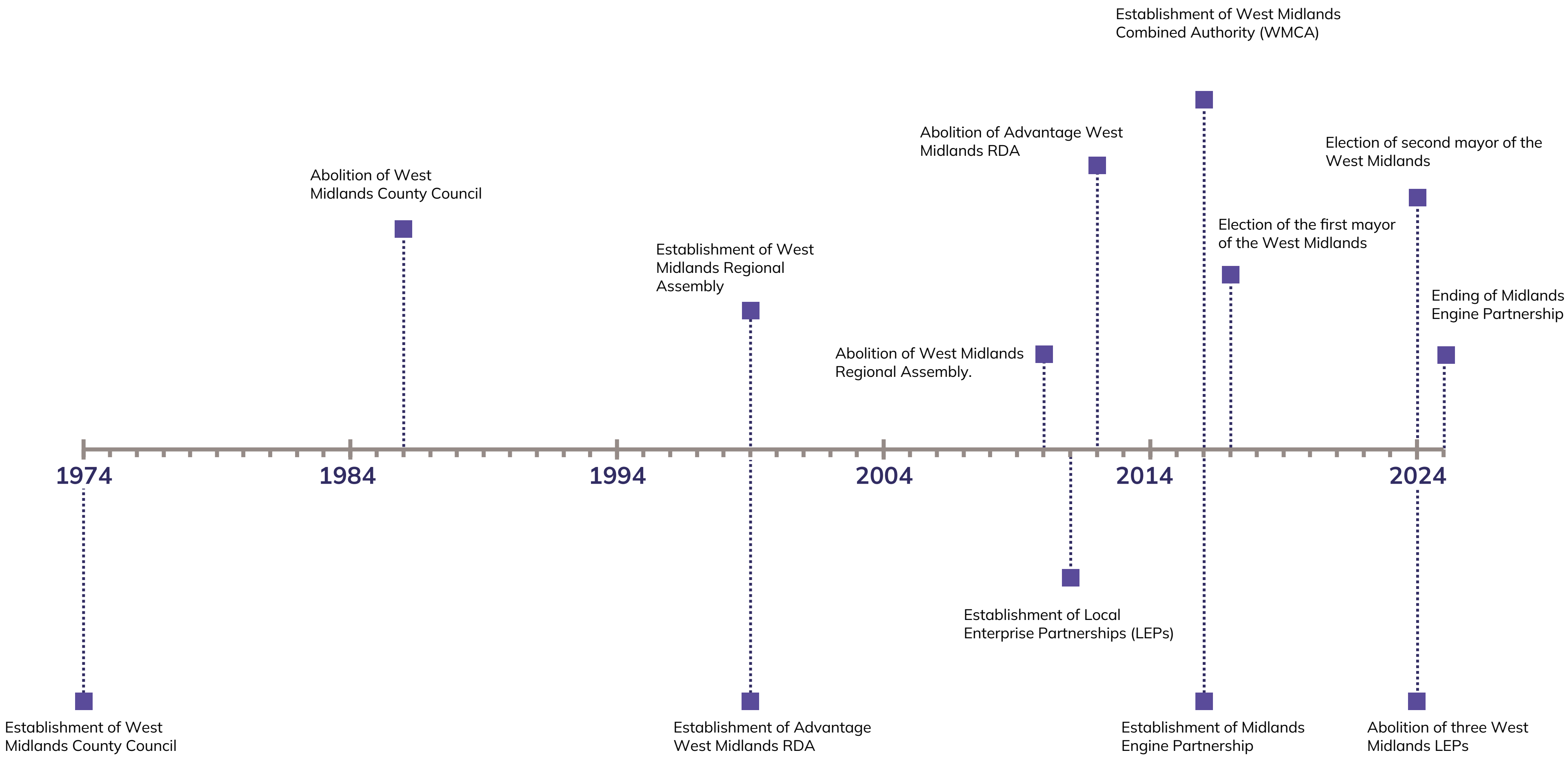

Figure 8: *Timeline of key institutions delivering regional growth in the West Midlands (adapted from LIPSIT, 2020)*[49]

The WMCA has signed a series of devolution deals with central government that have been iterated over time. The first deal was agreed in November 2015, the second was signed in November 2017 and then a Trailblazer Deal was signed in March 2023. In April 2025, the WMCA and Greater Manchester became the first English regions to receive an Integrated Settlement. The Integrated Settlement will consolidate government funding related to five functional domains – adult skills and employment, housing and regeneration, net zero (buildings retrofit), transport, and local growth and place – into a single funding pot.[50]

Interviewees broadly welcomed the arrival of the Integrated Settlement in terms of the increased powers it brings to the West Midlands.

> **"The single Integrated Settlement is a brilliant step forward [...] We need to both expand and deepen that." (Int-13WM)**

However, some interviewees suggested that even with the Integrated Settlement, the WMCA will still have comparatively limited powers compared with some regions internationally including Osaka. They highlighted how the WMCA, which was once a trailblazer for English devolution, now faces the reality that new combined authorities will receive the same powers from the outset, diminishing its competitive advantage. As another interviewee succinctly put it:

> **"We're not in a special category anymore." (Int-9WM)**

Interviewees stressed the importance of fully evaluating regional objectives, the role of combined and local authorities in delivering the objectives, and therefore the powers required to achieve these.

> **"We very often dive straight into a conversation about what powers we'd like to have, but miss the bit about the role that we're actually trying to perform. What are the objectives [and] outcomes we're trying to achieve? And how does that fit within a whole model of government: national, regional and local?" (Int-13WM)**

Experiences in the West Midlands point to the importance of devolution being defined nationally and tailored locally so as to not create ad hoc deals that pass on responsibilities but not finance to realise regional ambitions. Interviewees suggested they would like to see the contours of relationship between local authorities and combined authorities standardised but with flexibility to respond to local needs. The English Devolution White Paper is to be welcomed in how it seeks to standardise processes for devolution through establishing a new three-tier devolution framework.

In the West Midlands, informal negotiation between local authorities is important in achieving political consensus. Negotiation is required because of the large number of local authorities in the region, their differing sizes and different political makeup (see Chapter 2 for more details). The seven constituent members have equal voting rights and this equality forces compromises and agreements on shared interests. Many decisions are made through unanimity following informal negotiation, meaning votes are unusual.

> **"Conversations behind the scenes before you get to the decision point are based on developing a shared understanding of what the benefits of a decision are for all parts of the of the area [...] I think trying to structuralise the additional importance of Birmingham in a governance sense would be the surest way to blow up the partnership." (Int-13WM)**

Similar to how Kyoto has attracted a central government agency, the West Midlands has also benefited from an increased civil service presence in the region. Alongside devolution efforts, the West Midlands has experienced a significant rise in civil service roles. For example, the Ministry of Housing, Communities and Local Government (MHCLG) opened a second headquarters in Wolverhampton in 2021, while a Birmingham hub currently hosts departments including MHCLG, HMRC, the Department for Business and Trade and the Department for Work and Pensions.

By 2023, the number of civil servants in the region had grown to 34,445, marking a 13% increase over two years. This expansion aligns with the UK government's wider initiative to decentralise operations, aiming to relocate 22,000 civil service jobs beyond London by 2030. Relocating civil service jobs to the West Midlands offers economic and social benefits, including job creation, local economic growth and greater regional representation in government.[51]

The West Midlands also offers insights into how anchor institutions can support growth within non-capital regions. In 2019, Birmingham Anchor Network was founded with support from the Centre for Local Economic Strategies (CLES) to maximise the impact of its members employment, spend and physical assets on the Birmingham economy, using a community wealth building framework. The network comprises Aston University, Birmingham City Council, Bournville Village Trust, the housing and community-focused Pioneer Group, the University of Birmingham and University Hospitals Birmingham.

Members of the anchor network have successfully collaborated on local employment support schemes. This has included working with a range of local partner organisations to help residents, especially those from more deprived areas, access training to address University Hospitals Birmingham recruitment and retention challenges. Simplifying application processes and promoting opportunities across member organisations has been important. In the first-year evaluation over 220 job offers were recorded for unemployed residents, compared to a goal of 100.[52]

Key insights

- Formal processes through which regional authorities can request additional powers are important. Japan's National Strategic Special Zones provide **a structured process through which local governments can propose and pilot new policies tailored to their specific regional needs**. These zones function as 'policy laboratories', enabling region-specific experiments in regulation and governance, while maintaining central oversight and institutional legitimacy.
- Devolution is likely to be more successful if it involves **devolving powers and responsibilities to address specific place-based challenges** rather than devolving bureaucratic processes, which could become a burden on regional authorities.
- **High levels of devolved powers and strong regional capacity and capability** are important in promoting devolution.
- Strong **co-ordination across regional partners, and with national government,** is often important for maximising the opportunities offered by devolution. This can include informal negotiation between local authorities to achieve **political consensus within regional groupings**.
- **Anchor institutions can support regional economie**s through how they prioritise and utilise their employment, spend and physical assets.
- Attracting **civil service departments and agencies** can provide new employment opportunities and contribute to regional innovation but this can take time to achieve.

Chapter 2: Determining regional groupings

Regions are where local and regional government can come together to collaborate, co-ordinate responses to shared challenges, influence national government and foster local and regional identities.

This chapter looks at the regional governance models that have developed in the West Midlands and Osaka Prefecture to understand their relationships to functional economic geographies, economic interactions and regional identities.

West Midlands

Administrative and political features

The West Midlands Combined Authority (WMCA) was established in 2016 by seven metropolitan councils:

- Birmingham
- Coventry
- Dudley
- Sandwell
- Solihull
- Walsall
- Wolverhampton.

The WMCA was built on a basis of voluntary collaboration. It sought to develop a strong partnership able to take on key devolved powers and pursue collective decision-making across the city-region.

There is a West Midlands elected mayor who is the chair of the WMCA. Elected mayors are important champions of the places that they represent. As the process of devolution in England moves forward, mayors will increasingly need to use their standing and soft power to convene local partners to tackle shared problems.

In comparison with most other mayoral combined authorities in England, the WMCA is distinctive in that local authority party control is split. Following the May 2024 local authority elections, the Labour party controlled four of the constituent councils (Birmingham, Sandwell, Wolverhampton and Coventry), the Conservative party controlled two (Solihull and Walsall) and one (Dudley) was under no overall control. Mayoral elections have been closely contested, with the current West Midlands Mayor (Richard Parker, Labour Party) having gained 38% of the vote in the most recent election in May 2024, with a vote share only 0.3 percentage points higher than the previous incumbent (Andy Street, Conservative Party) who had served two terms as West Midlands Mayor.

When established, the WMCA also included a broader regional grouping of non-constituent members: ten (mostly) geographically adjacent non-constituent local authorities:

- Cannock Chase District Council
- North Warwickshire Borough Council
- Nuneaton and Bedworth Borough Council
- Redditch Borough Council
- Rugby Borough Council
- Stratford-on-Avon District Council
- Shropshire Council
- Tamworth Borough Council
- Telford and Wrekin Council
- Warwickshire County Council.

It also included three Local Enterprise Partnerships (LEPs): Greater Birmingham and Solihull, the Black Country, and Coventry and Warwickshire – which have subsequently been abolished. The non-constituent members have reduced voting rights.

The National Audit Office has highlighted the complexity of the regional grouping in the West Midlands (see Figure 9: Geographical and administrative geography of the West Midlands).[53]

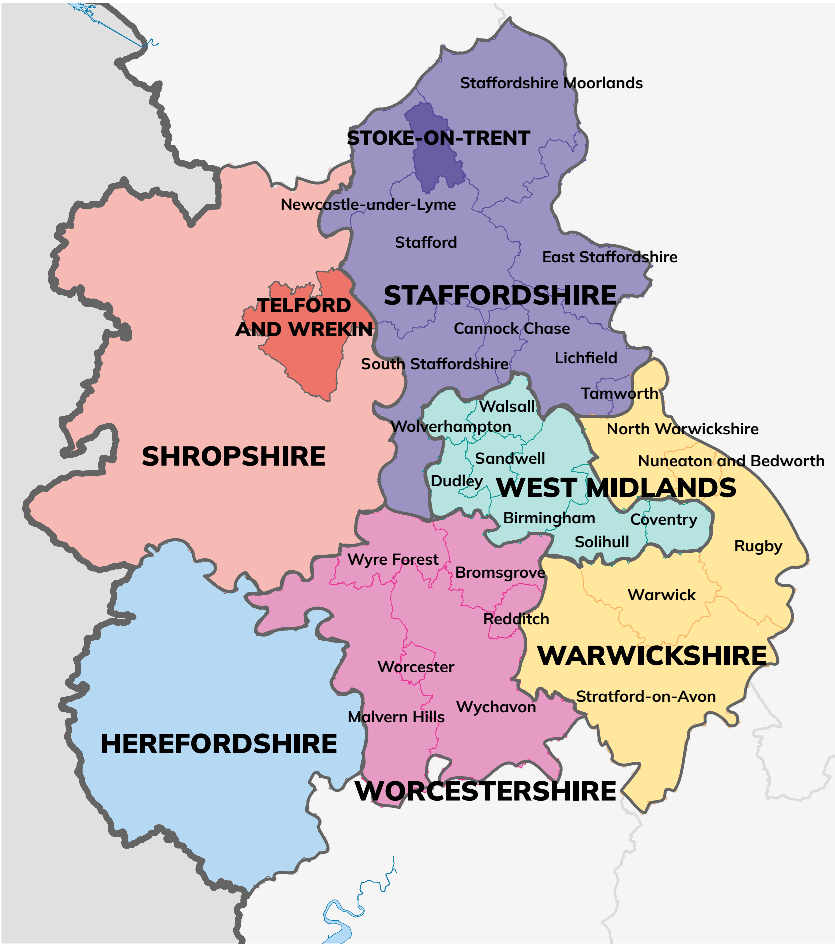

Figure 9: *Geographical and administrative geography of the West Midlands*

The WMCA area has a population of 2.9 million, of which nearly 40% lives in Birmingham (the largest local authority in England). Together the four Black Country local authorities (Dudley, Sandwell, Walsall and Wolverhampton) comprise a similar share of the total WMCA population across the seven metropolitan authorities. This imbalance in size between the local authorities, plus Birmingham's role as the main regional city in the West Midlands, has implications for joint working, with the Black Country local authorities sometimes grouping together as a counterbalance to Birmingham. When the non-constituent local authorities are added in the population rises to 4.7 million.

Functional economic geographies

From an economic development and planning perspective, it is appropriate to consider functional economic areas alongside administrative ones. They may be quite different.

Functional economic areas are territorial units that result from the structure of social and economic relations between residents (and businesses) across space.[54] As such, they reflect the natural economic geography of the areas that they serve.

The map below shows major settlements in the West Midlands together with key features of the transport infrastructure. The solid black lines reflect the administrative geography and the WMCA area is distinguished. This map is taken from a major study undertaken in 2024 on the economic geographies of the West Midlands.[55]

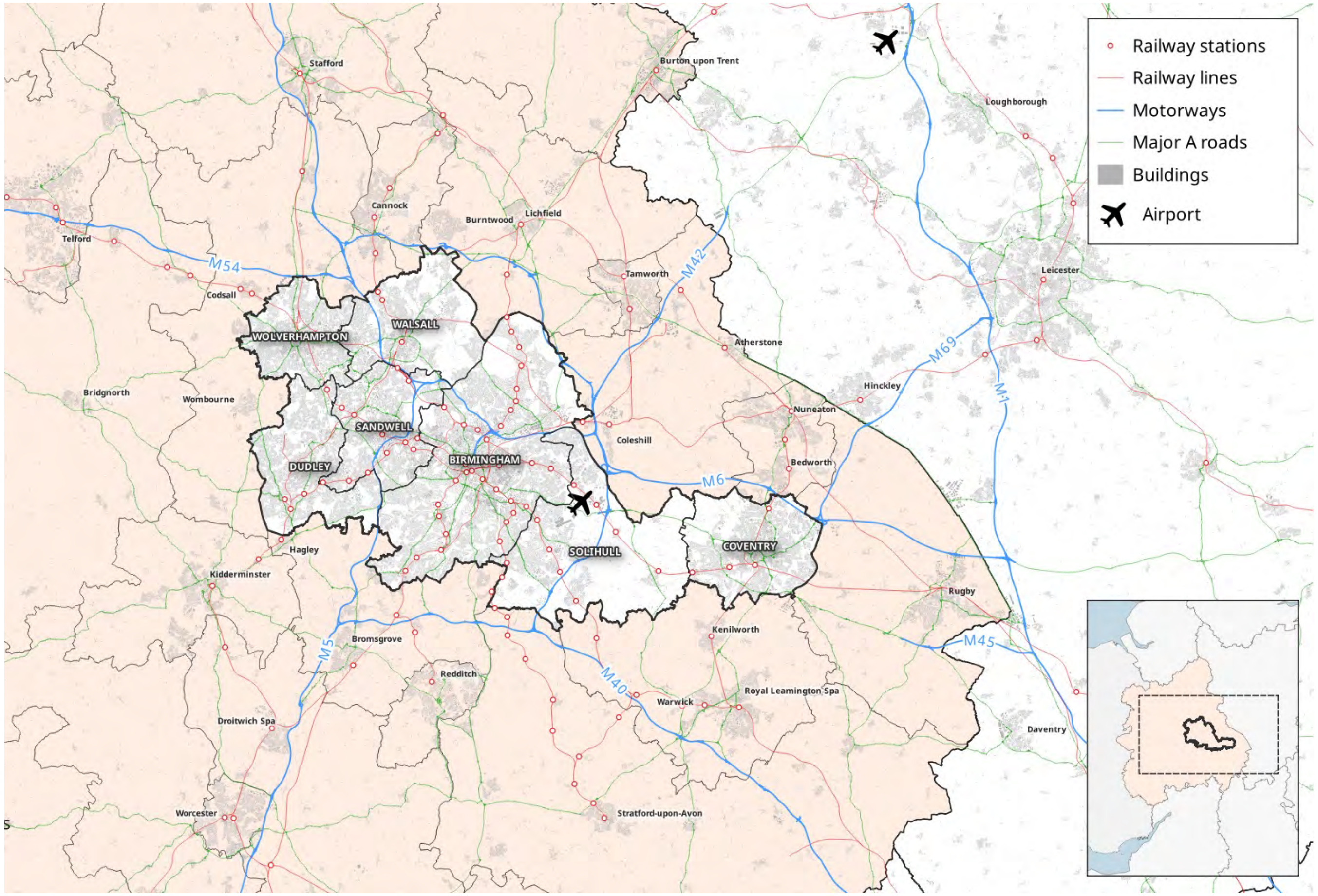

Figure 10: *WMCA and the West Midlands ITL1 boundary, major settlements and key transport infrastructure*

According to the Office for National Statistics, ITLs are a hierarchical structure used to divide countries and regions for statistical analysis.

The study involved analyses of origin-destination datasets using a 'bottom-up' approach known as COMBO. This uses an algorithm to identify the strongest relationships based on flows (eg commuting, migration) between places. Using commuting flows, which is the foremost indicator used for defining functional economic geographies, three main COMBO areas were identified in the WMCA area:

- a large area covering much of Birmingham and Solihull (and extending south towards Redditch/Bromsgrove)
- the four Black Country local authority areas combined
- Coventry and large parts of Warwickshire.

A range of indicators were analysed to gain insights into the functional economic geographies, including migration data, consumer spending data and mobile network data.[56] Looking across the patterns emerging on these different indicators, three key geographies appear to emerge:

1. Birmingham – with parts of Solihull and Sandwell
2. the Black Country – which subdivides on certain indicators
3. Coventry – with Warwickshire and a small part of Solihull.

Overall, the analyses reveal that:

- functional economic geographies are more 'messy' than administrative geographies
- functional economic geographies overlap and extend beyond the WMCA area boundary
- administrative geographies have 'hard edges', but functional economic geographies do not.

With changes in business models, and as relationships between residences and workplaces are redefined, it is likely that functional economic geographies may become more nuanced, variable and complicated.

The English Devolution White Paper set out a goal of building on the combined authority model (of which the WMCA is one of the pioneers) to achieve universal coverage of so-called 'strategic authorities' – defined as being "a number of councils working together, covering areas that people recognise and work in".[57] This means that the areas surrounding the WMCA boundary will need to formulate their own regional groupings, which will need to be bigger than current administrative geographies. It is clear from the analyses outlined above that some have strong functional economic links with the WMCA area. Hence local and regional stakeholders will need to liaise and collaborate at different geographical scales, as appropriate, for different policy functions[58] and work with and across new regional groupings.

Regional and local identities

Administrative and functional economic geographies do not necessarily accord with local and regional identities. Such identities are shaped by history, culture, industrial heritage, age, occupation and income/wealth. In turn, these are also factors that differentiate functional economic geographies for different population sub-groups. There was general agreement among interviewees that transport (ie the relative ease of moving around and experience of doing so) is one key factor in helping shaping awareness of wider geographies and of identity.

The West Midlands is less well known than some other parts of the UK for displaying a strong local/regional identity, both for the region's residents themselves and to the outside world.

Interviewees highlighted that many people have multiple identities:

> **"You ask where they're from, they'll be saying, well, I'm from Smethwick, I'm from Tipton, I'm from Brierley Hill" [and they say they are] from the Black Country which is very different from being from Birmingham." (Int-11UK)**

Regional identity in the West Midlands is also complicated by the fact that some individuals associate with previous administrative geographies that pre-date the establishment of the WMCA area.

To the outside world it is not necessarily clear where the West Midlands is. While some other combined authorities take their name from their main regional city (eg the Greater Manchester Combined Authority), the WMCA is not called 'Greater Birmingham'. Likewise, the regional narrative for the West Midlands has not been as strong as it might have been. Regional partners were active in using the opportunity of the 2022 Birmingham Commonwealth Games in showcasing Birmingham and the West Midlands' offer on a global stage. This was successful in attracting foreign direct investment. Currently the regional narrative is being addressed through a 'It Starts Here' regional campaign,[59] highlighting what the region has brought to the world, and led by the West Midlands Growth Company to increase the visibility of the region's innovation ecosystem and to improve the city and region's reputation.

Interviewees considered that having a West Midlands mayor has helped to foster a regional identity. But they acknowledged that regional identities and perceptions – both internally to the region and externally – take time to shift.

Osaka Prefecture

Japan's local autonomy system and the Kansai region

As noted in Chapter 2, Japan's local governance system is based on a three-tier structure: the central government, 47 prefectural governments and 1,724 basic municipalities (as of 2024). The territorial boundaries of the prefectures, including Osaka, Kyoto, Hyogo, Shiga, Nara and Wakayama in the Kansai region, have remained unchanged for over 130 years. In contrast, the number of municipalities has decreased significantly from around 16,000 to the current figure, mainly due to successive mergers aimed at enhancing administrative capacity.

Figure 11: *Prefectures and cities in Kansai region*

Japan's Local Autonomy Law provides broad (general) authority to prefectures and municipalities, known as 'ordinary local public entities'. Under the principle of general competence, local governments are empowered not only to execute responsibilities delegated by national laws but also to carry out various functions deemed necessary for their residents.[60]

Regional grouping initiatives in Osaka and Kansai: the case of the Union of Kansai Governments

Background and objectives

The Union of Kansai Governments (UKG), established in December 2010, is Japan's first area-wide union of local governments. It was created to address cross-regional challenges and promote decentralisation. The UKG serves as a voluntary and flexible grouping of prefectures and designated cities, enabling stronger collective negotiating power with the national government.

The primary goals of the UKG are to correct the excessive concentration of businesses and human resources in Tokyo by positioning Kansai as a new driver of Japan's economic growth, to provide disaster management and administrative efficiency, advance the devolution of national functions and establish backup functions that contribute to strengthening national resilience. In addition, the grouping aims to promote digitalisation and regional revitalisation, enhance Kansai's distinctive historical, cultural and artistic assets and foster a sense of pride and confidence among Kansai residents.

The formation of this grouping was strongly driven by economic integration across the Kansai region and political leadership, particularly in response to long-standing discussions around the 'Kansai State Concept' advocating for enhanced regional autonomy.

Organisational structure and key policy domains

The UKG comprises two prefectures (Osaka, Kyoto) and five additional members (Hyogo, Shiga, Wakayama, Tottori, Tokushima), along with the designated cities of Osaka, Kyoto, Kobe, and Sakai. As of 2023, Nara Prefecture also joined following a change in gubernatorial leadership.

The Kansai region has a population of 21.81 million (17% of Japan's total)[61], and covers 35,005 km² (9% of Japan's total). The region's GDP is ¥89.2tn (16% of Japan's total).

As shown in Figure 12: Structure of UKG, the UKG operates through a committee for major policy decisions, an assembly of 39 elected members and a decentralised field office system, with responsibilities divided among member prefectures (eg industrial policy: Osaka; cultural affairs: Kyoto).

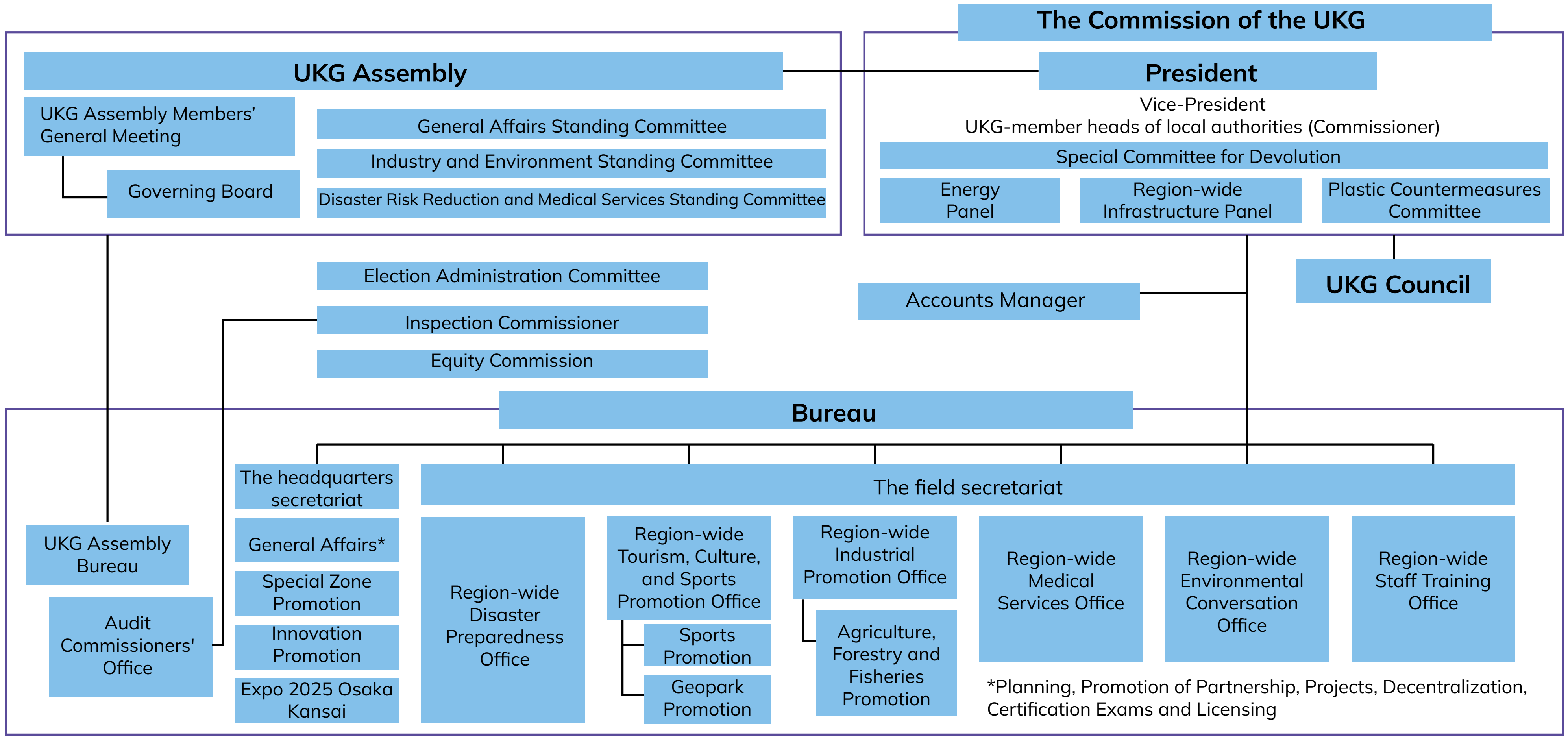

Figure 12: *Structure of UKG*[62]

Staffing is lean, with only 36 dedicated personnel at the headquarters (as of April 2024), and many of these staff are seconded from member governments.

The UKG covers seven primary policy areas, including disaster prevention and emergency response, industrial promotion, tourism, culture and sports, environmental conservation, healthcare co-ordination, professional qualification and licensing, and human resource development. In addition to these core areas, the UKG is also involved in several strategic initiatives such as planning for the 2025 Osaka–Kansai Expo, promoting major infrastructure projects, co-ordinating energy policies, advancing plastics reduction strategies and supporting innovation-driven growth. Interviewees also explained how the UKG sometimes asks participatory prefectures to contribute suggestions for additional devolution from central government. The UKG was described as providing a space for "shared services" such as responses to earthquakes, with shared responses described as important in developing "effective" policy delivery.

The role of political leadership and flexibility

The UKG is a voluntary, flexible regional grouping, with membership driven by perceived economic benefits and gubernatorial leadership rather than fixed regional boundaries. For example, Tottori and Tokushima chose to join recognising the strategic advantages of aligning with Kansai. Nara, initially hesitant due to concerns over bureaucratic complexity, joined only after a leadership change in 2023.

Tottori Prefecture's motivation for joining the UKG can be understood in light of its status as the smallest prefecture in Japan by population. Historically, Tottori has developed strong economic ties with the Kansai region, particularly through the establishment of factories by major Osaka-based companies. This background likely shaped Tottori's interest in participating in the Kansai inter-prefectural collaboration, with the expectation of benefiting from joint projects and broader regional initiatives.

From the UKG's perspective, several factors likely supported the decision to accept Tottori as a member. First, despite Tottori's geographical proximity to Hiroshima, a significant number of Tottori residents travel to Osaka for business and education, reinforcing the prefecture's functional connection to the Kansai region. Second, core members of the UKG did not perceive Tottori's inclusion as inconsistent with Kansai's regional identity. Finally, expanding the membership base by including Tottori was seen as strategically advantageous, strengthening the UKG's collective bargaining power when negotiating with the national government.

The UKG demonstrates how regional collaboration in Japan is shaped by a combination of political leadership, shared economic interests and historical ties. Its flexible design balances enhanced negotiating power with the national government and the preservation of local autonomy.

Fostering a shared regional identity through transport networks

The Kansai region's highly developed transportation network, including extensive rail and expressway systems, plays a crucial role in fostering a shared regional identity. High-speed rail (Shinkansen), urban railways and highways enable seamless cross-border commuting and interaction.

In Japan's three major metropolitan areas, railways account for 90% of passenger transport, underscoring the central role of rail networks in urban mobility.[63] Kansai's urban railway network spans 1,515km as of March 2019, providing extensive connectivity across the region. Reflecting the strength of its infrastructure, Osaka was ranked 9th globally in the Global Liveability Index 2024 by the Economist Intelligence Unit [64], achieving an infrastructure score of 96.4 – the highest in Asia. This high level of connectivity significantly reduces geographical barriers within Kansai and reinforces its functional integration as a cohesive economic and social region.

City	Location	Rank	Index	Stability	Healthcare	Culture and Environment	Education	Infrastructure
Vienna	Austria	1	98.4	100.0	100.0	93.5	100.0	100.0
Copenhagen	Denmark	2	98.0	100.0	95.8	95.4	100.0	100.0
Zurich	Switzerland	3	97.1	95.0	100.0	96.3	100.0	96.4
Melbourne	Australia	4	97.0	95.0	100.0	95.8	100.0	96.4
Calgary	Canada	5	96.8	100.0	100.0	90.0	100.0	96.4
Geneva	Switzerland	5	96.8	95.0	100.0	94.9	100.0	96.4
Sydney	Australia	7	96.6	95.0	100.0	94.4	100.0	96.4
Vancouver	Canada	7	96.6	95.0	100.0	97.2	100.0	92.9
Osaka	Japan	9	96.0	100.0	100.0	86.8	100.0	96.4
Auckland	New Zealan	9	96.0	95.0	95.8	97.9	100.0	92.9

Figure 13: *Position of Osaka among world's most liveable cities according to 2024 Global Liveability Index*[65]

The Osaka Metropolis Plan: an attempt at prefecture–city integration

A related case of regional reorganisation is the Osaka Metropolis Plan, promoted by the Osaka Restoration Party (a centre-right Party in Japan) since 2010. The plan proposed the merger of Osaka City and Osaka Prefecture to eliminate dysfunctional duplicated administration ('dual administration') and strengthen Osaka's competitiveness against Tokyo.

Two public referendums on the proposed administrative reorganisation of Osaka were held in 2015 and 2020. In the 2020 referendum, the proposal was narrowly rejected, with 49.4% voting in favour and 50.6% opposed. Several key factors contributed to the rejection. First, the existing policy coherence under the same political leadership reduced the perceived need for such a significant structural change. Second, there were concerns among residents about losing their neighbourhood identity, particularly due to potential changes in addresses. Third, fears emerged that the city's resources might be diverted to suburban areas, disadvantaging central Osaka.

There is a possibility that another referendum will be held on the issue in future. Overall, this highlights the strength of the status quo and concerns about the geographical distribution of resources.

Key insights

- Administrative and functional **economic geographies do not necessarily accord with local and regional identities**.
- Regional structures need to be functional and flexible. **For regional groupings to be meaningful, they must deliver tangible benefits** to residents and businesses.
- Creating **new rigid organisations is not always necessary**; effective political co-ordination can also achieve cross-regional collaboration.
- However, **the creation of regional structures can help foster regional identity** – although attitudes can take time to shift.

Chapter 3: Funding mechanisms

Adequate, predictable and flexible funding empowers local governments to address regional disparities and invest strategically in long-term growth initiatives, as well as provide essential services.

This chapter explores how the different funding models in Japan and England balance regional autonomy with equity.

Funding mechanisms in Osaka Prefecture/ Kansai

Japan's local government finance system

Japan's fiscal mechanisms governing central-local relations have undergone significant changes over the past several decades, largely shaped by waves of decentralisation reforms. Historically, Japan has maintained a highly centralised fiscal system, where local governments depend heavily on intergovernmental transfers, notably the Local Allocation Tax (LAT), to finance their expenditures. Introduced in the post-war period, the LAT system was designed to ensure a degree of fiscal equalisation across regions by redistributing national tax revenues based on the expenditure needs and revenue capacity of local governments.

Since the 1990s, a series of reforms, particularly the Decentralisation Act of 2000, aimed to enhance local autonomy by redefining the roles and responsibilities of central and local governments. While the LAT system remained a cornerstone of local finance, there has been a gradual shift toward increasing local discretion, including the introduction of designated grants and the promotion of local revenue sources.

Following these reforms, local government in Japan now operates with significant financial autonomy within a framework designed to balance decentralisation with national oversight. Their main revenue sources include:

- local taxes
- Local Allocation Tax (LAT)
- national government disbursements
- local government bonds.

Local taxes serve as a vital revenue stream for subnational governments in Japan. Nationally, they account for 33.1% of total local government revenue. When broken down by administrative level, local taxes make up 28.08% of prefectural revenue and 45.7% of municipal revenue.

Japan's local tax law authorises prefectures and municipalities to levy 29 types of taxes, including 14 types by prefectures and 15 by municipalities. These encompass a wide range of taxes, such as property taxes, individual and corporate income taxes and consumption taxes, providing local governments with diversified revenue bases. Figure 14: Summary of national and local taxes in Japan shows key national and local taxes in Japan.

Income taxation	Asset taxation etc	Consumption taxes
National taxes		
Income tax Corporation tax Local corporation tax Special corporate enterprise tax Forest environment tax (FY2024) Special income tax for reconstruction	Inheritance/gift tax Registration and license tax Stamp tax	Consumption tax Liquor tax Tobacco tax Special tobacco tax Gasoline tax Local gasoline tax Liquified petroleum gas tax Aviation fuel tax Petroleum and coal tax Promotion of power resources development tax Motor vehicle tonnage tax Internatuional tourist tax Tariffs Tonnage tax Special tonnage tax
Local taxes		
Inhabitant tax Enterprise tax	Real estate acquisition tax Fixed asset tax City planning tax Establishment tax Water utility and land profit tax Common facilities tax Housing land development tax Special land possession tax Discretionary tax earmarked for general use Discretionary tax earmarked for special use National health insurance tax	Local consumption tax Local tobacoo tax Golf course utilization tax Automobile acquisition tax Light oil delivery tax Automobile tax Mine lot tax Hunting tax Mine production tax Bathing tax

Figure 14: *Summary of national and local taxes in Japan*[66]

The LAT system plays a central role in equalising fiscal capacity among Japanese municipalities. It ensures a minimum provision of public services across the country by redistributing funds to local governments based on standardised formulas that correct fiscal disparities. Importantly, the LAT is unconditional – local governments have full discretion over its use, unlike earmarked national subsidies. The formulas are also updated regularly (compared to the UK which has a very outdated funding formula).

In the 2010s, fiscal mechanisms evolved further with the establishment of special strategic zones (*tokku*) and other regionally focused initiatives. These schemes often include preferential fiscal measures, such as tax incentives, special grants or deregulation packages, enabling selected regions to attract investment and promote innovation.

In the Kansai region, the designation of specific areas as national strategic special zones has allowed for greater local experimentation with fiscal tools to stimulate economic activities. These have included tax incentives for the biomedical and regenerative medicine industry. Eligible medical and biotech companies in Kansai's national strategic special zone are able to benefit from a reduced corporate tax rate as well as financial aid and aid with interest payments.[67]

More recently, fiscal mechanisms have been adapted to support national policy priorities, such as digital transformation, green growth and post-pandemic recovery. Targeted grant schemes and co-funding mechanisms, worth ¥100bn, have been created to support local initiatives that further these national objectives. In 2025, the new Ishiba national administration aims to double this grant.

Despite these changes, the overall system remains characterised by a complex balance between local discretion and central oversight, with ongoing debates about the sustainability and effectiveness of Japan's fiscal decentralisation model.

Fiscal profiles of Osaka Prefecture and Osaka City

Osaka Prefecture

Osaka Prefecture, with a population of 8.8 million, reported a general account revenue of ¥**3.26tn** in the 2023 financial year. Major revenue components are shown in Figure 15: Accounts of Osaka Prefecture 2023 Financial Year. The breakdown of prefectural tax sources is as follows: corporate taxes account for 34.3%, consumption taxes make up 29.6%, and individual taxes constitute 22.1%. Total expenditure reached ¥**3.23tn**, allocated to subsidies and contributions[68] (35.4%), personnel expenses (20.6%) and loan-related outlays (19%).

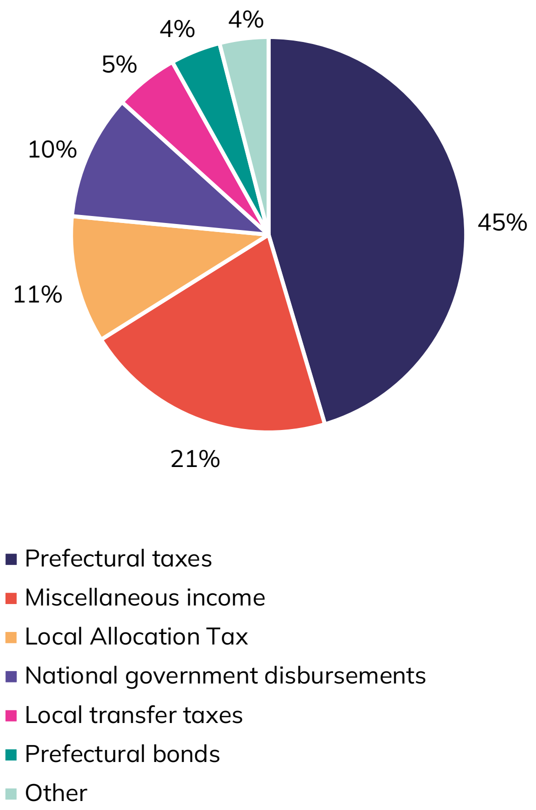

Figure 15: *Accounts of Osaka Prefecture 2023 Financial Year*[69]

An interviewee suggested that despite increased devolution of power to prefectures in Japan, the extent to which fiscal powers have been devolved along with policy powers is limited:

> **"The purpose of devolution is mostly deregulation, not trying to get some financial resources from the central government." (Int-12OS)**

Osaka City

Osaka City, a designated city with 2.8 million residents, reported general account revenue of ¥**1.98tn** in 2023. See Figure 16: Revenue of Osaka City 2023 Financial Year for Osaka City's principal revenue components. In 2022, the breakdown of city tax sources was as follows: individual taxes amounted to ¥222.1bn, corporate taxes totalled ¥110.3bn and property and city planning taxes reached ¥375.7bn.

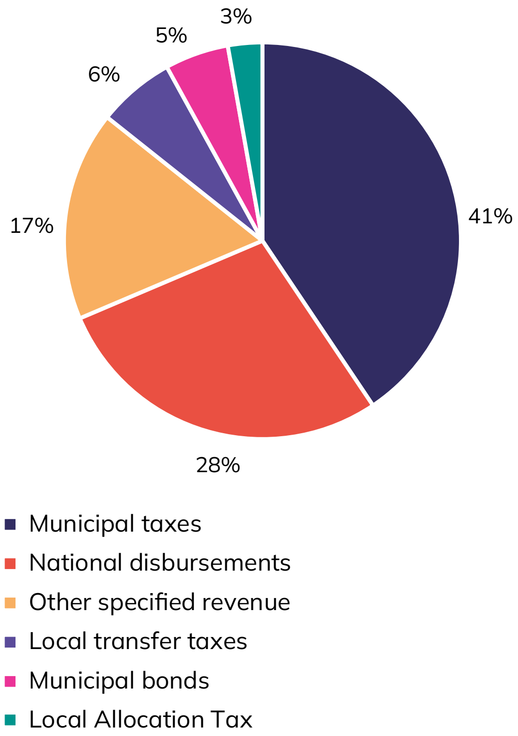

Figure 16: *Revenue of Osaka City 2023 Financial Year*[70]

Note: The Local Allocation Tax figure includes not only the LAT itself but also the special fiscal adjustment bonds.

Total expenditure amounted to ¥**1.96tn**, allocated to social assistance (welfare programmes) (32.9%), policy programme expenses (16.9%), personnel costs (14.3%), loan-related outlays (12.3%) and capital investment (public universities, museums) (11.8%).

One interviewee suggested that, like prefectures, while municipalities such as Osaka City have benefited from increased devolved powers since the 1999 Decentralisation Law, fewer financial powers have been devolved:

> **"The power transfers are achieved but the financial devolution transfer from central government to local government is not so much achieved. So central government still holds the financial power." (Int-1OS)**

While Osaka municipality clearly has greater local fiscal power than local authorities in the UK, the city is still reliant on the national government for almost 70% of its revenue (LAT grant and national disbursements).

Fiscal autonomy and sustainability of Osaka Prefecture and City

The general revenue ratio refers to the proportion of revenue that local governments can use at their own discretion, including local taxes, local transfer taxes and the LAT grant. In the 2023 fiscal year, general revenue accounted for 61% of Osaka Prefecture's total revenue and 49.2% of Osaka City's total revenue.[71] These figures illustrate the relatively high level of fiscal autonomy enjoyed by both the prefectural and city governments, enabling them to implement policies independently of national government funding.

In terms of comparative fiscal strength, Osaka City stands out for its robust independent revenue base. While the national average share of municipal tax revenue is 31%, Osaka City's tax share is significantly higher at 40.5%, reflecting a greater degree of fiscal independence compared to other municipalities.

Further confirmation of Osaka City's sound financial standing is provided by fiscal health benchmarks published by the Ministry of Internal Affairs and Communications (MIC). Both the general and consolidated accounts of Osaka City are in surplus. Additionally, the city's debt service ratio stands at 2.7%, which is well below the warning threshold of 25%. The future burden ratio is also low at 5.3%, far below the national threshold of 400%.[72] These indicators collectively demonstrate Osaka City's strong fiscal health and capacity for autonomous financial management.

Implications of Japan's fiscal devolution for Osaka and Kansai

A key strength of Japan's local fiscal system is the flexibility and autonomy it provides to local governments allowing them to respond swiftly to socio-economic changes and local needs. Interviewees stressed the importance of the LAT in enabling them to meet the demands of a rising population needs by building new housing and schools. Pointing to the flexibility the LAT provides in responding to place-based needs, one interviewee argued:

> **"There are no restrictions on the LAT. You can use this [funding] any way you want." (Int-7OS)**

Japan's fiscal devolution model also provides local governments with strong independent revenue bases that have the capacity to undertake major projects and make long-term investments without heavy reliance on national funding. Osaka Prefecture and City are using the substantial revenue they generate to invest in major projects such as **Expo 2025** and **Integrated Resort (IR) development**. The national government is contributing ¥164.7bn to Expo 2025, with Osaka City and Prefecture expected to bear over ¥134.8bn.[73]

A key characteristic of Japan's local fiscal system is that inter-municipal tax rate disparities are minimal, and a well-developed system of local allocation tax grants allows for fiscal equalisation across regions. This minimises inequalities between people and between areas and enables municipalities and prefectures throughout Japan to provide a standard level of public services regardless of their local revenue capacity.

However, the system also presents several weaknesses and risks. A major concern is the growing regional disparity in fiscal capacity. In the Kansai region, wealthier areas such as Osaka Prefecture are able to accumulate more resources through local taxation while rural areas such as Wakayama and Nara are more reliant on the LAT.[74] The Local Fiscal Capacity Index, which is commonly used as an indicator of the financial strength of local governments, shows that Osaka Prefecture is classified in Group B1, while Nara Prefecture is in Group C, and Wakayama Prefecture is in Group D.[75]

The system also creates a potential growth penalty, and some argue it may unintentionally penalise local economic success. As local governments grow their own revenues, their LAT allocations are reduced. This mechanism, while designed to promote fiscal equity, may inadvertently discourage economic development efforts, particularly in regions striving to improve their fiscal position. Research on experiences in Japan has found that once local governments begin to receive LAT grants, they tend to reduce their expenditure on commercial and industrial activities – such as those aimed at promoting regional economic development – in the following fiscal year. The current LAT system may distort incentives for local governments to pursue economic revitalisation policies.[76] Some studies argue that institutional reforms introduced to correct distortions in the behaviour of local government have proven ineffective, thereby potentially obstructing further reform efforts.[77]

In the 2024 fiscal year, 83 local governments (4.7% of all municipalities) became non-recipient entities due to their strong fiscal capacity (MIC, 2024). Notably, Osaka City has set a target of becoming a non-recipient of the LAT grant by 2028[78], reflecting its increasing fiscal independence and strong financial standing. This paradox underscores the need for continuous review and reform of the LAT grant framework to ensure fairness and maintain incentives for economic growth and fiscal discipline.

In Japan today, local taxation on corporate income – particularly the enterprise tax (*jigyōzei)* levied by prefectures – has been criticised for contributing to fiscal disparities between regions. Because corporate activity is heavily concentrated in major metropolitan areas such as Tokyo, local tax revenues tend to accumulate disproportionately in those areas, exacerbating regional imbalances.

In response to these concerns, the Japanese government undertook a reform of the local tax system in 2018, aiming to address the structural issue of tax revenue concentration in large cities relative to the distribution of gross prefectural product. The reform was also intended to reflect broader changes in socio-economic structures and fiscal capacity across regions. As part of this reform, approximately 30% of the local enterprise tax was reclassified as a national tax, which is then redistributed to local governments based on population size. The reform reflects the policy goal of creating a more mutually supportive and sustainable relationship between urban and rural areas.

West Midlands

The evolution of devolution finance in the West Midlands (2015–2025)

The financial landscape supporting devolution in the West Midlands has significantly evolved over the last decade. Starting with the foundational 2015 Devolution Deal, expanding substantially through the 2023 Trailblazer Devolution Deal, and further reshaped by the 2024 English Devolution White Paper and the 2025 Integrated Settlement for the West Midlands, these agreements have progressively shifted financial control away from UK central government to local and regional authorities.

The 2015 Devolution Deal created the West Midlands Combined Authority (WMCA), providing an annual investment fund of £36.5m over 30 years, contingent on regular economic impact evaluations.[79] This fund finances infrastructure, transport and economic growth projects, marking a strategic shift toward long-term regional investment. Additionally, the deal transferred control of the adult education budget, consolidated transport funding and expanded local oversight of housing and regeneration grants. Despite these advances, financial decision-making remained fragmented, with councils needing to apply separately for specific grants, limiting overall financial flexibility.

In 2023, the Trailblazer Devolution Deal further enhanced regional financial autonomy by introducing a single, departmental-style funding settlement, replacing multiple project-specific grants with a lump-sum allocation.[80] Local leaders gained increased control over spending decisions and began retaining business rate growth, directly linking local revenue to economic performance. The mayor of the West Midlands also received greater powers over transport levies, infrastructure financing and investment funds, marking a significant move toward regionally driven economic governance.

> **"Certainly, the Integrated Settlement is a major step forward and probably the only bright spark of sanity and sense in the whole field of local government finance at the moment." (Int-13WM)**

Building upon these advancements, the 2024 English Devolution White Paper introduced broader financial reforms across England. Notably, it confirmed the shift toward multi-year funding settlements, replacing annual budget allocations to improve predictability and facilitate longer-term planning.[81] While the UK Shared Prosperity Fund and Levelling Up Fund had already been established following the closure of the Local Growth Fund in 2021, the White Paper supported the continued consolidation of funding mechanisms to simplify processes and reduce administrative complexity. Additionally, it granted local authorities expanded fiscal powers, including enhanced flexibility to raise business rates and increased borrowing capacity for infrastructure investment.

The 2025/26 Local Government Finance Settlement further refined the fiscal framework, increasing core spending power by 6.8%, with council tax accounting for 55% of local revenues.[82] Birmingham City Council (BCC), facing financial pressures highlighted by a Section 114 notice, which warns that council expenditure will exceed income, received permission for an additional 5% council tax flexibility, raising its threshold to 9.99%.[83] While this enhanced local autonomy is aimed at stabilising service delivery, it also imposes a greater financial burden on residents. WMCA, meanwhile, continued benefiting from the 100% business rate retention pilot, reinforcing its financial stability.

These developments present opportunities for substantial regional empowerment (see Table 1) but come with inherent financial risks. Increased autonomy means that financial success depends on effective revenue management and economic growth, highlighting disparities between stronger and weaker regional economies. Robust governance will be critical to navigating these challenges and ensuring efficient resource allocation.

Table 1: *Fiscal powers by devolution stage and authority.*

Mechanism	Pre-2015	Post-2015 Deal	Post-2023 Deal	Post-2024 White Paper	Applies to
Business rate retention*	50%	50%	100% of growth	100% of growth	BCC (standard), WMCA (growth pilot)
Borrowing (for capital)	☒	☑	☑	☑	Both
Control over education budget	☒	☑	☑	☑	BCC
Mayoral fiscal powers	☒	☒	☑	☑	WMCA
Multi-year settlements	☒	☒	☒	☑	Both
Single departmental-style settlement	☒	☒	☑	☑	WMCA

Source: compiled from official UK government devolution agreements and finance settlements (2015–2025).

* BCC retains 50% of total business rates under the national scheme. WMCA retains 100% of growth above baseline levels as part of a devolved pilot arrangement.

Funding mechanisms: revenue and spending between Birmingham City Council, WMCA and UK government

Funding relationships between BCC, WMCA and the UK central government have evolved significantly, influenced notably by the 2024 English Devolution White Paper. This reform seeks to streamline financial flows and empower local decision-making through several key mechanisms:

- **Central government grants:** Historically dominant, these grants have reduced, shifting focus towards local revenue generation.
- **Business rates retention:** Allows local governments to retain growth, incentivising economic expansion.
- **Council tax and mayoral precepts:** Primary local revenue sources, with additional flexibility for fiscally challenged authorities.
- **Multi-year settlements:** Introduced to enable long-term planning and reduce reliance on annual budgets.
- **Special support grants:** Including the £600m recovery grant aimed at financially strained authorities like BCC.[84]

Local revenue primarily comprises council tax and retained business rates, accounting for approximately 50% and 27% respectively of local government income.[85] Since 2017, WMCA retains 100% of business rate growth, secured by a decade-long agreement starting in 2023, worth about £45m annually.[86] Despite evolving funding structures, actual financial flexibility remains limited. As one local finance leader observed:

"We have big numbers in our budgets, but a lot of the money is already committed. When you consider our statutory duties, the amount of discretion left is very small. Over the past 10–20 years, the government has moved away from general funding towards specific, restricted funding." (Int-15WM)

The devolution deal provided regions with the option of implementing a mayoral precept – a form of local taxation – to fund essential regional services such as transport, policing, and fire services. Several combined authorities, beginning with Greater Manchester in 2018, adopted this approach to secure stable funding. However, the West Midlands mayor chose not to implement a precept, citing concerns about adding financial pressure on residents already facing rising costs.

Instead, the region has opted to rely on alternative funding mechanisms, such as the transport levy, paid annually by constituent councils. For the 2025/26 fiscal year, the WMCA has proposed a transport levy of £122.9m – a 3% increase from the previous year.[87] This levy plays a critical role in supporting the operations and infrastructure projects of Transport for West Midlands. Additionally, major projects such as the Smithfield Birmingham development rely on a blend of WMCA investment funds, private sector contributions and government grants, reflecting a diversified approach to regional funding.

The anticipated update to the Fair Funding Review is expected to significantly influence the fiscal outlook for both BCC and the WMCA. Designed to reallocate central government funding based on a new assessment of local needs and resources, the revised funding formula could result in major redistributions of core grants. The current funding formula has not been comprehensively updated since 2013/14, despite significant demographic and economic shifts.[88]

Originally launched in 2016, the Fair Funding Review has faced repeated delays but is now expected to be implemented from 2026/27, potentially alongside a reset of business rate baselines.[89] For BCC, whose high levels of deprivation and complex service demands have long strained its budget, the review presents both a risk of reduced funding and an opportunity for better alignment with socio-economic needs – depending on how deprivation and population pressures are weighted. For WMCA, the implications are more indirect but equally important. While the combined authority primarily relies on business rate retention and devolved funds, changes to the underlying funding of constituent councils could affect their capacity to contribute to shared levies, match funding, and co-finance regional infrastructure.

If the revised formula prioritises economic potential over entrenched need, it could exacerbate disparities and undercut efforts at regional levelling up. Both BCC and WMCA will therefore need to adapt their financial planning frameworks in response to the outcome of the review.

Birmingham City Council's role in regional governance and financial management

As the largest authority in WMCA, Birmingham significantly impacts on regional governance and finances. The council supports WMCA financially via membership fees (£250,000 annually), transport levies and strategic investments in regional infrastructure. For instance, BCC has been a substantial contributor to the transport levy, notably funding key projects such as the West Midlands Metro and the Sprint Bus Rapid Transit system, contributing £121.5m in 2017/18 alone.[90]

The council has benefited from devolved funding for infrastructure, housing and skills development. The £8bn capital investment programme, part of the original devolution agreement, has funded major projects like the Birmingham City Centre Enterprise Zone, aiming to create 71,000 jobs and 1.1 million square meters of commercial space.[91] Key transport projects, including the £60m Wednesbury to Brierley Hill Metro extension, have also boosted local connectivity and economic growth.[92]

The financial stability of BCC has been increasingly strained, highlighted by a £760m liability arising from equal pay claims and an IT system failure, prompting a Section 114 notice in September 2023.[93] These pressures are intensified by demographic factors unique to the city. As one local official highlighted:

"Birmingham is the youngest city in the UK. The proportion of young people needing support is higher, and we have many unaccompanied asylum seeker children to support through education. These responsibilities significantly increase our annual budget pressures." (Int-14WM)

To alleviate these acute financial demands, the UK government approved exceptional financial support (EFS) in 2024, allowing Birmingham to borrow up to £1.25bn.[94] However, this substantial borrowing facility comes with strict conditions involving mandatory budget cuts, asset sales and external financial oversight, placing additional pressure on the council to carefully manage these increased fiscal responsibilities.

The new financial powers under the 2024 Devolution White Paper offer BCC the potential for greater financial autonomy. However, the council faces significant constraints in fully leveraging these opportunities. According to another interviewee:

> **"We are constrained in using our devolved powers, not necessarily because we lack legal authorities, but because we lack the resources to follow through. We are forced to do the bare minimum required by law rather than being proactive in forming partnerships and leveraging investment." (Int-13WM)**

This limitation underscores the complexity of devolved finance, where increased responsibilities must be balanced against existing financial and operational constraints.

While the potential exists for economic stabilisation and growth, ongoing fiscal liabilities, mandatory asset sales and reliance on council tax may strain local resources. Future reforms planned for 2026/27 may further alter Birmingham's funding structure, particularly with the potential reset of the business rates retention system and new funding formulas based on local needs assessments.

Table 2: *Capital borrowing powers under local government and devolution frameworks*

Feature	BCC	WMCA
Can borrow?	✓ Yes, for capital only	✓ Yes, for capital projects
Purpose of borrowing	Capital expenditure (eg infrastructure, housing)	Strategic capital projects (eg transport, regional development)
Revenue borrowing allowed?	✗ Not normally (only under EFS)	✗ Not normally
Needs Treasury approval?	✓ For revenue borrowing (EFS) or high borrowing levels	✓ For overall borrowing caps negotiated with Treasury
Enhanced under devolution?	✗ Not directly	✓ Yes, under Trailblazer and White Paper deals
Linked to mayoral powers?	Not applicable	✓ Yes, for functions devolved to Mayor
Governance framework	Local Government Act 2003; Prudential Code	Devolution agreements; Treasury-approved borrowing caps

Source: compiled using the Local Government Act 2003, CIPFA Prudential Code and devolution agreements (Trailblazer 2023, White Paper 2024).

These institutional differences in borrowing capacity illustrate the practical implications of fiscal devolution. While WMCA enjoys broader strategic financing tools, BCC's borrowing is constrained and closely regulated. Table 2 above outlines these contrasts in detail.

The broader implications of these powers – and other features of the devolved finance model – are summarised in Table 3, which highlights both the strengths and potential risks of this evolving funding framework.

Table 3: *Strengths and weaknesses of devolved finance mechanisms*

Strengths	Weaknesses
Increased autonomy: Local authorities have greater control over their finances, enabling region-specific policymaking.	Council tax reliance: Increasing reliance on local taxation risks overburdening residents in financially struggling areas.
Encouragement of economic growth: Business rate retention incentivises pro-business policies.	Uneven economic development: Regions with lower business activity struggle under the retention model, widening disparities.
Financial stability: Multi-year funding settlements reduce budget uncertainty and allow for long-term investment.	Short-term risk exposure: Greater fiscal responsibility increases the risk of budget shortfalls if local revenue expectations are unmet.
Redistributive support: Targeted grants help financially weaker councils stabilise.	Conditional support mechanisms: Emergency funding (eg Exceptional Financial Support for BCC) comes with stringent requirements, limiting local decision-making.

The UK's devolution finance model is evolving toward a self-sustaining regional funding structure, emphasising local revenue generation, business-driven economic growth and fiscal autonomy. However, the financial risks for struggling authorities, reliance on council tax and regional economic disparities remain key challenges. The West Midlands' experience highlights best practices in multi-level fiscal co-ordination, offering insights applicable to international governance models.

Key insights

Lessons for England from Japan

- **Redistribution models** can be important in **enabling local areas to have the resources to effectively respond to changing population needs** including rising population levels.
- **Fiscal devolution can provide local governments with strong and independent revenue bases.** This enables places to develop a **high self-reliance and financial capacity** to support large-scale urban development and social service provision.
- **Redistribution models can unintentionally disincentivise local economic effort** and balancing fiscal equalisation with growth incentives is a challenge.
- Continuous **monitoring of revenue sources and concentrations along with adaptations of the allocation systems are necessary** to both avoid disincentives for development and ensure that all municipalities, regardless of size or wealth, can provide essential services to their residents.

Lessons for Japan from England

- The **business rate retention model** in the West Midlands aligns with Japan's focus on special economic zones and regional tax incentives.[95]
- The UK's shift toward multi-year financial planning contrasts with Japan's annual budget cycles. **Implementing longer-term funding settlements for prefectures and municipalities could enhance financial predictability** and support infrastructure projects, particularly in shrinking rural areas.
- WMCA's **transport levy system, funded by constituent councils, offers a model for Japan's regional transit funding**. Cities like Osaka could adopt similar financing mechanisms to improve subway and rail infrastructure without over-reliance on national subsidies.
- Japan has struggled with municipal debt crises, particularly in ageing rural communities. The UK's **Exceptional Financial Support model**, which provides conditional loans to distressed councils, **could be adapted for Japan's municipal fiscal stabilisation policies**, ensuring oversight while allowing local governments to recover.
- The UK's **shift toward consolidated funds** such as the UK Shared Prosperity Fund and Levelling Up Fund **simplifies previously fragmented grants**. Adopting a similar approach could **streamline Japan's complex subsidy system, enhancing administrative efficiency and providing municipalities with greater flexibility** for local economic initiatives.

Chapter 4: Monitoring and evaluation

Robust monitoring and evaluation ensures accountability, facilitates continuous learning and improves policy effectiveness by tracking outcomes rather than just outputs.

This chapter examines monitoring and evaluation practices in the West Midlands and Osaka Prefecture, exploring how they support evidence-based decision making, learning and adaptive policymaking. It also considers the role of local audit in each region.

West Midlands

National approaches to monitoring and evaluation

Monitoring in the UK context involves tracking progress against planned targets through formal reporting and evidence collection. It is designed to ensure that spending and outputs are successfully delivered and milestones are met while also providing valuable evidence for evaluations.[96]

Guidance on evaluation in government exists in the form of the Magenta Book, which outlines scoping, design, conduct, use and dissemination of evaluation. It also summarises the capabilities required of government evaluators. Evaluation is defined as "systematic assessment of the design, implementation and outcomes of an intervention".[97]

In the UK, the national government often requires local authority and combined authority grant recipients to conduct monitoring and evaluation activities to track implementation and progress of a policy intervention and report this back to the government. This reflects the reliance of local authorities and combined authorities on central government for funding. It also illustrates that the drive for evaluation comes from a national, rather than a regional, level. Central government funding generally involves a standard approach to monitoring and evaluation for all local authorities to follow (although the exact approach often differs by government department and programme).

Figure 17: Detail of monitoring and evaluation requirements for recipients of Levelling Up Round 2 funding below provides an example of how monitoring and evaluation was conducted as part of a large programme funded by HM Treasury, the Ministry of Housing, Communities and Local Government and the Department for Transport.

The UK Government's Levelling Up Fund (LUF) Round 2 distributed £2.1bn across the country to successful projects to invest in key areas including transport, urban regeneration and cultural investment. In the prospectus for the round, and the £4.8bn Levelling Up Fund overall, there was a clear monitoring and evaluation strategy.

Key monitoring questions included:

How are places performing in terms of:

a) progress against delivery plan

b) spend against profile

c) delivering agreed outputs

d) identifying and mitigating risks

e) identifying challenges and opportunities.

The following questions will be partially answered through monitoring information but will also be explored further as part of a process evaluation:

- What support do places need while in the delivery phase?
- What is working well in delivery, and what needs improvement?
- What lessons on delivery can be shared within the duration of the programme?

LUF recipients were responsible for providing monitoring data on a quarterly and six-monthly basis. They were also expected to develop a monitoring and evaluation plan, including a theory of change explaining how the intervention is designed to work.

Figure 17: *Detail of monitoring and evaluation requirements for recipients of Levelling Up Round 2 funding*[98]

Interviewees reflected on the implementation of evaluation in England, arguing that while monitoring and evaluation frameworks are developed by central government, evaluation conducted can be 'piecemeal' because of short-term funding for projects. Hence the 'theory' and 'practice' of monitoring and evaluation may differ. One interviewee noted:

> **"The speed of funding coming out and the competitive treadmill that people are on [means] you never actually evaluate, and you never actually monitor." (Int-1WM)**

Local authorities often lack sufficient capacity to fully evaluate their projects and programmes because in the context of constrained local authority resources, they are required to constantly bid for new funding pots. The interviewee added that central government also does not have the capacity to fully evaluate due to the constant need for policy development and interventions.

> **"National government is so busy trying to get money out the door in over-engineered competitive processes [...] there's very little in the last 10–15 years that you can assess." (Int-3WM)**

Where evaluation does take place, several interviewees argued that focus is often placed on outputs, although better understanding the outcomes achieved is likely to be of greater value.

> **"With many funds, the monitoring and evaluation is focused on outputs. For an employment support programme, how many people you've supported and what qualifications those people secured. What it doesn't tend to do is say: those people that you support to get qualifications, did they move into a better job? Did they gain confidence to help them progress in their career?" (Int-5WM)**

Analysis by CIPFA has identified a lack of "robust data collection and evaluation frameworks" necessary to assess Levelling Up. This was a flagship policy launched by the Boris Johnson Conservative government in 2019 and continued under Rishi Sunak's government, aimed at reducing spatial economic inequalities across the UK. The report calls for the current Labour government to introduce more rigorous data collection and evaluation systems to enhance the monitoring of subsequent regional growth programmes.[99]

Regional approaches to monitoring and evaluation

Focusing on monitoring and evaluation in the West Midlands identified several differences from the national picture and provides opportunities for learning from the region's approach. Monitoring and evaluation approaches are quite advanced in the West Midlands. Furthermore, the Integrated Settlement that was agreed with Westminster in 2024 offers opportunities to further develop capacity and processes across the region.

The West Midlands Combined Authority (WMCA) produces an annual report on the 'State of the Region' that supports monitoring and evaluating progress. It provides an overview of economic progress in the West Midlands and includes a recognition of the importance of data to ensure policy interventions are having desired outcomes. Earlier versions of the report included a performance management framework:

> **"We had clear measures of what success would look like [...] We updated it every year, so then people were able to see [...] if the interventions are moving us in the right direction or not. It was a very simple RAG rating table across a lot of objectives [...] and it worked well." (Int-9WM)**

Figure 18: Snapshot from 2021 West Midlands State of the Region report illustrates how progress against key indicators was compared against the previous year. Green indicates improvement and performance above the national average, amber illustrates improvement but below the national average, and red shows a decline in performance.

Figure 18: *Snapshot from 2021 West Midlands State of the Region report*[100]

The WMCA is now working with national government to design a West Midlands outcomes framework The framework contains 24 headline indicators across eight different themes, against which progress will be measured.[101]

Challenges

Despite efforts to develop a West Midlands outcomes framework, there is some concern that there has not been sufficient discussion on what the framework should analyse. One interviewee suggested the set of indicators utilised at the time of the interview in 2024 was "mismatched and random" (Int-9WM). There are also broader questions around the outcomes framework and whether it should be standardised nationally, and how this aligns with the principle of devolution:

> **"I think government would probably want the same framework; it would make their life easier. But [...] it goes against the whole principle of devolution. You are saying what you want to deliver for your place and what 'good' looks like for you as opposed to what that looks like in Yorkshire [but] there's only so many indicators and outcomes you can come up with in the world." (Int-6WM)**

Local authorities in the region and the combined authority were both identified by interviewees as lacking comprehensive processes for monitoring and evaluation, which could impact on the design of the outcomes framework, and on the implementation of evaluation and monitoring strategies more broadly.

“If you’re thinking of the outcomes framework, if you’re taking it on the full logic trail of following where the funding’s coming from, what it’s delivering, what the outputs are, what the impact is, there’s 100% nobody in the combined authority that has a comprehensive view of that. No local authority will. These processes [need to be] put in place.” (Int-6WM)

While local authorities are experienced at monitoring performance, their experience and expertise on evaluation has been reduced over recent years as local authority resources have been constrained. Wider expertise in the region has also been challenged by the closure of the three LEPs in 2024 as well as the disbanding of the Midlands Engine Observatory (with a remit covering the West Midlands and the East Midlands) in 2025.

The cycle of funding for local authorities also hinders capacity to develop learning from programmes. Due to the constant pressures authorities are under and the firefighting they must do, it can be challenging to find time to strategise and think about broader problems.

“I don’t think the local government sector uses its understanding of where things have gone wrong and stops to listen and learn from that.” (Int 14-WM)

While organisations such as CIPFA and the Local Government Association (LGA) bring people together and act as a repositories of knowledge, one interviewee asked if it was even possible for senior teams to have time to reflect.

“It’s sad because we’re all doing our strategic thinking in hours that are not within the business day. So, it’s how we change that. How we do all of that together.” (Int-14WM)

The West Midlands has employed various strategies to respond to issues of local authority capacity to undertake evaluations. There is a track record of both local and combined authorities commissioning evaluations from external partners to be able to ensure they are properly undertaken while maintaining institutional capacity to apply for further funding. This is dependent upon sufficient budget being allocated to evaluate the programme but includes the WMCA commissioning the Institute for Employment Studies and City-REDI at the University of Birmingham to conduct a three-year process and impact evaluation of the ‘Connecting Communities’ employment support programme.[102]

Beyond the pressures and capacity issues faced especially by local authorities in the West Midlands, there are also wider challenges. While authorities have identified the importance of data in their own strategies and frameworks, they have had difficulties accessing data from their partners. Developing processes to support data sharing across organisations is crucial for effective monitoring.

Strengths

The WMCA is focusing on using strong monitoring and evaluation as an accountability function to enable greater devolution around the outcomes framework. Central government is looking to decentralise funding but wants to ensure it is being used appropriately.

“We need monitoring and evaluation to play the accountability role that government played […] The outcomes framework now replaces it and says, ‘OK, you can spend it on what you want, but you have to deliver these types of outcomes’.” (Int-4WM)

Developing strong monitoring and evaluation processes and in turn demonstrating the impact of devolved funding could help sub-national government to build a stronger case for further devolution of powers.

While monitoring and evaluation provide a function for the UK government to monitor local and combined authority delivery, partners in the region recognise there is also a value for authorities in using monitoring and evaluation as a tool for developing learning:

“How do we design a monitoring and evaluation function that is able to feed into a policy making cycle, evaluate policy, draw conclusions from it, feed back into the strategy, set hypotheses and then go around that loop again?” (Int-4WM)

The WMCA’s strategy team is seeking to develop the use of monitoring as a space for learning across the authority but will need to secure further funding to achieve this ambition.

Within the West Midlands, there is a desire to build monitoring and evaluation capacity across local government. It is positive that partners, including local universities, are seeking to support staff to be confident and capable users of data.

> **"[We need to be] able to use that data to shape policy going forward, to shape programmes, and also to collate data to be able to measure the success of programmes." (Int-5WM)**

This demonstrates the importance of empowering local government officers by building their confidence in handling data. This involves helping them understand the types of data they need to collect and ensuring they are capable of effectively working with that data. Through the Integrated Settlement, the WMCA is also able to use discretionary funding to provide credible support to develop monitoring and evaluation capacity.

While monitoring and evaluation is a useful tool for local authorities and the combined authority in the West Midlands, the diverse needs of the constituent cities and towns must be balanced with that of the region. Monitoring that is based on quantitative outcomes needs a qualitative aspect to properly evaluate impact:

> **"It needs you to talk more to local residents and local businesses [...] I think it would give you a more thorough picture on the impact of devolution." (Int-5WM)**

It is important for the region to build a consensus for evaluation by involving a diverse group of partners in the development of outcomes frameworks. Taking a collaborative approach can help ensure evaluation processes are comprehensive and reflect the perspectives and needs of all stakeholders.

Audit

Public financial management (PFM) is a system for planning, directing, and controlling financial resources to ensure the efficient and effective achievement of public service goals. Key components of PFM are shown in Figure 19: Components of public financial management. Effective management of public finances is crucial for addressing regional inequalities. The worldwide adoption of common standards (such as those in accounting, auditing or education) and practices allows public service managers to comprehend cost drivers and behaviours using a shared language. This facilitates the aggregation, interpretation and exchange of information, thereby promoting greater transparency.[103]

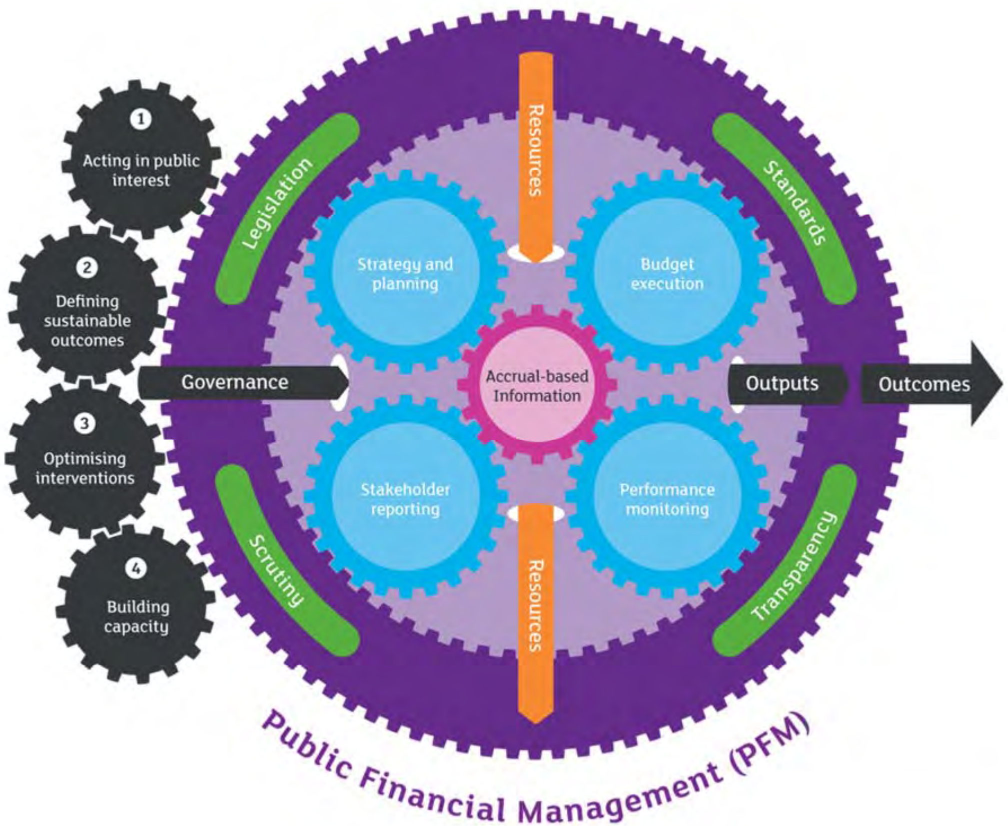

Figure 19: *Components of public financial management*

Source: CIPFA. (n.d.). Delivering excellent public finance: CIPFA's Whole System Approach to Public Financial Management Volume 1: The Approach, *p.14*.

Effective local government audit systems are vital for ensuring transparency and accountability as well as building and sustaining trust in local public institutions.[104] It also equips authorities with precise and dependable financial data to support them to effectively plan and manage their services and finances.[105] Local government audit systems in England have faced significant criticism in recent years; however, in late 2024 the government announced plans to reform the system.

Following the abolition of the Audit Commission, there have been concerns that "local government audit, improvement and regulation has been operating in a vacuum".[106] Challenges have included shortages of qualified auditors, increased workloads due to stricter regulations, and the complexity of local authority accounts.[107] The National Audit Office, the UK's Supreme Audit Institution, refused to sign off on the Whole of Government accounts due to backlogs in local authority audits.[108] An Office for Local Government was established by national government in 2023 with a remit to deliver reliable and accessible data and analysis on local government performance while fostering its enhancement. However, the body was dissolved in 2024 as part of the new government's initiative to allocate resources more effectively to frontline services. Government considered the body had struggled due to "a vague and broad remit that risked duplication of services elsewhere".[109] This emphasises the importance of audit bodies having clear remits.

In 2024, the UK Labour government launched a consultation on overhauling the local audit system in England.

A key current focus is ensuring value for public money. The Office for Value for Money was launched as part of the 2024 Budget. Situated within HM Treasury, its responsibilities include identifying and assessing how to eliminate waste and inefficiency, conducting value for money studies in high-risk areas of cross-departmental spending, scrutinising investment proposals and developing recommendations for system reform based on past lessons, international best practices and external feedback.[110]

Osaka Prefecture and Osaka City

National and regional approaches to monitoring and evaluation

In comparison to in the West Midlands, monitoring and evaluation systems in Osaka Prefecture, Osaka City and Japan more broadly appear to be less developed. In Japan, local governments take the lead in conducting evaluation activities and national government's involvement is limited, although has been growing in recent years.[111]

Under the Government Policy Evaluations Act of 2001, central government's evaluations are focused on its own programmes and projects. Consequently, Japan has not yet developed a nationwide integrated performance measurement system that encompasses national and local government. However, in the 2000s, central government increased its legal and financial involvement in local government, leading to the spread of new public management reforms to local governments across the country.[112]

Performance management is the preferred evaluation method employed in Japan. Local governments collect performance management data to maintain accountability to higher-level government.[113] For example, the Union of Kansai Governments and Osaka Prefecture monitor progress against KPIs. Interviewees noted that Osaka Prefecture would often monitor progress of small cities' initiatives through annual inspections.

In both Osaka Prefecture and Osaka City, each department formulates an operational policy that outlines the overall picture of the selection and concentration of policies for each department or ward (21 departments in Osaka Prefecture, and 24 ward offices and 28 departments in Osaka City). Each department and ward then conducts self-evaluation of the achievements of their policy measures drawing on the PDCA (plan-do-check-adjust) cycle.[114]

In Osaka City, multiple outcome indicators* are also set for each key management issue. After the completion of each fiscal year, a quantitative evaluation (assessment of the achievement levels of outcome indicators) and a self-evaluation* (qualitative assessment of the overall operational policy) are conducted, leading to the formulation of the future policy direction.

A range of improvements to the evaluation system have been made since 2011, including: establishing an evaluation process that integrates bureau/ward-level operational policies with city-wide policies and budget formulation

- integrated evaluations of strategies (outcomes) and specific initiatives (outputs) and thoroughly identifying challenges
- promoting proactive and internally driven initiatives by utilising positive approach methods
- improving evaluation materials to ensure information is clearly communicated to citizens
- integrating multiple process management and inspection tasks to reduce administrative burdens.[115]

Illustrating the value of regional research centres, interviewees stressed the importance of the Osaka Research Centre for Industry and Economy. The centre is unique in Japan because it operates at prefecture level. Its surveys and research guide policy design and direction, primarily benefiting SMEs, companies and banks. Local authorities in Osaka also rely on its economic trends data.

* Webpages linked to here are in Japanese.

One study the centre conducted examined the use of metal 3D printers at the Izumi Centre of the Osaka Institute of Industrial Technology (a technological institute supporting SMEs). The study was motivated by a lack of understanding the presence or use of 3D printers in Osaka. The Centre conducted a survey to identify the proportion of metalworking companies in Osaka, which had introduced 3D printers and provide insights into whether a shortage of engineers existed. Analysis of the survey results led to a decision to hold seminars to train design engineers to undertake design analysis at the 3D Modelling Technology Innovation Centre.

Figure 20: *Osaka Research Centre for Industry and Economy*

Challenges

Local government administrative evaluations in Japan have been criticised for being complex and time and resource intensive, which can create inefficiencies.[116] Administrative evaluations are conducted directly by local government officials and there is little or no use of outsourcing or shared services. Instead, a practice known as *sōgo sanshō* (mutual reference) is commonly used, where local governments share information on how they conduct administrative programmes through formal and informal networks at both organisational and individual levels. As a result, the design and implementation of evaluation systems tend to be similar across many local governments.

This means the administrative burden on local government staff is considerable. The complexity and labour-intensive nature of the evaluations contribute to a strong sense of workload among the staff responsible.

More than half (57%) of local governments across Japan viewed improving administrative efficiency as a challenge, according to a 2010 survey carried out by the Ministry of Internal Affairs and Communications (MIC). This had risen to eight in ten (79.5%) in a 2016 survey.[117]

While the methods used to conduct administrative evaluations vary from one local government to another, the main characteristic is the evaluation of the local government's comprehensive plan and evaluations also often follow similar structures. A 2024 MIC survey highlighted geographical variations in the introduction rate of administrative evaluations in local governments across Japan. All 47 prefectures had introduced administrative evaluations, however, this differed from an adoption rate of 85% for cities, to only 48% for towns and villages.[118]

Audit

Local government audit boards provide a system of oversight, transparency and accountability of local government performance and are the key mechanism for preventing local government insolvency in Japan, which is rare.[119] When issues arise, the local finance law outlines principles for collaborative solutions and responsible management, preventing the need for formal insolvency measures.[120] This system is important in providing public accountability and ensuring good management of public funds.

In Japan, the Board of Audit of Japan (BoA), an independent body within central government, is responsible for monitoring the use of national tax revenues. When local governments implement projects funded by subsidies, the BoA conducts audits of those local projects.

Additionally, every local government has its own audit office, which operates independently from both the executive and legislative bodies. Appointed audit commissioners are responsible for examining and evaluating whether financial operations and administrative management are carried out properly and efficiently in accordance with laws and regulations. Audit results are made publicly available. In Osaka City, the audit office has a staff of 25 full-time personnel. There are four appointed audit commissioners: one business executive, one lawyer and two city council members. It is sometimes pointed out that some of these commissioners lack professional auditing expertise but they are representative of citizens.[121]

One interviewee pointed to challenges in terms of capacity and expertise in audit in Japan, suggesting that audit teams are often made up of retired lawyers or public servants rather than audit specialists. This comment reflects broader concerns about a shortage of auditors across Japan.[122]

Furthermore, Japan has an external audit system. Unlike the BoA, which is part of central government and oversees the expenditure of national taxes, this refers to a mechanism within local governments, whereby the local government's audit office commissions external professionals to conduct expert audits. Under this system, local governments are required by law to appoint an external auditor who is independent of the organisation to conduct comprehensive financial audits at least once per fiscal year. This is mandatory for prefectures, designated cities, core cities and large municipalities with populations over 200,000. For example, one interviewee described how:

> "Apart from the mayors or the governors, there's a form of audit commission in each prefecture. Not the central level, but also they have to make a report every year to the central government on what kind of budget and what kind of resource they use for that." (Int-7OS)

The interviewee explained that the reporting system was tightened up after Yubari City went bankrupt in 2006 due to declining tax revenue stemming from the closure of coal mines and failed attempts to revitalise the economy through tourism.

> "The reporting system is very, very severe and transparent." (Int-7OS)

The Ministry of Internal Affairs has created a standardised monitoring framework to be used by each local's government's external audit committee.

Key insights

- **Monitoring and evaluation need to be properly resourced**, both in terms of staff capacity and funding. Evaluation **processes should not be overly burdensome** or compound inefficiencies.
- **Senior teams need time and space to reflect** on successes and failures, applying learning to future policy and practice.
- Developing strong monitoring and evaluation processes, and in turn **demonstrating the impact of devolved funding**, could help sub-national government **develop a stronger case for further devolution of powers**.
- It is important to **empower local government officers by building their confidence and capability in handling data.** This involves helping them understand the types of data they need to collect and ensuring they are capable of effectively working with that data.
- Building a **regional consensus for evaluation by involving a diverse group of partners** in the development of outcomes frameworks can help **ensure evaluation processes are comprehensive** and reflect the perspectives and needs of all stakeholders.
- Developing **effective data-sharing processes** across organisations is crucial for effective monitoring.
- **Effective audits of local government spending require** national audit offices and audit firms to have **sufficient capacity, appropriately skilled staff and a clear remit**.

Conclusion: Towards smarter, stronger and more responsive regional growth

This report has explored the institutional, geographical, financial and evaluative dimensions of promoting economic growth in city-regions beyond national capitals, focusing on Birmingham in the West Midlands and Osaka in Osaka Prefecture. Through comparative analysis of two second cities operating in very different governance and policy contexts, several lessons emerge that are of immediate relevance to those involved in designing and delivering place-based growth strategies in the UK and Japan.

At the heart of successful regional development lies a combination of shared political will, clear strategic vision, responsive funding mechanisms and a commitment to long-term institutional capacity building. Both the West Midlands and Osaka Prefecture illustrate the critical role that empowered regional governance, when appropriately supported by national frameworks, can play in unlocking economic potential outside the capital orbit.

Key takeaways for policy and practice

Stable institutions enable long-term impact

Devolution must be more than administrative rearrangement. It requires clearly defined roles, stable institutional arrangements and genuine fiscal autonomy.

Osaka's long-standing governance structures and formal mechanisms for requesting new powers (eg National Strategic Special Zones) stand in contrast to the West Midlands' more fragmented, frequently shifting arrangements.

Where England relies on bespoke deals, Japan offers a more structured approach that balances autonomy with national coherence.

Functional, flexible regional groupings work best

Effective regional groupings cannot be imposed solely on the basis of administrative logic; they must reflect functional economic geographies, shared identities and collaborative governance cultures.

Creating strong regional identities can take time. Both the Union of Kansai Governments and the West Midlands Combined Authority demonstrate the value of flexible voluntary arrangements, but also highlight the importance of leadership and transport connectivity in sustaining meaningful regional cohesion.

Funding must be empowering and equitable

The evolution of devolved finance in both countries points to the importance of financial tools that incentivise growth without exacerbating spatial inequalities.

While Japan's Local Allocation Tax system promotes redistribution, it may also unintentionally disincentivise local economic effort. In contrast, England's move toward single/integrated settlements and business rate retention offers local flexibility, though often without sufficient resources or safeguards for financially weaker areas.

The West Midlands' experience of relatively short-term funding cycles often associated with strict rules regarding how it may be spent reinforces the importance of predictable, long-term and flexible funding.

Monitoring systems must be embedded and support learning, not just compliance

Evaluation frameworks must be embedded in the policy cycle, with shared responsibility between central and local actors. The West Midlands' progress in developing an outcomes framework demonstrates what can be achieved when local capacity, data systems and strategic intent align.

However, both England and Japan face common challenges: short funding cycles, fragmented data and limited capacity to measure long-term impact and feed learning back into policy development.

Effective decision-making requires not only the collection of appropriate data and information but also the intelligent use of this data to inform policies and strategies including justification for further devolution. Ensuring that monitoring extends beyond outputs to outcomes – particularly in terms of social mobility, innovation and resilience – is essential for meaningful evaluation.

Looking ahead: key gaps and opportunities

Throughout this research, several issues emerged where further exploration and collaboration could strengthen future practice. Understanding the tipping points for the formation of regional governance – particularly in the face of frequent institutional churn – is critical to shaping durable and effective devolved structures. Equally, the ability of local authorities to build financial and strategic resilience amid shifting national priorities and constrained resources remains a pressing concern.

Questions also persist around the role of civil service relocation and anchor institution partnerships in enabling regional transformation, and the extent to which functional economic geographies – often more fluid and complex than administrative boundaries – can be embedded into governance and policy design. There is a shared opportunity for the UK and Japan to develop a common framework for tracking regional outcomes over time, enabling international learning on what works, where and why.

Future steps could include piloting joint monitoring frameworks on flagship regional initiatives, expanding practitioner forums focused on second-city governance and building data capacity within regional institutions. These efforts, undertaken in partnership between academics, policymakers and practitioners, offer a path toward more effective, responsive and place-sensitive governance in both countries.

Final reflection

This report demonstrates that devolution, when carefully designed and backed by adequate institutional and financial capacity, can be a powerful lever for inclusive and resilient regional growth.

The experiences of Birmingham and Osaka and their wider regions show how place-specific strategies, strong regional leadership and cross-tier collaboration can generate meaningful progress outside of national capital regions.

As the UK and Japan continue to respond to regional disparities, economic pressures and demographic shifts, there is much to gain from a continued exchange of ideas and innovations.

Policymakers, practitioners and researchers in both countries can benefit from investing in shared learning and co-developing tools, frameworks and forums that enable regions to lead confidently within national systems.

We hope this report offers a starting point for that dialogue – rooted in evidence and driven by the shared belief that more empowered regions can help deliver stronger and more prosperous nations.

Glossary

England

Combined authority: A legal body set up using national legislation that enables a group of two or more councils to collaborate and take collective decisions across council boundaries.

Devolution deal: A negotiated arrangement between the government and local areas, outlining the powers to be transferred and the necessary frameworks required to implement the devolution process.

Enterprise zone: Specifically designated areas where commercial and industrial businesses can benefit from incentives to establish or grow. These incentives include up to 100% business rate relief over five years (valued at up to £275,000 per business), enhanced capital allowances for acquiring machinery and equipment and streamlined planning regulations.

Integrated settlement: A consolidated funding arrangement agreed between the government and the combined authority. It encompasses various funding streams and responsibilities, enabling the authority to deliver agreed-upon outcomes within a unified framework.

Outcomes framework: A single evaluation framework being developed by WMCA with central government. It contains 24 headline indicators across eight different themes against which progress will be measured.

Trailblazer Devolution Deal: Deals signed by government with the Greater Manchester Combined Authority and the West Midlands Combined Authority in 2023. The deals devolved additional powers.

Japan

Local Allocation Tax: A mechanism through which the Japanese national government distributes a share of specific taxes – including income, corporate, liquor, consumption and tobacco – to local government. The system is designed to ensure uniform public service standards across all regions, irrespective of their financial resources.

Ministry of Internal Affairs and Communication (MIC): Central government department responsible for public administration, management of local governments, telecommunications, postal services and statistics.

National Strategic Special Zones: Designated zones where regulatory and system reforms are implemented to test their effectiveness and promote economic revitalisation, with an overarching goal of making Japan a better place for businesses.

Prefecture: A first level administrative division, ranking immediately below the national government. Japan is divided into 47 prefectures.

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Authors

Abigail Taylor

Abigail is a research fellow at City-REDI, University of Birmingham. Her research explores governance structures and institutions, funding flows, and regional and local labour markets. Abigail completed a secondment to the Industrial Strategy Council during which she worked on projects including analysing international examples of regions which have successfully levelled up, and the development of Local Industrial Strategies.

Jeffrey Matsu

Jeff is Chief Economist at CIPFA and a Visiting Fellow at the Blavatnik School of Government, University of Oxford. Previously, he was responsible for market analysis and thought leadership at the Royal Institution of Chartered Surveyors and co-led the economy theme at the UK Collaborative Centre for Housing Evidence. He is currently a co-lead at the Local Policy Innovation Partnership (LPIP) Hub.

Naoki Fujiwara

Naoki is a vice dean and professor in the Faculty of Regional Development Studies at Otemon Gakuin University. He has 20 years of experience at the Osaka City Government, overseeing economic development and urban planning. He is a vice president of the Japan Association for Planning and Public Administration, an associate researcher at Waseda University and Osaka Metropolitan University, and a member of expert committees in Osaka Prefecture, Osaka City, Kyoto Prefecture and other municipalities.

Anne Green

Anne is Professor of Regional Economic Development and Co-Director at City-REDI. With a background in geography, her research interests span employment, non-employment, regional and local labour market issues, skills strategies, migration and commuting, urban and regional development, evaluation and public policy issues. She has longstanding experience of working in interdisciplinary research institutes in higher education.

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77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600

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