collective wellbeing Carnegie UK

# Call for evidence on fiscal devolution in England: Carnegie UK response

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## About Carnegie UK

Carnegie UK is a charitable foundation working across the UK and Ireland. Our purpose is better wellbeing for people and communities. We work with governments, public bodies and partners to develop, test and embed wellbeing approaches to public policy – including how public money is raised, allocated and governed.

This submission draws on evidence and insight from our Financing the Future programme, including research on public perceptions of taxation, wellbeing-oriented budgeting and fiscal governance; and our work on democratic wellbeing, institutional trust and long-term policymaking.

## What are the general aims of fiscal devolution? What can it achieve?

Debates on fiscal devolution are often framed narrowly around efficiency, growth, or balance sheet repair. While these objectives matter, Carnegie UK's view is that **the overarching core purpose of fiscal devolution should be to improve the collective wellbeing** of people by reshaping how power, responsibility and trust are shared between citizens, places and the state.

If well designed, fiscal devolution can:

- Enhance democratic wellbeing, by making fiscal decisions more locally meaningful and strengthening the link between local priorities, spending choices and outcomes.
- Enable long-term and preventative investment, aligned to place-based needs rather than short-term national political cycles.
- Contribute to rebalancing power within the UK's unusually centralised fiscal system, allowing places greater ownership of both decisions and outcomes.

Evidence from our 2025 Financing the Future expert roundtables, where we gathered public finance experts together in four sessions across the UK, highlighted a widespread sense of pessimism among policymakers and practitioners about government's capacity to act long-term. Participants consistently identified the need for a clear fiscal vision, rooted in outcomes and purpose, as essential to rebuilding optimism and public trust. Fiscal devolution should be understood as part of that wider renewal and, in setting out any decisions on fiscal devolution, the government should be ambitious and clear on what the purpose of fiscal devolution is.

Our work in this space also highlighted that fiscal devolution alone is not sufficient. Achieving benefits requires parallel reforms to accountability, transparency and institutional culture. This should include improving the acceptance of managed risk, stronger local capability to interpret evidence, and more meaningful engagement between public bodies and communities.

Fiscal devolution could also help contribute to improving low public trust in democratic institutions. Public trust in the UK's tax and spending systems is low. Our research on public perceptions of taxation, which heard from 50 participants across the UK over the course of eight online focus groups, found that people commonly see the system as not fair, not delivering, and not something they can influence. Crucially, while participants broadly bought into the underlying principles of taxation, there is a risk of this acceptance being undermined by perceptions that the system is not working as it should. Fiscal devolution could contribute to addressing these concerns, provided that it brings improved transparency about how decisions are made, the trade-offs involved, and how outcomes will be assessed, as well as opportunities for citizens to engage meaningfully in decision-making processes.

## At what level – combined or local authority – should devolution take place and should the nature of the devolution vary by type of authority?

Carnegie UK does not advocate for a specific level at which devolution should take place. Our position is that the level at which devolution takes place should be driven primarily by the purpose of devolution – to improve outcomes for communities and individuals.

An important additional consideration in this regard is that of system coherence. Our expert roundtable discussions repeatedly highlighted the fragmented and asymmetric nature of the UK's devolved governance arrangements as a barrier to scaling proven interventions or sharing learning. This is not about calling for uniformity of approach, but rather recognising that the reality of the current devolved landscape across the UK right now is that powers, responsibilities and accountability mechanisms differ across devolved nations and regions in ways that are often unclear to decision makers and the public.

## What spending powers should be devolved to local areas?

While Carnegie UK does not have a view on which specific spending powers should be devolved, fiscal devolution provides an opportunity to embed greater capacity for preventative spending within local areas and thereby improve the long-term wellbeing outcomes of individuals and communities, while avoiding future costs and harms.

A preventative approach to spending requires a focus on place-based and cross-departmental investment, with fewer constraints from departmental ring-fencing of both revenue and spending. It also requires greater flexibility to apply funds to both capital and revenue projects as appropriate for each area. This aligns with the UK Government's wider direction of travel on devolution and place-based reform, including the Chancellor's commitment to publish a roadmap for future fiscal devolution.

Effective fiscal devolution can enable greater foresight of and control over the longer-term income and spending streams that preventative and collaborative work requires.

## What revenue-raising powers should be devolved to local areas?

Carnegie UK does not advocate for a specific range or menu of revenue-raising powers. However, our Financing the Future programme highlighted that limited borrowing powers are a notable constraint facing devolved governments across the UK. Current sub-national devolved borrowing arrangements in the UK are tightly capped, inconsistent between jurisdictions, and relatively weak by international standards. This restricts the ability of devolved governments to plan for the long term, to invest in prevention or the major socio-economic transitions required in the coming years (e.g.: demographic, technological, climate-related), and to deliver policies that can improve collective wellbeing at scale.

Our core proposition is that it is worth exploring how the potential expansion of devolved borrowing powers for both capital and resource spending, with a focus on careful design and appropriate accountability mechanisms, could work to strengthen devolved capacity to invest in people, places and future generations, while maintaining UK-wide fiscal stability.

## What transitional issues need to be considered in devolving fiscal powers to local areas?

As laid out in our paper on Budgeting for Wellbeing, which examines global examples, innovative tools, and emerging practices that have the potential to transform public spending, international experience suggests that meaningful fiscal change takes time, iterative learning, and sustained political commitment.

Key implementation challenges include:

- Building technical and analytical capacity at sub-national levels;
- Developing shared fiscal data, reporting and evaluation frameworks;
- Creating institutional space for prevention and cross-sector investment;
- Shifting organisational culture away from excessive risk aversion and short-termism.

Critically, mechanisms should support preventative investment, including where benefits accrue across departments or over longer time horizons. Our work looking at second-round fiscal effects and wellbeing cost-benefit analysis highlights the importance of better technical tools to assess long-term costs and benefits for both present and future generations.

To succeed, practices and processes that enable preventative investment require those tasked with developing and implementing proposals to be properly supported and incentivised to transition towards working approaches that value long-term outcomes above short-term outputs.

## What risks does the Government need to consider in any further fiscal devolution?

Carnegie UK's work highlights several significant risks that must be addressed if fiscal devolution is to succeed.

### *Entrenching regional inequalities*

Carnegie UK's Life in the UK wellbeing data consistently shows lower levels of wellbeing among people in more deprived neighbourhoods and on lower incomes.

There is a risk that fiscal devolution may deepen existing inequalities if new powers accrue primarily to places that already have stronger tax bases, institutional capacity or economic advantage.

The Chancellor's statement indicating that reforms may initially target "places that have the greatest capacity to deliver them, and the greatest potential to benefit" raises important questions in this context. Without consideration on effective equalisation and redistribution mechanisms, there is a risk of reinforcing disparities rather than narrowing them to contribute to improving people's wellbeing.

### *Institutional incoherence and complexity*

Our expert roundtable discussions repeatedly highlighted the fragmented and asymmetric nature of the UK's devolved governance arrangements. Powers, responsibilities and accountability mechanisms differ across devolved nations, combined authorities, local authorities, and other public bodies in ways that are often unclear to decision-makers.

This incoherence leads to duplication, inefficiency and blurred accountability, limiting the ability of fiscal policy to support coherent, outcomes-focused decision-making. Any expansion of fiscal powers should be accompanied by greater clarity on who is responsible for what, and how decisions are scrutinised.

### *Capacity and capability constraints*

Fiscal devolution imposes new technical, analytical and democratic demands on institutions. Many local authorities are operating under severe resource pressure, with limited headroom to absorb complex new fiscal responsibilities. Without sustained investment in people, systems and learning, there is a risk that fiscal devolution becomes either symbolic or administratively burdensome, rather than transformative.

## Which forms of fiscal devolution in other countries can the UK learn from?

Carnegie UK has identified several examples of international practices in relation to fiscal processes and devolution, specifically in relation to borrowing frameworks. These include Australian states, which have substantial borrowing autonomy alongside a well-established system of GST redistribution and fiscal equalisation; Canadian provinces, which can borrow with significant autonomy; US states, which mostly operate to balanced budget rules but can borrow for capital projects subject to state-level legal frameworks; and German Länder, which must balance budgets (with exceptions for downturns or emergencies) but can borrow within rules that limit deficits relative to GDP rather than through fixed cash caps.

Compared to these international examples, devolved borrowing powers within the UK remain small, limited, and tightly controlled by the central UK Treasury, both for devolved governments and subnational authorities.

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