

Re:State

**DESIGN PRINCIPLES
FOR THE
FISCAL DEVOLUTION
ROADMAP**

JUNE 2026

**DEVO
NEXT**
INITIATIVE

ABOUT THE DEVO NEXT INITIATIVE

The Devo Next Initiative brings together a group of Mayoral Strategic Authorities (MSAs) to develop and shape the future of devolution policy in England. It aims to define a long-term 'end state' vision for a more devolved and decentralised country, as well as identifying the clear 'next steps' for policy and strengthening the case for deep and lasting change.

The participating MSAs are:

- East Midlands Combined County Authority
- Greater Manchester Combined Authority
- Liverpool City Region Combined Authority
- The North East Combined Authority
- South Yorkshire Combined Authority
- The West of England Combined Authority
- West Midlands Combined Authority
- The West Yorkshire Combined Authority

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Design principles for the fiscal devolution roadmap

The Chancellor's commitment to develop a fiscal devolution "roadmap" ahead of the Autumn 2026 Budget should be welcomed and encouraged. This is a significant and long-overdue moment. England remains one of the most fiscally centralised countries in the developed world, and without meaningful fiscal autonomy, the promise of English devolution and its growth benefits will remain unfulfilled.

This statement sets out the principles and key considerations that should underpin any serious fiscal devolution settlement and is intended to guide the Treasury's development of detailed proposals. It is the product of a collaborative process, with input from the eight Strategic Authorities currently participating in the Devo Next Initiative.

Principle 1: Genuine flexibility

- a) Fiscal devolution must deliver real financial independence and policy autonomy, not simply a repackaging of existing grant funding. The goal should be to substantially shift the composition of MSA funds away from central grants and towards locally generated, retained and/or raised revenues.
- b) For it to represent progress, fiscal devolution must enable a more flexible approach to spending and investment than the current Integrated Settlement model. MSAs should have meaningful discretion over how devolved revenues are allocated across policy areas, free from the departmental ring-fencing and siloes that continue to constrain local decision-making.

Principle 2: Strategic coherence

- a) The fiscal devolution roadmap must take a holistic view of the full landscape of potential revenue sources and fiscal levers available to MSAs. No single mechanism should be considered in isolation.
- b) The devolution of a share of national tax revenues should be assessed against clear criteria, such as the degree to which each tax is responsive to MSA decision-making and the extent to which it gives places a stake in the economic growth they generate.
- c) Fiscal devolution should give MSAs a direct stake in the economic success of their areas. Where MSA decisions drive growth in the local tax base, whether that be through infrastructure investment or public service reform that leads to higher employment, a significant share of the resulting revenues should be retained locally, at least over a defined period.
- d) Fiscal powers should be aligned with existing MSA responsibilities and their established role as institutions. At the same time, the settlement should be designed to accommodate the expansion of those responsibilities over time, rather than constraining the future development of devolved governance.

- e) A central rationale for devolution is that it enables experimentation and place-based innovation. MSAs are best placed to draw on context-specific knowledge to develop approaches suited to local conditions. Any fiscal settlement should support this by creating the space for interventions to be tested, evaluated and – where successful – fed back into national policy thinking.
- f) Retaining a portion of national tax revenues is a reasonable starting point for fiscal devolution, but it should not be the limit of ambition. Longer term, the goal should be greater autonomy – including, ultimately, the power to vary rates to some degree.

Principle 3: Fairness and equalisation

- a) Fiscal devolution should minimise the perpetuation of regional inequalities. It is important to recognise that the UK is one of the most geographically unequal countries in the OECD – any model must, therefore, include a transparent and mutually agreed equalisation mechanism that reflects different levels of fiscal capacity and, potentially, need across and within regions. Central government should retain responsibility for ensuring a degree of fiscal solidarity between regions, particularly in relation to areas with weaker economic starting positions.
- b) At the same time, equalisation must be designed carefully so as not to diminish the reward for performance that forms a part of the rationale for fiscal devolution. Even with greater fiscal decentralisation, higher economic growth in MSA areas will mean additional revenue flowing to the Exchequer, which would then in turn be available for public spending and redistribution. Fiscal devolution to MSAs should not affect the needs-based Local Government Finance Settlement for constituent local authorities.
- c) Finding the balance between redistribution and growth retention will involve critical design questions such as the length of time between potential ‘resets’ and how to calculate relative need. These questions must be answered through genuine collaboration between MSAs and the UK Government, and should not be decided by Whitehall alone.

Principle 4: Resilience

- d) MSAs recognise that fiscal devolution comes with risk. While not seeking an arrangement that captures only the upside of economic growth, the share of risk taken on by MSAs must be proportionate to the degree of control they have over the relevant economic conditions, and the levers at their disposal to respond if, for example, revenues fall short of forecasts. Resilience could be strengthened by rate varying powers, increased scope for borrowing, or the retention of a basket of different taxes with relatively independent bases.
- e) The settlement should include appropriate safeguards against economic shocks and downturns that are largely outside MSA control, such as a safety net mechanism. While accepting that fiscal devolution comes with the potential for greater revenue volatility, these safeguards are necessary so that MSAs have a minimum level of certainty to underpin

investment and long-term decision-making. MSAs and the Treasury should work together on shared assumptions for forecasting future revenues.

Principle 5: Accountability

- f) As the balance of funding shifts from central grant to local revenues, accountability must shift accordingly – away from upward reporting to Whitehall departments and towards enhanced local scrutiny bodies and the electorate.
- g) Fiscal devolution must be accompanied by strengthened local accountability arrangements. The UK Government should work with MSAs to explore potential options, including Local Public Accounts Committees and MSA Chief Executives as Local Accounting Officers.
- h) Any model must reduce the reporting burdens and conditions attached to central government funding streams. In the context of fiscal devolution, alternatives to the current approach to Integrated Settlement outcomes frameworks should be explored.

Principle 6: System readiness

- i) Fiscal devolution should be made available to MSAs that have demonstrated the institutional maturity, analytical capacity and governance structures to make effective use of new powers. Criteria for readiness should be transparent and agreed jointly. An assessment of readiness for fiscal devolution should replace the process of assessing readiness for an Integrated Settlement, rather than representing two separate gateways. This assessment process should be designed to account for the varied geographies of different MSAs. The aim should be to avoid baking in the wrong incentives within MSAs by requiring effective delivery of central government programmes as a precondition of further flexibility.
- j) Adequate time and resource must be made available for MSAs to build the capabilities – including economic forecasting, investment planning and revenue administration – that fiscal devolution will require.
- k) If clear readiness criteria are met, basic fiscal devolution – building, for example, on existing programmes such as business rates retention – should not be automatically withheld from MSAs which do not yet have “established” status and an Integrated Settlement.

The prospect of fiscal devolution is hugely welcome and represents a massive opportunity for economic growth and trusted regional governance. To realise that opportunity, close working between MSAs and central government will now be vital. We hope that these design principles represent a helpful starting point for a collaborative policy development process that lives up to the idea of a devolution revolution.

ABOUT RE:STATE

Re:State is established as the leading Westminster think tank for public service reform. We believe that the State has a fundamental role to play in enabling individuals, families, and communities to thrive. But our vision is one in which the State delivers only the services that it is best placed to deliver, within sound public finances, and where both decision-making and delivery is devolved to the most appropriate level. We are committed to driving systemic change that will deliver better outcomes for all.

We are determinedly independent and strictly non-party in our approach. This is reflected in our cross-party Advisory Board and our events programme which seeks to convene likeminded reformers from across the political spectrum.

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