



Future
Governance
Forum

THE UK'S FISCAL FRAMEWORK

Submission to the Lords Economic Affairs Committee

The Future Governance Forum – Written evidence

UKFA0017

About The Future Governance Forum

The Future Governance Forum (FGF) is a progressive, non-partisan think tank with a mission to reform the state to renew the nation. We are more than a traditional think tank. We concentrate on the how as much as the what of policy design and implementation. Through our research and our convening power – the forum at the heart of our project – we not only develop new ideas, but test and iterate them in practice. We put forward reforms that are both politically viable and implementation ready, helping progressive politicians locally and nationally turn policy into practice.

About this submission

This submission has been prepared by Dan Corry, Chief Economist at FGF, with the assistance of Alex Bevan, Research Fellow at FGF and Nathan Yeowell, Executive Director of FGF, and in discussion with: Rosie Fogden, Deputy Director of the Growth & Reform Network; Ben Lucas, founding Director of Metro Dynamics; and JP Spencer, Director of Devolution Policy at Labour Together.

Our responses build on work already undertaken and/or in the pipeline, namely:

- [Rebuilding the Nation 01: Progressive principles for effective investment](#), November 2023.
- [Mission Critical 01: Statecraft for the 21st Century](#), May 2024, in partnership with the Institute for Innovation and Public Purpose.
- [Impactful Devolution 01: A new framework for inclusive local growth and national renewal](#), July 2024, in partnership with Metro Dynamics.

- Impactful Devolution 04: Stewards of the system, strengthening the foundations of Strategic Authorities (forthcoming), in partnership with Metro Dynamics and London Councils.

We have limited our reflections to three of the areas highlighted by the committee, namely:

Question one: How should the Government determine the fiscal rules that it holds itself to? If the rules are changed again, should the Government consult on any proposals? Are there any negative effects arising from the frequency with which the UK has changed its fiscal rules? -

Question three: Does the OBR have the correct remit? Is it being asked to produce the right forecasts, assessments and analyses with the right frequency?

Question seven: What use should the Government make of the OBR's output? Is the focus on fiscal headroom appropriate or does it unduly constrain the Government's approach to fiscal policy?

Submission

In thinking about the formulation of the fiscal rules and how they should be operationalised, FGF is most interested in trying to make sure that while they serve their purpose of creating fiscal credibility, they do not stop the Government from taking the correct steps in their stewardship of the economy.

In particular, we want the Government to avoid short termism as much as practicably possible and to avoid favouring one form of spending (or saving) or taxation over others because they artificially help meet a specific fiscal rule - be that in the definitions that the fiscal rule uses, the timescale it is over and so on.

Of course, this is easy to aspire to and harder to design: we are not naive about the difficulties here. Any fiscal rules are, by definition, some attempt to constrain the flexibility of the Government in the interest of fiscal credibility which is itself a valuable asset (and has real effects in terms of the costs of borrowing etc).

We make four proposals for how to design the fiscal rules here based on this central observation:

1. Focus on whether the fiscal decisions are likely to help support growth in the medium-term and so are positive for the fiscal position over the medium-term.
2. Distinguish in any fiscal rules spending (and taxation) that is primarily about prevention - as this reduces the need for public spending down the line - and treat it differently.
3. Look over time to increase fiscal devolution to Mayoral Strategic Authorities so that all the strain is not taken at the national level (and for instance the costs of borrowing may vary depending on the 'local' fiscal credibility).
4. Stop having big fiscal moments so often - reduce to one a year.

In addition, it is clear that any fixed rule can and will lead to problems as it becomes an excessive focus both for policymakers and for markets, leading to sub-optimal decisions being made. We would look more to the kind of changes suggested by Jonathan Portes and Simon Wren-Lewis in [‘Issues in the Design of Fiscal Policy Rules’, Volume 83, Issue S3 of The Manchester School](#), in 2015, where there is more flexibility and sensitivity to the economic cycle and we don't get so caught up in debates on short-term fiscal headroom. We also recommend [Funding Fair Growth: How to Transform the UK Economy by Ross Mudie, Tanya Singh, Rosie Fogden, Ben Franklin and Patrick Geddis, The Centre for Progressive Policy, 2023.](#)

1. Focus on building growth

In [Mission Critical 01](#), we argued that it can be a mistake to become overly focused on meeting specific rules because there is a risk that they end up driving macro-economic decisions that are in fact a constraint on growth and therefore on the possibility of really getting a fiscal grip in the medium and long-term: “Fiscal prudence is not about cutting spending or focusing solely on debt reduction. It must also be about fostering specific forms of growth”.

There is a danger that excessively rigid fiscal rules limit strategic investment: and that rules like the “current budget balance” and “net debt falling” targets discourage long-term, transformative spending - especially in areas like infrastructure, regional development and climate transition. The change the Chancellor made to the definition of the debt that she is targeting has helped and will allow for significant new investment that is more focussed on the long-term interests of the economy: the fact she kept to the ambitious capital spending figures announced in the 2025 Spending Review, despite the fiscal pressures, was very welcome.

However, the danger described above remains real. It might therefore make sense to move away from fixed numeric targets towards more judgement-based decisions. This could include looking at the pros and cons of a new ‘golden rule’, focusing on debt, along the lines of ‘net financial liabilities must be at a prudent level over the course of the economic cycle’.

2. Distinguishing rules on prevention

There is a strong argument that spending on effective, preventative programmes and services is the key to keeping the need for ‘rescue’ public expenditure under control. Yet such spend is often cut first when times are hard and is not prioritised enough as it is comparatively invisible, easier to cut politically and its long-run impact is of course less certain than ‘rescue’ spending. Some of these arguments were well made in the various reports of the Early Action Task Force a number of years ago that suggested several ways forward to ensure preventative spending was more likely to be protected and prioritised.

Government could ringfence preventative investment in a similar way to capital budgets by creating Preventative Departmental Expenditure Limits (PDELs), [see Revenue, Capital, Prevention: A New Public Spending framework for the Future, by Andrew O'Brien, Polly Curtis, and Anita Charlesworth, Demos, 2023](#)). Integrating PDELs into departmental budgets, the Comprehensive Spending Review and local government finance settlements could create fiscal space for preventative investment and establish a basis for long-term improvement in outcomes.

In terms of the fiscal rules, one could create a 'preventative' category of spending and say that the fiscal rules targeting a balanced budget in the current spending category would not apply to prevention budgets. Clearly there are many issues with this - including what is defined as preventative spending (it surely can't for instance be all of the education budget) - but it might, at least, present a new way of trying to do more of the right thing.

3. Increasing fiscal devolution to Mayoral Strategic Authorities

Despite the significant developments that have been made to promote devolution, the UK remains a very centralised country. The great weight of UK fiscal policy and borrowing rests on the shoulders of the Treasury and central government. The obvious argument for this is that national government is usually deemed to be able to borrow more cheaply than any other tier of devolved, regional or local government. Of course, borrowing does happen at lower levels - as the OBR recently pointed out in terms of local authority borrowing (driven largely by SEND spending). But if we could leave more of these decisions to lower tiers - who were having to balance the costs and risks of borrowing themselves (and we were prepared to let them get into trouble and not be bailed out if they chose poor options) that would create less stress on the top tier.

Looking specifically at the current iteration of devolution policy, Strategic Authorities need greater fiscal devolution if they are to achieve their full potential. There are two elements to this, revenue assignment and self-raised revenue:

- Integrated settlements represent a significant development in revenue assignment, giving Strategic Authorities control over a substantial multi-year budget and potentially enabling programme and investment reprofiling towards prevention. It is important that they are extended further both in their scope and in their coverage across Strategic Authorities. Moreover, barriers in the form of vertical reporting requirements to Whitehall should be removed, to enable neighbourhood-based service integration. The revival of Total Place should be extended to Total Place settlements, that really fulfil the spirit of Integrated Settlements by being applied to a much wider range of public service spending.

- Fiscal and investment levers are also critical for Strategic Authorities, so that they can deliver their local growth and spatial investment plans. The recently announced visitor levy is a good start, but business rate retention, land value capture schemes and the possible designation of infrastructure investment on a regional basis, similar to the French model, should all be given more, serious thought. In London, this also needs to include a deal that enables the retention of more of the proceeds of growth for investment, in return for less direct government investment.

4. Fewer fiscal moments

It is clear that staging two fiscal events a year is far from optimal. This may not matter so much in times when the fiscal rules are nowhere near biting, where there is plenty of so-called headroom, and where growth is positive, healthy and steady. Outside that goldilocks world, the two events lead to damaging uncertainty for everyone in the economy, lots of unhelpful speculation, and a distracting feast for political commentators.

In addition it gives spurious accuracy and power to the OBR forecasts. The OBR tries to forecast the residual between the two enormous figures for expenditure and revenue in the country to come up with the deficit and debt forecasts. It does that clearly and transparently (and its independence in doing this is a clear improvement on the time when Treasury controlled these forecasts) but no economic forecaster can get these things right. It strikes us

as very sub-optimal for the government of the day to have to base important tax and spending decisions on six monthly adjustments to this forecast.

December 2025