Fiscal DevoNation

THE BLUEPRINT FOR HOW TO DEVOLVE TAX TO THE REGIONS OF ENGLAND

Foreword by Lord Jim O'Neill

THE NORTHERN POWERHOUSE PARTNERSHIP

EY Building a better working world

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/02. Foreword by Lord Jim O'Neill

As we launch this report in Liverpool, we must remember the history of efforts to address those places that have fallen behind. It was here that Lord Heseltine set about transforming the fortunes of this place in the 1980s, and four decades later - despite the successes of him and others - the dominant challenge which persists is productivity. The stubborn UK productivity North - South divide is the reason why northerners are paid £8,000 a year less than people living in London. Although we are beginning to close the gap between Greater Manchester and the capital, we need to do much more across the North collectively.

In last week's spring budget, the Chancellor demonstrated that he agreed and has started to make good on the fiscal devolution commitment he made in his Bloomberg speech earlier in the year. The fact the trailblazer deals give greater flexibility and certainty over previously agreed business rate devolution for Greater Manchester is to be warmly welcomed and is of significant value. The door has also been opened to Andy Burnham's fellow Metro Mayors to follow and take up the offer made in principle to all their places. However, fiscal devolution needs to be bold. In the Heseltine spirit, it's time give our Metro Mayors the tools they need to deliver.

- First, we must devolve a reformed business rates system to all mayoral authorities or replace it over time with a locally set land value tax, with fair transfers from the areas with the highest values to those with the least.
- Second, introduce three new council tax 'super bands' for the most valuable properties, following a revaluation of all homes (the last was undertaken in 1991), with revenue to be shared across the country.
- Third, devolve stamp duty to local councils, before replacing all residential property taxes with a land value based tax, including a fair redistribution mechanism and cutting out the Treasury entirely.
- Fourth, devolve 1p of the existing employers National Insurance contributions for local transport services and infrastructure, based on France's *Versement Mobilité.*
- Lastly, introduce a tourism tax on hotel stays to support culture, protect the environment and improve visitor experience. This could generate over £5½ million a year for the Lake District alone, based on a £1 per night charge.

As we start a conversation across the regions of England, I would like to thank the team at the Northern Powerhouse Partnership for their work, alongside Open Innovations and EY as well as all those business leaders and senior figures in local government who have contributed for their advice and counsel. In particular, I want to pay tribute to Lord Heseltine, a huge inspiration for me along the devolution and Northern Powerhouse journey. It is a lovely coincidence for me that we launch this on your 90th Birthday.

/03. Executive Summary

Devolution is at a moment where its future path for the coming decades is being set. For the Northern Powerhouse, the prize is a transformational economy with an additional £118bn of "gross value added" a year and a million new jobs by 2050 – raising average earnings by 25%.

The ingredients of this transformational scenario rely on the individual city regions of the North addressing the barriers to productivity. This means allocating resources judiciously, retaining the successes of growth as captured by taxes and levies, and then re-investing them in future projects and interventions. It also means making sure the most disadvantaged cities and councils have financial resources for items other than children's services and adult social care alone. This is an answer not only for the North, but for North and South[1]. No longer a zero-sum game constructed by Treasury to share out the scarce resources by bidding rounds and seasonal initiatives.

The current system of funding local government is, quite simply, broken and not fit for purpose. Our case is to put resources and accountability in the hands of those delivering vital public services, giving them the levers to boost economic growth and transform the economy of their local areas. It would be easy to propose some simple tweaking of the existing fiscal system. However, achieving the correct balance between control of spending, revenue raising powers and accountability requires a fundamental restructure.

These are our proposals for discussion:

Accelerating the passing of control of resources to city regions
The Chancellor's 2023 Spring Budget was very welcome in committing to devolving business rates to Greater Manchester here in the North, and offering it to all devolved areas following on from the trailblazer process. Reforming this tax is necessary as suggested by the Shadow Chancellor, and increasing its flexibility could develop the approach being taken with investment zones.

Versement Mobilité **tax for England's city regions and tourism levy**
An existing penny from employers' national insurance should be passed directly to Metro Mayors to support transport projects such as bus reform in Greater Manchester and building the mass transit system in Leeds, with further work on how to fund megaprojects including Northern Powerhouse Rail and Crossrail 2 in London. To support culture, protect

[1] This report only considers the implication of these recommendations for England given the different approach to devolution in Scotland, Wales and Northern Ireland.

the environment and improve visitor experience, a charge on stays based on the hotel classification or type of accommodation should be adopted.

Reform of council tax and devolution of stamp duty

At a minimum, we should revaluate bands, introduce three new 'super bands' and devolve stamp duty so that all property tax is local. This could raise up to £1.9 billion in Westminster and Kensington & Chelsea alone subject to the eventual rates decided upon, with a property worth at or anything over £20,000,001 in Chelsea paying £44,230 a year which equates to less than a quarter of a percent of the value of the asset.[2] This would fund a credible formula to deal with variations in property tax base across England and differing levels of deprivation and demographics. In Salford, a couple living in a Band Apartment worth £80,000 are paying 1.8% of the value of their home in council tax this year.

Land value tax as the preferred option

A land value tax locally set, but to a common design, is a bold option worthy of debate across the places of the North and all of England. With this change, the local government grant could be eliminated and money returned to the public with a reduction in income tax or increase in benefits received by the most disadvantaged. The Treasury would be permanently removed from funding local government, moving councils and combined authorities outside the political cycles of Westminster and Whitehall interference.

These recommendations, our route map for a fairer tax system which works for our places, draws on international comparisons from a desktop study by EY and modelling by Open Innovations. NPP has committed to this debate and will continue to help foster it with partners across the sub-regions of England.

It is time for change, and it is more needed than ever.

[2] Based on the new 'Super Bands' being set for properties worth £2m-£10m at 8x band D, £10m-£20m and 16x band D and £20m+ at 32x band.

/04. Where are we heading?

The Northern Powerhouse Partnership has a clear mission: to close the North – South divide for good. By 2050, we are planning to have made huge strides in achieving that. The updated Northern Powerhouse Independent Economic Review demonstrates that delivering on our R&D potential, raising our game to give even the most disadvantaged a world class education, as well as transformation of our transport networks can dramatically close the productivity gap; halving it between the North and the rest of the UK average.

The levers to achieve a transformation of the North are currently not in our hands. Our ability to invest, despite the important prudential borrowing powers of councils, are not backed up by adequate certainty of future revenue to even enable risk to be taken as it has in the last decade. Locally collected resources are from some of the UK's most unfair taxes which do not correspond meaningfully to people's actual circumstances. Council tax, for example, is based on property values from over three decades ago, and those in the highest band only pay three times that of those in the lowest - despite being worth at least eight times as much[3]. Any increases in monies collected year on year in the most deprived places are spent on the costs of economic failure, including children's social care where acute demand is caused directly by levels of poverty.

Fair redistribution, and incentives to grow. We need a new settlement, and to achieve prosperity in 2050 we need to invest in the long term drivers of productivity, using public funding and private capital. That is why we need public investment to be based on making long term decisions. In terms of how that capital is deployed, apart from a small number of mega projects including HS2, the decisions need to be taken out of Whitehall. Those areas which invest wisely should be able to retain the uplift they achieve, and over time be able to hand back the help they no longer need to those more prosperous areas, as the tax base of the UK's councils and combined authorities starts to converge.

Supporting business growth, and taxing activity fairly. A growing economy needs businesses to contribute to the social goods they require to make them more productive, like education and transport. However, in a growing economy business taxes also need to remain globally competitive, necessitating a reasonable balance between businesses and those individuals dependent on their ability to contribute. That means ensuring all businesses pay their fair share and a tax on land value to replace business rates is the right way to do this. We expect the business community to have a greater stake in decision making about how their taxes are spent to enable them with Metro Mayors and civic leaders to agree on shared priorities.

[3] https://ifs.org.uk/publications/revaluation-and-reform-bringing-council-tax-england-21st-century

/05. How did we get here?

The UK is one of the most regionally unequal countries on the European continent and among the so-called developed economies. It is also the most centralised in terms of its structures of political power. It is in this context that we need to change, to genuinely focus on growth. **A new political consensus for the coming decades delivered through permanently changing how political power, taxation and public spending works in the economic regions which make up England.**

Devolution developed in the New Labour years from unfinished business as regards Scotland from the previous referendum, as well as returning to London what it had lost in the eighties. The view was that some policy levers are better placed in the hands of those outside Westminster and Whitehall, considered remote from Westminster. Although Blair used the huge mandate of 1997 to secure devolution for Scotland, Wales, Northern Ireland (following the Good Friday Agreement) and London, there was less focus on the regions of England. A regional assembly with relatively limited powers was offered to the North East by John Prescott, but was rejected at the ballot box.

Lord Heseltine's 2012 report No Stone Unturned in Pursuit of Growth[4] set out 89 recommendations for raising economic growth in the UK and a great number of these related directly to localism and devolution. These ranged from single funding pots for all initiatives designed to increase economic growth, through to reforming the civil service and local government structures to allow the election of what we now refer to as Metro Mayors.

In 2014 the City Growth Commission[5] called for a "significant shift" from the centre to "metros". This centred on both the design and delivery of public policy but also called for the same significant shift in fiscal powers away from central government. Most significantly this would be alongside multi-year budget settlements, removing ring-fenced financing, allowing greater borrowing freedoms and at the very minimum giving full control to set and retain Council Tax and Business Rates.

As Chancellor, our Chair the Rt Hon George Osborne CH drove through the first stages of devolution of power to places in England. These deals shared common elements such as gainshare as well as bespoke components such as health in the case of Greater Manchester. Progress in the North has been extensive. Deals were done in Liverpool City Region, the Tees Valley, South Yorkshire and West Yorkshire. In the North East a new mayoralty is

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4 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf

5 https://www.thersa.org/globalassets/pdfs/reports/final-city-growth-commission-report-unleashing-growth.pdf

superseding the existing North of Tyne settlement. A deal with York and North Yorkshire has also been signed. At a pan-Northern level, the first sub-national transport body Transport for the North received statutory status, and agreed its first transport plan as well as continuing to have responsibility through Rail North for the oversight of rail franchises and operators.

Devolution deals have now been signed with 14 areas of England[6] (excluding London) stretching from Cornwall to North of Tyne. Some of these areas have signed multiple devolution deals as further powers have been transferred from central government to locally elected officials. Greater Manchester (GM) has generally led the way with devolution in England given its long history of cooperation between its constituent local authorities. The Greater Manchester Combined Authority was created following the City Region Pilot announced in 2009 and came into legal existence on 1 April 2011. Since then, a further six devolution deals have been signed covering policy areas ranging from transport to adult education budgets and funding to tackle homelessness, with the further trailblazer deal made in the 2023 Spring Budget.

The most recent government commitment to devolution came in the 2022 Levelling Up White Paper that stated, "by 2030, every part of England that wants one will have a devolution deal with powers at or approaching the highest level of devolution and a simplified, long-term funding settlement."[7] The devolution framework set out exactly which functions could be devolved depending on the structure chosen by a local area. Just two fiscal measures appear on that framework, however; a mayoral precept on council tax and a supplement on business rates. Given that fiscal policy remains the responsibility of HM Treasury, it is maybe not surprising that the Levelling Up white paper contained no further discussions of fiscal devolution, even if it was slightly disappointing.

As city region mayoral devolution in England has proved to be successful, the calls for greater devolution, both broader in terms of the policy areas covered, and deeper in terms of the amount of responsibility transferred from Whitehall, has grown.

Fiscal policy is one of those areas that lends itself to deeper devolution yet it is here that progress has been limited, though we welcome the business rates retention announced in the recent 2023 Spring Budget for Greater Manchester and the West Midlands. For clarity, fiscal devolution relates to the ability of a local area to raise tax revenue through either introducing completely new taxes or taking responsibility for existing taxes and having greater control over public spending in its locality. Devolving these powers does not presuppose a higher or lower tax burden overall; and different political viewpoints on the best ways to secure growth could influence strongly the choices made in different places.

[6] https://researchbriefings.files.parliament.uk/documents/SN07029/SN07029.pdf
[7] Levelling Up White Paper (2022)

According to OECD statistics from 2021, taxation at a purely local government level amounted to 1.7% of GDP in the UK, compared with an OECD average of 3.7% that increased to 5.3% when including state and regional government. This is not simply due to overall levels of taxation being higher as the OECD average of 34.1% of tax as a percentage of GDP is comparable to the UK figure of 33.5%. It could even be argued that this overstates the case for just how much tax is set locally in the UK. Council Tax is generally viewed as a locally determined (and retained) fiscal measure. In practice, local authorities are restricted in so many ways that we would argue that this is a nationally determined fiscal measure, collected and retained locally. The cap on annual increases and a centrally determined methodology for the bandings leaves little freedom to flex, as seen in the number of authorities applying the maximum percentage increase they can without triggering a referendum

Table 1: Tax set at each level of Government as percentage of GDP (2021)

Country	Local Government	State/ Regional Government	Federal/ Central Government	Social Security	Supranational	Total
Canada	3.2	13	13.7	3.3		33.2
France	6.5	…	13.9	24.5	0.2	45.1
Germany	3.5	9.8	11.2	14.9	0.2	39.5
Italy	4.7	…	24.9	13.5	0.2	43.3
Spain	3.2	6	15.5	13.4	0.3	38.4
Sweden	15.1	…	22.1	5.2	0.1	42.6
United Kingdom	1.7	…	25.1	6.7	…	33.5
United States	3.7	5.7	10.8	6.3	…	26.6
OECD (2021)	3.7	5.3	20.3	8.7	0.2	34.1

Source: OECD Revenue Statistics Comparative Tables

Within England, perhaps unsurprisingly with the length of time since the establishment of its Mayoralty, London has arguably made the most significant progress on applying forms of fiscal devolution at scale. The funding of Crossrail has seen several measures used such as bond issuance made possible by the ability to borrow against business rate supplements. Fiscal devolution for city regions is largely currently restricted to some business rates retention and the option for Mayoral Combined authorities to levy a council tax precept.

Looking to the start of the coalition government, a number of the city deals included tax incremental financing. The Newcastle City Deal created a recyclable fund which has captured business rates income. This is one of the most notable successes of fiscal devolution in action, giving the freedom for the city to have its own funds to invest in future growth plans. This means for this city there is an escape from begging bowl culture – an inheritance which would not be there without the foresight of those who secured it.

As referenced in a House of Commons Research Briefing[8], more recent devolution deals have seen a change in language and policy areas covered from the early deals back in 2015. References to health and work are less frequent, having been replaced with a greater focus on net zero and digital connectivity for example. Each deal does, however, include an investment fund of between £15m and £38m per annum which can be used as a single pot "alongside transport funds, the Adult Education Budget, the Transforming Cities Fund, and EU structural funds (up to the UK's withdrawal from the EU)"[9].

Adult Education Budgets (AEB) have featured significantly in devolution deals and given the skills crisis facing the country, would appear to be a very important piece of addressing the UK's productivity puzzle. But what exactly do they include? Whilst eligibility rules are quite complex, at its most simple the AEB is used to primarily help young people, those who are unemployed or on low incomes to achieve their first level 2 (GCSE equivalent) or 3 (A level equivalent) qualification. Whilst this helps to address the imbalance in too many of the workforce having no qualifications in the North, it doesn't address the need to significantly increase the proportion of people with the higher-level qualifications necessary to drive productivity gains.

The current Prime Minister was the architect of the Government's freeport policy, now being implemented in areas including the Tees Valley, Liverpool and Humber Freeports. These include a series of tax incentives including Stamp Duty Land Tax relief, enhanced capital allowances for investment in plant and machinery and structures and buildings, business rates relief and employer National Insurance contributions relief. As with Enterprise Zones, the local authorities can also retain business rate growth, providing a basis for Tax Incremental Financing.

The Levelling Up White Paper also references that while Combined Authorities already have the power to levy a supplement on business rates, they will explore further flexibilities to allow CAs to raise their own funding through the business rates system.

If we treat devolution as a "journey" where initial powers are furthered in stages, then the ultimate destination would surely be fiscal devolution. In a speech at Bloomberg on 27th January 2023[10], the Chancellor announced that "we need to move more decisively towards fiscal devolution". In the 2023 Budget, we have seen 100% business rate retention announced for Greater Manchester and the West Midlands.

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[8] https://researchbriefings.files.parliament.uk/documents/SN07029/SN07029.pdf
[9] https://researchbriefings.files.parliament.uk/documents/SN07029/SN07029.pdf
[10] https://www.gov.uk/government/speeches/chancellor-jeremy-hunts-speech-at-bloomberg

What Powers Does Greater Manchester Have?

- A consolidated, multi-year transport budget;
- A Housing Investment Fund of £300m over 10 years, making loans to housebuilders (and thus being self-sustaining over time);
- Powers to produce a statutory spatial strategy; to introduce Mayoral Development Corporations; make Compulsory Purchase Orders; set a Community Infrastructure Levy (CIL); and establish a non-statutory Land Commission;
- Police and crime, fire and rescue, and waste;
- Devolved business support budgets (now funded locally following the cessation of national programmes);
- Power to restructure further education in Greater Manchester;
- Control over EU structural funds, up to their cessation in March 2021;
- A Life Chances Investment Fund, incorporating funding from Troubled Families, Working Well, and joint work on children's services;
- Full local retention of business rate revenue;
- £28 million to develop a new Work and Health Programme, running between 2018 and 2024;
- An agreement on devolution of powers associated with the justice system;
- A £50 million 'land fund' for remedial work to brownfield sites; capacity funding of 'up to £8 million'; and £10.25 million for the Collyhurst Estate.
- Health devolution, through a separate agreement.

Source: https://researchbriefings.files.parliament.uk/documents/SN07029/SN07029.pdf

The changes being proposed here will take many years to be felt in economic data – these are long-term challenges that have built up over decades and as such it will take decades to reverse them. London's economic dominance of the UK economy predates current structures and models of devolution so it could not be argued that London's recent success is down to them, though the flexibility given to the capital no doubt provides greater options to try and support economic growth.

It also cannot be denied that the elected mayors have become a focal point and effective figure heads for raising the profile of their regions. Whether this has been arguing their case to central government such as Andy Burnham for Greater Manchester during the Covid-19 lockdowns, or Andy Street's international engagement following the Commonwealth Games, their visibility is clear.

The dynamic must be one which encourages leading not pleading, but it is a function of the current set up that Metro Mayors continually need to advocate for funding bids or point out unmet need. They are kept in a state of perpetual childhood by a Whitehall which wants it that way. With metaphorical adulthood comes responsibility, and the need to allocate resources however constrained to best effect, and most importantly a share of the upside and downside risk from making either good or bad decisions as they relate to growth. Without stretching the analogy too far – it is time for the North, and the Midlands for that matter, to be allowed to grow up.

It is of course argued that London cannot be allowed to keep more of its own tax revenues as they are needed for the rest of the country. Of course, the longstanding lack of investment in the North of England in infrastructure demonstrates that Whitehall has done a poor job of this, if this was indeed ever the policy intent. Fiscal transfers based on fairness, although hard to design, need not be subject to political interference on an ongoing basis. It is wrong headed to argue that on a budget-to-budget basis the scale of transfers and their specific forms should constantly be changing. This serves neither the interests of Greater London nor the North of England.

/06. What conditions are required for fiscal devolution?

Perhaps most importantly we need to consider which fiscal levers make the most sense to devolve and at what level. For example, allowing business rates retention at a local authority or combined authority level makes sense, as there is a clear link between the tax base (businesses paying rates), the collecting body and their ultimate goal of increasing the economic success of their area. Whether the business rates retained would be ring-fenced for certain types of projects (such as high street regeneration, skills programmes etc) would be a matter for individual authorities but could be a tool to increase engagement between the public sector and local businesses. Taking another fiscal measure such as company car tax would not appear sensible to devolve. There is no clear geographic tie between the tax base and a devolved collecting authority. The UK Government uses company car tax as a method to influence purchasing behaviour to align with goals such as carbon reduction and the move to net zero. Moving to a geographic form of tax based on the region of the company in question could undermine such policy ambitions, lead to perverse incentives and ultimately result in displacement of activity from one place to another and may not result in any net benefit to the UK economy.

We also need to bear in mind the principle of redistribution that was discussed earlier. Fiscal transfers from Westminster to the regions of the UK are designed to address the economic (and social) imbalances within the country. Ideally there needs to be a discussion and agreement on a baseline fiscal settlement and how this will change over time should policy decisions be successful in reducing the economic divide. As a practical example, the Stamp Duty Land Tax revenues generated in London far outweigh those collected elsewhere and are a significant revenue stream to the government. Simply devolving this policy would therefore lead to a widening of the gap between funding need and available resources in much of the country, before we even consider the arguments on the merits of the tax as compared to other property taxes.

Accountability needs to feature heavily in any fiscal devolution proposals and will no doubt be at the fore of the Treasury’s concerns over the relinquishing of any central fiscal control. The current devolution model of mayoral combined authorities would appear to be suitable in holding local areas accountable to central government and also to their electorates, with both Police and Crime Commissioners and local councils already levying their respective council tax rates alongside those areas with mayoral precepts currently. The issue is that these forms of local taxation come without effective fiscal transfers, and as they have become more and more significant in how services are funded the fairness of grant funding has been reduced consummate to its reduction in spending power.

/07. What happens elsewhere?

This chapter looks at taxes that are applied at a sub-national level, be that state, regional, city or other administrative level. In some instances, the framework is provided for at a national level, but specific decisions on rates, as well as the use of revenue, are left to local authorities. Some taxes go further, with the administration and even the design of the taxes being devolved. This chapter, prepared by EY, surveys key categories of taxes that have frequently been considered suitable for devolution, with examples from different jurisdictions. Short case studies have been included to explore some of the examples in greater detail.

The following sections look at:

- Tourism and visitor taxes
- Road and transport taxes
- Environmental taxes
- Land and property taxes
- Sales taxes
- Fiscal transfers between regions

Tourism and visitor taxes

Tourism and visitor taxes are generally applied to tourists or the tourism industry and may vary between regions[11]. They are often applied when paying for accommodation, and collected and remitted by the host.

Tourist Tax (taxe de séjour) (France) — municipal level tax

In France, local authorities[12] can impose a tourist tax *(taxe de séjour)* on visitors staying in accommodation in their area. This tax is intended to allow the local authority to raise revenue for funding tourism-related expenditures. The rate can range from 0.20 cents to €4.20 per person per night, according to the type of accommodation and its classification. While the choice of imposing the tax is up to the local authority, a framework is provided by national legislation - this has been in place since 1910, and has slowly been amended over time[13]. The local authority also has flexibility over the amount of the tax charged, as long as it is within the minimum and maximum limits set by national legislation. Originally, the tax could be imposed only by classified tourist resorts, but this has gradually been relaxed, enabling more local authorities to apply it if they so wish.

[11] UNTWO, 'Tourism Taxation: Striking a Fair Deal', World Tourism Organization
[12] Communes, a level of administrative division in France broadly equivalent to boroughs and/or civil parishes in the UK.
[13] impots.gouv.fr/taxe-de-sejour, "Taxe de sejour"

The tax has become an important source of revenue for local authorities. In 2022, the digital platform Airbnb alone collected €148million in taxes for payment to French local authorities, an increase of 60% compared to 2021, with Paris, Marseille, and Nice being the top three most highly-paid places[14]. Interestingly, while most revenue goes to cities and towns, almost 30% of the tax collected by Airbnb in 2022 was in rural areas with fewer than 3,500 inhabitants – showing the tax's potential for both rural and urban areas[15].

Tourist taxes, Venice (Italy) — municipal level taxes

Venice has imposed a tourist tax since 2011 on all guests staying in accommodation facilities in the area. The tax is only due for the first five nights of a visitor's stay, and can vary between €1 and €5 per person per night. The precise amount depends according to the type of accommodation, the area where the accommodation is located, and whether the stay is during the high season or the low reason. The funds raised are used to improve the quality of tourist services (such as museums, events etc.), and to finance maintenance work and the protection and recovery of the area's cultural and architectural heritage[16].

In addition, Venice has been exploring the introduction of a separate tax aimed specifically at day visitors. This was due to be implemented in 2023, but has currently been delayed. Difficulties appear to have included a dispute with regional authorities on exemptions for regional residents, as well as technological and enforcement challenges of introducing the new tax.[17]

As planned, this tourism access tax would have been set to €6 for most days, falling to €3 on days with few tourists, rising to €10 for days with exceptionally large crowds. Visitors staying in tourist accommodation would not have to pay this additional tax. The intention was for the revenues to pay for some of the additional costs arising due to tourists, but currently borne by locals, for example the costs paid towards garbage collection (which is higher due to the burden the city faces from tourists)[18].

Tourist accommodation tax, Valencia (Spain) — regional level tax

In November 2022, Valencia's regional parliament approved the introduction of a tourism tax, due to come into force at the end of 2023 or early 2024. The tax will be applied to all types of tourism accommodation in the Valencia region. Tourists arriving on cruise ships will also pay the tax. Tourists will have to pay a tax of between 50 cents and €2 per night depending on the chosen accommodation, for up to seven nights[19]. Residents of the Valencia

[14] Tourism tax: €148m paid to French communes from Airbnb stays in 2022 (connexionfrance.com)
[15] Ibid.
[16] Tourist Tax information for guests | Comune di Venezia.
[17] EXPLAINED: Why Venice has delayed its 'tourist tax' – again (thelocal.it)
[18] veneziaautentica.com, "All you need to know about the Venice tourist tax"
[19] euronews.com (2023), "Tourist taxes: All of the countries you will have to pay to enter in 2023"

region will also have to pay the tax it if they stay in short-term accommodation in the region[20]. It is estimated that the tax will bring in €30 million per year to the region[21].

The legislation states revenue raised will be invested into the sustainable development of the tourism sector in the region (which includes a number of popular tourist spots on the Costa Blanca). The aim is to use revenue generated to develop the region's tourism sector and provide more affordable housing for locals in tourism hotspots. This is to be a municipal tax, and each municipality can decide how to introduce the new tax[22].

There has been some local resistance, with hoteliers and hospitality associations seeing it as a hindrance on their way to recovery after the COVID-19 pandemic. The town of Benidorm has stated that it will not introduce the tax, although some think it eventually will do so to tackle financial pressures[23].

Occupancy taxes (multiple states, United States) — state and municipal level tax

In around 30 states in the US, some form of occupancy tax is paid on temporary lodging at hotels, motels, inns, hostels and similar places. These taxes are paid when someone rents a room, bed or other space. The lodging operator collects and remits the tax. There are often rules in place to ensure that visitors to a community pay the tax, but people living there usually do not.

For example, the US state of Oregon has had a state lodging tax since 2003. This is currently applied at 1.5% of the amount charged for the lodging, with the revenue generated used to fund Oregon Tourism Commission programs[24]. The introduction of the tax has enabled Oregon to significantly increase its state tourism marketing budget.[25]

In addition, within the state of Oregon, an additional and separate lodging tax may be charged by the local government (cities and counites). In some of the municipalities, this can be as high as 10%.[26] The local government can enter into an agreement with the State Government allowing it to administer the local transient lodging tax on their behalf – otherwise it will be done at the local level.

[20] The Local ES (2022), "Explained: The new tourism tax in Spain's Valencia region", 4 December
[21] Schengen Visa News (2023), "Spain's Tourist Taxes for 2023 – Everything You Need to Know", 19 January
[22] In Spain News (2022), "Tourist tax in Valencia and unregulated holiday homes", 16 April
Valenica Life (2022), "Valencia to introduce a tourist tax", 4 April
[23] The Mirror (2022), "Spanish holiday hotspot to introduce new tourist tax for Brits from 2023", 19 December
[24] Oregon Department of Revenue : Transient Lodging Tax : Businesses : State of Oregon
[25] State Lodging Tax - Travel Oregon
[26] Oregon Department of Revenue : Transient Lodging Tax : Businesses : State of Oregon

Road and transport taxes

Congestion charge, Milan (Italy) — city level tax

In the city of Milan, every vehicle entering a marked zone (known as Area C) between Monday and Friday has to pay a congestion charge. The tax seeks to reduce vehicular traffic within the city, and reduce the level of air pollution. All revenues from the system are used to promote public and sustainable transport. This road pricing measure was launched by the municipality of Milan in 2012 and all revenue collected is spent on measures to promote sustainable mobility in Milan[27].

The charge was suspended in 2020 during the COVID-19 pandemic, to reduce overcrowding on public transport. However, a sharp increase in local air pollution led to its reintroduction just three months later[28].

Road user charge, Victoria (Australia) — state level tax

In Australia, drivers pay a national level fuel excise on the purchase of petrol, LPG and diesel, used to fund the development and maintenance of roads[29].

In 2021, the state of Victoria additionally introduced a tax (the ZLEV charge) on registered owners of electric and low emissions vehicles in the State, who would normally pay little or no fuel excise. The rationale is to ensure all road users contribute to road maintenance costs. The tax is a distance-based road charge of 2.5 cent/km for electric and other low emissions vehicles, including hydrogen vehicles. The charge is levied through an odometer reading during existing vehicle registration and renewal processes. The revenues are used to invest in the accelerated adoption of zero and low emission vehicles, including new electric-vehicle-charging infrastructure and reforms to enable electric-vehicle-ready new buildings[30]. The tax has proved controversial, and there is currently a case at the High Court challenging the State's constitutional power to impose the charge[31].

[27] European Cyclists Federation (2016), "Congestion charges and cycling: a winning team", 4 May
[28] https://milano.corriere.it/notizie/cronaca/21_febbraio_20/milano-torna-area-c-mercoledi-24-febbraio-10-1930-polveri-sottili-oltre-limiti-4fd8713c-73ab-11eb-a454-11ba24b307d7.shtml
[29] ZLEV road-user charge : VicRoads
[30] vicroads.vic.gov.au (2021), "ZLEV road-user charge"
[31] Australian High Court test case set to determine the validity of Victorias electric vehicle tax | Ashurst

CASE STUDY: Versement Mobilité, France *— municipal level tax*

The *Versement Mobilité* is included within this section because the revenue raised from this local tax is hypothecated to fund public transport. The tax is not directly imposed on road users or vehicle owners, but instead imposed on local employers.

In France, a hypothecated payroll tax called the *Versement Mobilité* (previously *Versement Transport*) is used to provide funding for regional public transport. It was first introduced for the Paris region in 1971, but gradually expanded to other urban regions, and since 1999 has applied to urban regions with a population over 10,000.

The payroll tax, paid by the employer rather than the employee, is levied on all employers (public or private) with at least 11 employees. The tax generally ranges from 0.55% to 2.95% of gross wages, the precise amount depending on the municipality of where the company is based[32][33].

The majority of urban public transportation funding is received from the Versement Mobilité[34]. For example, in Paris, this payroll tax accounts for 52% of the city's public transport revenues and approximately 75% of the funding the transport system receives from taxes. As a result, only around 18% of the Paris' transport is funded by central government subsidies[35].

The reduced dependency on central government subsidies and fares to fund public transport has allowed French cities and regions to be bolder and more imaginative in their transport policies.

An example of this is the city of Dunkirk, which in 2018 introduced fare-free access on 18 local bus routes for its 200,000 residents, as well as for visitors. This was part of a wider project to modernise the public transport network, improving Dunkirk's connectivity with neighbouring towns.

The cost of the free public transport is around €13.5 million per year. While this has required additional funding, it was in part only possible because the payroll tax is the main source of funding for public transport for the city, and it was therefore not reliant on the income from ticket fares, which only made up 10% of revenue.

The use of public transport has increased significantly as a result – after eight months, bus use had increased by 65% during the week, and 125% during the weekend, with nearly 50% of new users saying they now regularly used public transport instead of private cars. Other

[32] www.lafabriquedelacite.com (2020), "Funding mobility in a post-carbon world"
[33] www.legifrance.gouv.fr (2022), "Section 8 : Versement destiné au financement des services de mobilité (Articles L2333-64 à L2333-75)", 1 January
[34] www.lafabriquedelacite.com (2020), "The specific case in France: public transportation funded by employers through the 'versement mobilité'", 15 July
[35] www.centreforcities.org (2022), "Should transport in London be funded in the same way as in Paris?". 20 July

benefits include a reduction in carbon emissions and in pollution, as well as improved accessibility for less well-off residents.

After four years, public transport in Dunkirk continues to be free, and other French cities are closely studying its example, with the city of Montpelier also planning to introduce free travel on its bus and tram network later in 2023.

Environmental Taxes

Environmental taxes are designed to provide economic incentives for companies and individuals to undertake activities in a manner which is less harmful to the environment. Examples of environmental taxes include:

Landfill tax, Catalonia (Spain) — municipal level tax

Spain has no national landfill tax but Spanish law allows for regional waste authorities to introduce fiscal measures which promote waste prevention and separate collection, such as landfill and incineration taxes on municipal waste. Several regions in Spain have introduced such landfill taxes, including the region of Catalonia, which has had a landfall tax since 2004.[36]

The aim of Catalonia's landfill tax is to discourage landfilling and incineration of municipal solid waste and encourage separate collection and recovery of waste streams. The main goal is to influence waste authorities to decrease the use of these waste treatments compared to more environmentally friendly options. These taxes also provide additional revenue for municipalities, helping them modernise and develop their waste collection and recycling systems. It also allows the return of the revenue to taxpayers according to their waste performance.

Municipalities and other users pay the tax, the revenue from which goes to a special fund created by the regional government. The tax is earmarked and the law requires that at least 50% of the funds generated must be used to reduce the cost of managing biowaste coming from household source separation[37]. The tax revenue collected has also been used to establish door-to-door waste collection schemes. The government has slowly increased the tax since 2004.

Mining taxes, Goa (India) — state level tax

In 2000, the state government of Goa enacted the "Goa Rural Improvement and Welfare Cess Act" with the objective of providing socio-economic benefits and improved

[36] European Environment Agency (EEA) (2012), "Overview of the use of landfill taxes in Europe"
[37] European Newsletter on Environmental Fiscal Reform (2004), "New Landfill Tax In Catalonia, Spain"

infrastructure to the areas affected by mining and movement of ore[38]. Sale proceeds of minerals sold are used for the welfare of people from the mining belt as well as for restoration of the affected areas. In addition to royalties paid on mining activities, where rates are decided by the central government, mines in Goa have to contribute 10% of their sale proceeds to Goa Mineral Ore Permanent Fund, in addition to central government taxes on mining businesses.

Case study: Cap and Trade taxes in North America

The US has not implemented a cap and trade system (or any form of carbon tax) at a national level[39]. A few states, including California, Hawaii, Oregon, Massachusetts, Pennsylvania and Washington have introduced carbon pricing schemes focussing on areas within their remit.

California

California launched a state-wide cap-and-trade programme in 2013, as a key element of a wider strategy to lower its greenhouse gas emissions[40]. Since its start, California's cap-and-trade programme has raised $19.2 billion dollars[41], making it the largest sub-national emissions trading system (ETS) in the world, with the proceeds used to invest in projects which reduce greenhouse gases, including land preservation, affordable housing, transit agency projects and rebates for plug-in hybrid and electric cars.

The system is regulated by the California Air Resources Board (CARB), who decide the number of permits allowed each year and thus the amount of emissions which will be allowed in the state each year[42]. The board lowers the cap each year, to achieve its aim of encouraging other forms of energy and the programme regulates the six gases covered by the Kyoto Protocol[43].

All revenues collected from the sale permits are held by the Greenhouse Gas Reduction Fund (GGRF), which is controlled by the California Legislature and governor. There it is used to fund a range of low-carbon and climate-responsive projects to reduce greenhouse gas emissions, such as public transport and renewal energy infrastructure, with an emphasis on disadvantaged communities. At least 35% of investments must be made in disadvantaged

[38] Rural Improvement and Welfare Cess Act, Manual of Goa Laws (Vol. IV) (2000), "The Goa Rural Improvement and Welfare Cess Act"
[39] www.weforum.org (2022),"Explainer: Which countries have introduced a carbon tax?", 8 July
[40] Cap-and-Trade Program | California Air Resources Board
[41] ww2.arb.ca.gov (2022), "California Climate Investments program implements $10.5 billion in greenhouse gas-reducing projects, expected to reduce 76 million metric tons of emissions", 11 April
[42] Hathaway. M (2018), "Exploring Cap-and-Trade: a California Case Study", 15 June
[43] The six gases are carbon dioxide (CO_2), methane (CH_4), nitrogen dioxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF_6)

and low-income communities. The tax is administered at a state level and regulated by the California Air Resources Board (CARB).

Quebec

In Canada, the province of Quebec introduced a cap-and-trade programme in 2013, with the legislation drafted at a regional level under the province's civil code, with a system very similar to the one in California. The primary objective is to encourage business and citizens to innovate and change their behaviour in order to reduce greenhouse gas emissions.[44]

In 2021, the programme raised CAD 1.12 billion and has raised CAD 5.68 billion since implementation[45]. Revenues raised from the sale of the permits go to the Electrification and Climate Change Fund, which uses the funds to run projects to help against all aspects of climate change, including projects helping with energy efficiency, electrification (Québec's electricity is 99.7% renewable) and public transport.

However, a 2021 report was unable to find evidence of net emissions reduction to date from the cap and trade programme, so it is unclear how effective it has been in meeting its primary objective.[46]

Land and property taxes

Land and property taxes include recurrent and non-recurrent taxes on the use, ownership or transfer of property. The taxes may be on immovable property or net wealth, taxes on the change of ownership of property through inheritance or gift and taxes on financial and capital transactions[47].

Land and property taxes (Australia) — state level taxes

Property taxes at the State level in Australia can include land tax, municipal rates, financial and capital transactions. Local governments are partly funded by taxes on land value (council rates) on residential, industrial and commercial properties. In addition, some State governments levy tax on land values for investors and primary residences of high value. The State governments also levy stamp duties on transfers of land and other similar transactions. Local governments can levy a tax on unimproved or improved land value, or on rental value of land and buildings.

This tax varies from state to state, so will have different historical background across the country. In Queensland, the state tax was introduced in 2010 and is calculated on the

[44] The Carbon Market, a Green Economy Growth Tool! (gouv.qc.ca)
[45] icapcarbonaction.com, "Canada - Québec Cap-and-Trade System"
[46] Proposition to the Minister - Meeting the Target : A Review of Québec's Cap-and-Trade System (gouv.qc.ca)
[47] OECD

freehold a person owns. The tax rate applied depends on the type of owner and the total taxable value of the land subject to any exemptions which may apply. Land tax collected by the state government is used to pay for government services and infrastructure for residents of the state.

Land and property taxes (Denmark) – Municipal land tax

As property owner in Denmark will typically pay two types of property tax: property value tax and land tax (property tax).

Property value tax is based on the public property assessment and is assessed by the Danish Tax Agency every other year. Property value tax may change if the property changes and the tax is paid to the state via an individual's state tax return. People living in Denmark must also pay property value tax on any foreign property that they own, and people living abroad must pay property value tax on any property that they own in Denmark.

The Municipal property tax in Denmark is a land tax, based on the value of the land in an undeveloped condition. Whilst the state will set the potential range within which the land tax can be charged, and is responsible for issuing property value assessments, it is the responsibility of municipalities to set land taxes which must be paid by home owners in the municipality. Each municipality determines the rate and collects the tax twice a year. Some municipalities set the tax at the minimum, other the maximum, but most are somewhere in between. Services such as refuse collection must be paid on top of these land taxes .

Property taxes (New Zealand) - Rates

Councils in New Zealand raise much of their funding through a 'rates' based system, investments, fees and charges. Central government also provides some funding or subsidies towards particular activities, mainly roads.

Although provided with only a single form of tax, a property tax, councils have a wide range of choices in how they apply that tax. The Local Government (Rating) Act 2002 (the LGRA) provides councils with flexible powers to set, assess and collect rates from landowners.

Mechanisms are set out in the LGRA to allow councils to raise revenue through rates from the community generally, specified groups or categories of ratepayers, and those who use or generate the need for particular services or amenities -

- General rates – where the community as a whole meets costs of a particular function or functions. These taxes are rated on property value, according to a formula set annually by the council. The amount ratepayers pay varies according to their property value. Each council decides if the rates will be assessed on the land value, the capital value or the annual value of the property.

- Targeted rates – these are designed to fund a function or group of functions. Factors which can be used for calculating targeted rates are: land value, improvement value, capital value, annual value, total land area, area of land paved, sealed or built on, area of land protected, area of floor space of buildings, number of connections, number of water closets and urinals, number of separately used/inhabited parts, and extent of provision of services.
- Differential rates – general rates can be set on a differential basis, where the council can take into account property value, location, area, use, and activities allowed for under the Resource Management Act.
- Uniform annual general charges – these are fixed charges applied to every rating unit, no matter the value of the property.
- Water rates – some councils meter water consumption and charge accordingly.

Property taxes (Estonia) – Land Tax

Municipal income in Estonia consists of tax revenue, central government grants, sales revenue, and other revenues. The most important source of income for municipalities is Personal Income Tax (PIT), making up 57% of operating revenue in 2020. The income tax is a central government tax, so municipalities have no powers concerning it (tax rates and tax base). The second most important tax for the municipalities is land tax, though it provides only a very small proportion of all municipal tax revenues.

Municipalities are free to set the tax rates within limits set by the central government. Municipalities are also free to set different rates within their area and to give tax relief to special taxpayer groups. While most municipalities apply the highest rate, a few have chosen a slightly lower rate and some municipalities utilise varying rates. Since 2012, land tax rates have not changed markedly and land tax revenue has not increased even in nominal terms since 2012.

Land tax is a state tax imposed by the Land Tax Act. Land tax is imposed on all land in Estonia, except land where economic activities are prohibited. Land tax is paid in full to the budget of a local authority.

Tax Increment Financing (United States) — city level tax

Tax Increment Financing (TIF) was initially introduced in California in 1952 as a tool to enable local governments to fund economic development[48]. It works on the idea that development today can be funded from increased future tax revenues arising from the development (for example by the development increasing local property tax revenues). It is particularly widespread in the United States as a way of financing urban renewal projects, such as the one in Atlanta discussed below.

[48] Greater London Authority, Tax Increment Financing (TIF), https://data.london.gov.uk/dataset/tax-increment-financing--tif-

CASE STUDY: Tax increment Financing – The Atlantic Station Tax Allocation District (USA) *— city level tax*

Tax Increment Financing (TIF) was initially introduced in California in 1952 as a tool to enable local governments to invest in public infrastructure and other improvements up-front, and pay for them later.[49] This is possible when a new development is expected to result in increased future tax revenues, such as from local land taxes. A common form of TIF is bond financing, where a local government issues bonds to pay for present-day investment expenditure[50]. The bonds are backed by a percentage of projected future (higher) tax collections caused by increase property values or new business activity within the designated project area. It is particularly widespread in the United States as a way of financing urban renewal projects.[51]

One such example is the Atlantic Station Tax Allocation District, established by the city of Altanta in 1999 to facilitate the redevelopment of a 138-acre brownfield site[52]. The site had become contaminated due to nearly a century of heavy industrial usage as a steel mill. The goal was to redevelop the area, attracting new jobs and residents, as well as remediate the environmental impact.[53]

The city established a ”tax allocation district”, designating a 25-year term for the project. Bonds were issued to raise funds to pay for the costs of new roads, utilities, and environmental remediation[54].

Today, the site is home to a vibrant, sustainable, mixed-use development. The site, which generated $30,000 per year in property taxes prior to the project, was generating more than $30 million annually by 2013, with the performance exceeding initial estimates[55]. The World Bank has cited this as an example of a successful use of TIF to finance urban regeneration, noting that the city has achieved significant positive, fiscal, economic and policy impacts[56].

Sales taxes

Provincial sales tax (Canada) — provincial level tax

Canada has a federal system of Government, with the country divided into ten provinces and three territories which have a large degree of administrative and fiscal autonomy. Sales taxes have historically been a major source of revenue for the provinces.

[49] Greater London Authority, Tax Increment Financing (TIF), https://data.london.gov.uk/dataset/tax-increment-financing--tif-
[50] Tax Increment Financing (TIF) | Urban Regeneration (worldbank.org)
[51] Ibid.
[52] Atlantic Station (investatlanta.com)
[53] Tax Increment Financing (TIF) | Urban Regeneration (worldbank.org)
[54] Ibid.
[55] Ibid.
[56] Ibid.

Goods to which the tax is applied vary by province, as does the rate, decided by the province. In all provinces where the provincial sales tax is collected, the tax is imposed on the sale price excluding Goods and Services Tax ("GST").

The territories of Yukon, Northwest Territories, and Nunavut have no territorial sales taxes, so only the GST is collected.

CASE STUDY: Provincial Sales Tax, British Columbia (Canada)

The Canadian province of British Columbia imposes a 7% provincial sales tax (PST) on consumers, which applies alongside the national goods and services tax (GST). The sales tax is a longstanding one, having been introduced in the province in 1948, and predates the federal GST, which was introduced only in 1991.

The PST is a retail sales tax, different in detail and design from the federal GST. The rules and the rate are set by the provincial government, and the tax administered by the provincial revenue authority.

The existence and operation of two separate consumption taxes on purchases increases complexity and the administrative burden, and five of the ten Canadian provinces have moved to a Harmonized Sales Tax (HST) – a system under which both the federal GST and the regional PST are combined into a single sales tax at a higher rate.

British Columbia also experimented with HST, where it was introduced in 2010 at a rate of 12% (based on the prevailing 5% GST + 7% PST). However, it proved unpopular with residents, who in a referendum the following year voted for the HST's repeal, with the province reverting to the former PST/GST model.

The PST continues to be one of the main sources of revenue for the province, being projected to raised $9 billion of tax revenue in 2022/23, out of a total tax revenue for the province of $40 billion.

Fiscal transfers between regions

Fiscal Transfers – Canada

To address fiscal disparities among provinces, Canada has an equalisation programme financed by the national government from general revenues, which are largely raised through federal taxes[57]. The aim is to enable less prosperous provincial governments to provide their residents with public services that are reasonably comparable to those in

[57] Equalization Program - Canada.ca

other provinces, at reasonably comparable levels of taxation. Provincial governments make no contributions to the equalisation programme. The payments they receive are unconditional – receiving provinces are free to spend the funds according to their own priorities. Wealthier provinces, such as British Columbia, do not receive any funding under the programme. The equalization reduces, but does not eliminate, fiscal disparities; the fiscal capacities of the more prosperous non-receiving provinces remain above the national average.

Additionally, Canada also has two further federal transfer programmes, the Canada Health Transfer, and Canada Social Transfer, which provide funding for specific policy areas such as health care, social assistance and social services.

Fiscal Transfers — Australia

Australia has a national level goods and services tax (GST). The revenue from the national goods and services tax is pooled, and then distributed between the different states and territories. The aim is to ensure that all state governments are in a position to provide their residents with a comparable level of public services.

An independent body, the Commonwealth Grants Commission, assesses the spending needs and revenue raising ability of each state, and makes recommendation on how the GST revenue should be distributed[58]. This takes into account the different spending needs of each state, and their different abilities to raise revenue. In 2020-21, the central Government provided states and territories with more than $140 billion in financial assistance, around half of which was the distribution of GST revenue[59].

[58] About GST distribution | Commonwealth Grants Commission (cgc.gov.au)
[59] Research Paper #5 The framework for the treatment of Commonwealth payments in GST distribution | Commonwealth Grants Commission (cgc.gov.au)

/08. A route-map for devolving fiscal measures in England

The proposals presented here reflect the start of the debate and a dialogue across England between its places and with government, not the end of it. The tools made available by Open Innovations designed as part of this project are there to enable councils, combined authorities and other interested parties to test our suggestions, and develop their own proposals.

We have a simple ambition – designing a tax system that raises enough for a place based on its current needs, and ensuring incentives for that place to grow revenues sustainably. That means paying for services in day-to-day terms, and being able to afford the investments which raise productivity and reduce future cost challenges.

City Regions

Business Rate reform

On combined authorities, the government has set the right direction of travel in the 2023 Budget. We need to finish the work started by the Chancellor and pass control of business rates to all combined authorities in England as rapidly as possible. For those areas with the highest current income, including some parts of London, a new pooling system to transfer revenues around the country must be part of the business rate system if and when it is reformed, as has been proposed by Shadow Chancellor the Rt Hon Rachel Reeves MP.

In terms of introducing flexibility, local authorities could be given the power to vary the multiplier they apply to properties, allowing variation not only between but within authorities, building on the investment zones currently being rolled out across the North and Midlands. This would enable an authority to, for example, lower the multiplier in specific development zones where they had regeneration ambitions, and/or increase them in areas of excess demand. This would create a pot of funding which Metro Mayors would be able to benefit from through an agreed formula, creating a revenue stream managed by combined authorities and a reformed London governance model for the Greater London Authority which has a substantial role for local leaders to facilitate this.

Introduction of Land Value Tax to replace Business Rates

The preferred replacement for business rates we would recommend would be a land value tax, initially confined to non-residential properties. Taking lessons from jurisdictions such as Denmark or Estonia that have adopted such a system, the taxes here are set in the end by municipalities – within either a range of agreed rates or with greater freedom of system chosen. The former rather than the latter would reduce the potential additional complexity, with standardised discounted rates charges for public buildings and agriculture for instance.

Land value tax phased in gradually would be subject to a fiscal transfer mechanism; so the areas with greatest tax base subsiding areas based on the gap in the tax base available, regardless of what rates they decide to locally set. As the gap closes between North and South for example, the transfer would be automatically reduced. Like with a child's bike – fiscal stabilisers are important and necessary to be able to cycle without them in time. Leeds has been in the past able to reach fiscal break-even point, so paying more into the Exchequer than it receives back, and so the pathway to becoming free of any support arrangements is clear for many of our cities.

Versement Mobilité for regions of England

In addition, we recommend a devolution of nationally collected taxes in the form of a local transport levy. This will require government to transfer 1p of the employers national insurance currently collected to all combined authorities permanently, and revenues would enable the Transforming Cities Sustainable Transport Fund round 2 announced in the Budget to be moved fully outside the direction and control of the Department for Transport.

The benefit to central government is that major city region transport schemes, such as a tram for West Yorkshire or bus reform in Greater Manchester, come with limited financial tools to achieve them. In this alternative scenario, mirroring the success in Nottingham of the workplace parking levy which has raised almost a £100m since its introduction, there would be a local funding stream to sit alongside other sources of investment in the funding mix against which combined authorities could raise funds. In the transition to net zero, it will undoubtably give city regions huge support in providing better public transport to underpin economic growth sustainably.

In addition, for pan regional infrastructure, as the Mayor of London has the Congestion Charge, any future road pricing system will need to be retained in mega regions, to enable a regional contribution to projects like Northern Powerhouse Rail or Crossrail 2 to be delivered in full, supplementing the gap between the full project cost and the Integrated Rail Plan proposed envelope for the scheme.

The Northern Powerhouse Partnership will produce further work on fiscal devolution in transport in the coming months alongside our wider members from industry to help lead respective elements of this work.

Tourism Levy

The first option is a simple pay to enter levy as used in Venice as previously discussed where it is easy to administer due to very limited entry points. Taking a region such as the Lake District National Park would require establishing a charging mechanism around the perimeter, presumably through the use of ANPR cameras, with an exemption for local residents.

The second option is a levy on overnight accommodation. This would be a pound per night charge added to accommodation bills in the same way that VAT is added. It would be simple for accommodation providers to collect and report to their collecting authority. In order to receive buy-in from as many stakeholders as possible, ringfencing the funds for investing in tourism, protection of the natural environment and cultural sectors would be preferable.

Either of these options could be implemented but our preference would be the per-night accommodation levy due to the ease of implementation and collection of revenue. In addition, the amount per night could be varied based on the official rating of the accommodation. In the case of northern cities, the accommodation taxes are starting to be brought forward by Business Improvement Districts. In Manchester, a £1 charge per room will be implemented from April for instance.

Local authority finance

Council Tax

The current government's approach to local council funding is not working, and is causing damage to the capability and capacity for public sector reform in our neighbourhoods.

Council Tax is already collected and retained locally. Its current challenges, and the inequalities it creates, are that local government has too few ways to raise money, and the lower base available to many of the most disadvantaged places. It is the exemplar of supposed locally controlled taxes yet offers no genuine power to do anything other than to increase by a maximum percentage amount set by central government. It also fails to address the imbalance between places with vastly different tax bases.

The lessons to learn here are two-fold; firstly, control of too few revenue streams makes local government incredibly vulnerable when central government isn't able to afford or justify to the electorate to make it a priority. Secondly, needs-based grant funding when combined with decentralised tax can be easily eroded, particularly during periods of falling public spending in real terms. This is a structural issue, not just a question of priorities for individual governments and should be dealt with as such.

At a minimum, stamp duty must be devolved in full to inject more money into the system. The principle behind this is that property taxation in England should become a shared competence between local authorities and their respective combined authority. In *Devolution: A Capital Idea*, the London Finance Commission notes that almost 47% of the UK residential stamp duty revenues came from London. It is therefore unsurprising that in their work it plays such a central role.

We propose this would be done alongside council tax bands revaluation, and a new range of bands with multipliers which would make the tax progressive. This will lead to those in the most expensive homes paying significantly more annually in three new 'Super-Bands,' which are pooled around the country, with the option for local areas to abolish stamp duty or retain it based on local preferences. This could raise up to £1.9 billion in Westminster and Kensington & Chelsea alone subject to the eventual rates decided upon, with a property worth at or anything over £20,000,001 in Chelsea paying £44,230 a year which equates to less than a quarter of a percent of the value of the asset.

In the areas with high numbers of the very most expensive UK residential properties, stamp duty reductions or elimination of it would in part compensate these residents depending on their political priorities. However, there is no way to avoid the need for local government to still at least in part depend on a residual local government grant settlement just through devolving only these taxes.

Land Value Tax for residential homes

For this reason, our preferred solution is a land value tax which is phased in to replace council tax and stamp duty charges on residential property transactions. A fair formula based on deprivation and age of population would determine, combined with possible tax base, the fiscal transfers between areas within combined authorities, and then between regions of England. Police and Crime Commissioners budgets would also be taken out of the national tax system and paid for by this mechanism in full. By including effective mechanisms for fiscal transfers in the design of instruments no Westminster politicians will be able to interfere in the competencies of local places. It can be done, but the boldness of these proposals makes them not simply novel but genuinely radical.

The level of employee and employers' national insurance charged nationally could both be cut, paid for by the end of the need for a local government funding settlement, or instead be paid to English citizens as a universal basic income or directed through the current welfare benefit system to increase the incomes of the least advantaged households. These changes would compensate in part those households which are disadvantaged under a land value tax system, softening the impact on household budgets of such changes which would be material for many.

However, those households in the most deprived areas such as Barrow or Barnsley are paying much more under the current council tax system for less universal services than those in more advantaged places, and this inequality would be eliminated. If residents in these towns or cities were to be asked to pay more, it would be used for improved services and not to cover in large part the cost pressures which result directly from a more deprived population.

/Annex A. Current local government finance system

Local government revenues come from three primary sources:

1. Council Tax receipts;
2. The retention of a percentage of business rates;
3. Central Government funding.

Council Tax is an annual charge paid to a local authority. The exact amount payable is determined by the assumed value of the property in 1991. This value will then place the property in one of eight bands (A to H) with band A covering properties under £40,000 in value and band H those over £320,000 based on those 1991 values. Band D is effectively a reference rate with other bands charged as a proportion of the Band D charge. For example, Band A is charged two-thirds of the Band D charge, Band H is charged double the Band D charge.

Local Authorities are not permitted to change the rate boundaries or a property's valuation. The Valuation Office Agency (VOA) is responsible for valuations and determining bands, a national revaluation and change to band thresholds could only take place if central government decided to do so.

As part of the Council Tax, the bill also includes the levy of a policing precept which goes to Police and Crime Commissioners (PCC) and generally accounts for around a third of their total funding and they have significant discretion with how best to use it. The PCC sets the rate for the following year and, as with Council Tax, if that is above a certain threshold a local referendum must be held on the proposal. For the 2023/24 fiscal year, this threshold has been set at a £15 increase on a Band D property.

Business rates retention varies depending on whether a devolution deal has been agreed for increased retention. The standard share is 50% for the local authority and 50% to central government – a previous plan to introduce 75% local retention from 2019/20 was postponed. Some areas with devolution deals have an agreement to retain 100% of business rates locally. For the 2023/24 financial year this includes Cornwall, Greater Manchester, Liverpool City Region, West Midlands and West of England. In Greater London, the share is 67%, split between the individual boroughs (30%) and the Greater London Authority (37%)[60]. In return for this increased retention, these devolved bodies have chosen to give up

[60] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1134364/LGFR_2023-24_WEB.pdf

other funding streams, some related to transport, others to health. The exact make-up of this agreement differs by area.

Funding from central government comes in the form of a number of different grants, many of which form part of the annual Local Government Finance Settlement. Attempting to understand these many funding streams is difficult for non-experts and it could be argued provides further evidence of how the system has become too complex. Local Authorities then also receive specific ring-fenced grants for other purposes. The amount contained within the settlement varies by type of authority due to their different responsibilities as well as their differing abilities to raise their own revenue from sources such as council tax.

For a more in-depth description of the system of local government financing, we recommend the excellent House of Commons Library Research Briefing *Local Government Finances*[61].

[61] https://researchbriefings.files.parliament.uk/documents/CBP-8431/CBP-8431.pdf