

‘A new era for English devolution’ as the Northern Powerhouse calls for greater tax powers for local government

Lord Jim O’Neill, one of the architects of the original Northern Powerhouse economic vision, is today [20 March] calling for mayors and council leaders to retain more local cash as part of a new era for English devolution.

A report out from the Northern Powerhouse Partnership (NPP) and EY outlines a blueprint for how to empower local government through fiscal devolution, handing more tax powers to councils and metro mayors.

The UK remains one of the most centralised countries in the developed world, with Westminster setting all but a tiny fraction of taxes.

According to OECD statistics from 2021, taxation at a local or regional level amounted to 16.2% of GDP in Canada, 13.3% in Germany, 9.4% in the US and just 1.7% of GDP in the UK.

At a speech in January, the Chancellor announced that “we need to move more decisively towards fiscal devolution” and in last week’s budget, single pot multi-year settlements were unveiled for Greater Manchester and the West Midlands.

The new ‘trailblazer’ devolution deals allow the mayors to retain 100 per cent of business rates, paving the way for other mayoralities to secure similar powers in the future.

The report sets out five recommendations for realigning the power balance between central and local government:

- Devolve a reformed business rates system to all mayoral authorities or replace it with a locally-set land value tax, with fair transfers from the areas with highest values to those with the least.
- Create 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.
- 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.
- Devolve 1p of existing employers National Insurance contributions for local transport services and infrastructure, based on France’s Versement Mobilité.
- Introduce a tourism tax on hotel stays to support culture, protect the environment and improve visitor experience.

These changes would bring decisions closer to the communities they affect, giving local leaders greater independence, flexibility and control to deliver long-term, strategic economic plans in key priorities such as transport, skills and innovation.

This is seen as key to closing the long-standing productivity divide between north and south.

[NPP analysis](#) of ONS regional productivity data last year found that London and the South East was 40% more productive than the North, while the wage gap between London and the North stood at more than £8,400.

Empowering local leadership was one of the main pillars of Osborne and O'Neill's original Northern Powerhouse vision, which sought to address the Northern economy's historic underperformance, and the first devolution deal was signed by the Government and the Greater Manchester Combined Authority in November 2014.

The business-led advocacy group the Northern Powerhouse Partnership (NPP) was set up in 2016 when Osborne left office, to continue the campaign for more powers and funding for the North of England.

Lord Jim O'Neill, vice-chair of the Northern Powerhouse Partnership, said: "It's time for a new era in English devolution where we give local areas greater control over their own destiny.

"Proper fiscal autonomy would bring power and accountability closer to communities, while protecting local economies from shifting sands in Westminster and allowing us to focus on the fundamental barriers to productivity.

"A fairer and better balanced tax system between central and local government is the bedrock for a functional, productive, prosperous economy.

"While the changes we're proposing will take many years to be felt in economic data, that should not put us off. These are deep-seated problems that have developed over decades and as such it will take decades to reverse them."

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