The Northern Powerhouse Partnership

Spring Budget Submission

Summary of recommendations

1. **Increase funding for long-term disadvantaged pupils** by £1,000 per pupil.
2. **Bolster local government financing** through a revaluation of all domestic properties in England in the immediate term and council tax reform in the long-term**.**
3. **Extend and deepen devolution,** extending a single funding settlement to new Level 4 mayoralties. Metro mayors must also become more fiscally autonomous, with full business rates retention and the ability to introduce a tourism tax.
4. **Reform our rigid fiscal rules** to support long-term infrastructure investment.

/01. INCREASE FUNDING FOR LONG-TERM DISADVANTAGED PUPILS

As reported by the IFS, schools in the most deprived areas saw funding cuts of 12% between 2010 and 2021, compared with 5% for schools in the most affluent areas[1]. It is welcome that plans are already in place to increase overall funding back to the same level as 2010 in real terms, however despite this those schools with the most disadvantaged pupils will still face real terms cuts.

Attainment levels for the 2022/23 academic year showed that the disadvantage gap at the end of Key Stage 4 is now wider than it was over a decade ago and the Key Stage 2 disadvantage gap is wider than it has been since 2012/13. Whilst progress had stalled in the immediate years pre-Covid, seeing a decade of improvement wiped out over the course of the pandemic is concerning. Therefore now is the time to redouble our efforts to ensure that all children are given the greatest chance of fulfilling their academic potential.

Our previous research has shown that targeting children from a long-term or persistently disadvantaged background (ie. those on free school meals for 80% or more for their school career) may be a more efficient way of targeting extra resources into our schools. Not only are these pupils the ones furthest behind their peers in terms of attainment[2], but they are also six times more likely to be in receipt of workless benefits at the age of 22 than one of their peers who was never eligible for free school meals[3].

While there may be temptations to announce tax and 'giveaways' in a Budget ahead of a general election, we would urge you instead to consider funding additional pupil premium for those from a

[1] Annual report on education spending in England: 2023, IFS
[2] https://www.northernpowerhousepartnership.co.uk/wp-content/uploads/2018/01/Educating-the-North.pdf
[3] https://www.northernpowerhousepartnership.co.uk/publications/pupils-from-poorer-backgrounds-do-better-in-london-new-report-finds%ef%bf%bc/

long-term disadvantage background up to the end of compulsory education, as currently pupil premium does not follow school leavers to college. Estimates suggest that this would be around 8% of all pupils. With approximately 9.1m school pupils in England, this would mean around 728,000 attracting this additional funding. Adding an additional £1,000 onto the Pupil Premium rate for pupils from such backgrounds (almost doubling the Pupil Premium funding for a secondary school pupil) would therefore cost £728m per year. We also support the proposal from Teach First to introduce a new 16-19 pupil premium to support disadvantaged pupils in further education, at a cost of £290m.[4]

As the Chancellor said in the 2022 Autumn Statement, "being pro-education is being pro-growth." Investment and reform of our education system are both needed to close the attainment gap, which is critical for turbocharging our flagging productivity.

/02. BOLSTER LOCAL GOVERNMENT FINANCING

Local government finances are in crisis, with one in five councils in England likely to issue a section 114 notice over the next year, according to the Local Government Association.[5] This is a distinct issue to that of councils suffering from difficulties as a result in failures in governance, such as Thurrock. There is general consensus that even well-managed local authorities are facing systemic pressures which must be addressed. Creating a fairer, more balanced tax system would reduce dependency on central government in the long-term, protecting councils from undue pressures resulting from central government funding constraint.

While we understand the government's wish to prioritise stability for the time being, we were encouraged by recent comments from the Secretary of State for Levelling Up, Housing and Communities that in his judgement the main parties will be looking at far-reaching reform of the local tax system as part of their general election manifestos. In order to lay the groundwork for upcoming reform, work should begin now on the long-overdue revaluation of all domestic properties in England.

Under the current system, a homeowner in Hartlepool living in a house worth £150,000 is paying over £200 a year more in council tax than someone in Westminster in a property worth £8million.[6] Revaluing properties - at a local level only to begin with - would create a fairer council tax system which reflects changes in the market since the last valuation took place in 1991. An **initial local level revaluation** would be revenue neutral to ensure councils with a higher proportion of properties in the lowest bands would not see a drop in income. Many of the least well-off households living in areas which have seen a relatively small increase in house prices would see a substantial drop in their council tax bills through this measure alone.

Our additional recommendation for council tax to become fully progressive is to introduce three new council tax 'super bands' for the properties worth £2 million and above, with revenue from these bands to be shared across the country through a cast-iron transfer mechanism. This would help less prosperous areas pay for key services such as children's social care, where cost pressures have been more acute than ever in the last year.

[4] https://www.teachfirst.org.uk/sites/default/files/2022-02/TF%20Pupil%20Premium%20Report.pdf
[5] http://www.local.gov.uk/about/news/section-114-fear-almost-1-5-council-leaders-and-chief-executives-after-cashless-autumn
[6] Fairer Share 2023

These super bands would apply exclusively to foreign-owned properties, not those owned by UK nationals or those with settled EU status. This has the added benefit of cooling overheated markets, particularly in inner London, whereby a high proportion of properties are purchased as an investment by foreign owners, rather than as a principal residence. The income raised through this levy would come largely from a small number of London councils and transferred to areas with a lower tax base and higher need. We would therefore recommend the introduction of a supplementary surcharge on stamp duty as compensation for the former. This would be a first step to the full devolution of stamp duty, as recommended by ourselves[7] and the London Finance Commission[8], which would benefit areas such as Westminster with much higher stamp duty income than local authorities elsewhere.

/03. EXTEND AND DEEPEN DEVOLUTION

The introduction of metro mayors has been one of the standout successes of the Northern Powerhouse project and we are pleased to see momentum building on the devolution agenda once again. The latest announcements from the Autumn Statement mean that nine in ten people in the North of England are now living in areas covered by a devolution deal.

Empowered local leaders with knowledge, vision and capacity are needed to tie disparate strands of policy together in a cohesive effort to raise productivity. Devolution can have a genuinely transformative effect on local economies, whether by improving transport links, or bringing in investment from around the world.

Extending single pot settlements

The mayoralties which are given Level 4 status have proven they have the necessary capacity and governance in place and should be offered a **multi-year single funding settlement** at the same time as Greater Manchester and the West Midlands from the next spending review. This would give each area greater autonomy and flexibility to shape their economy in the long-term, putting an end to the patchwork of funding pots and with it the associated time pressures for submitting bids to national funding competitions. As with Greater Manchester and the West Midlands, this increased power should be matched by greater accountability.

Accelerating fiscal devolution

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. Proper fiscal autonomy would bring power and accountability closer to communities, while protecting local economies from instability and uncertainty in central government. This would lessen the demands on a local government funding settlement and reduce the government's need to retain taxes such as National Insurance centrally.

New Level 4 mayoralties should be given addition tax flexibilities including:

- The ability to retain - and therefore borrow against - business rates.

[7] https://www.northernpowerhousepartnership.co.uk/publications/fiscal-devonation-a-blueprint-for-devolving-tax/
[8] https://www.london.gov.uk/sites/default/files/devolution_-_a_capital_idea_lfc_2017.pdf

- The ability to introduce a tourism tax.

Tourism taxes are already commonplace across much of Europe and adding a £1 a night levy to each hotel stay could raise almost £428million a year for English councils[9].

French local authorities have been able to impose a *taxe de séjour* since 1910 in order to raise revenue for funding tourism-related expenditures. This can range from 0.20 cents to €4.20 per person per night, and Airbnb alone collected €148million in taxes in 2022 for payment to French local authorities – an increase of 60% compared to 2021. Venice has imposed a tourist tax since 2011 which is used to improve the quality of tourist services such as museums, to finance maintenance work and to protect the area's cultural and architectural heritage.

With a number of high-profile events on the horizon, it makes economic and political sense to expect visitors - many of whom come from overseas - to contribute a small amount to reduce the burden from tourism-related costs on local taxpayers.

Longer-term reform of local transport funding is also necessary. Devolving a proportion of employers' National Insurance contributions for mayors to spend on transport infrastructure and services could give areas significant borrowing capacity and offer long-term certainty to private investors. This could replace some or all of the City Region Sustainable Transport Settlements (CRSTS), meaning there would be no additional cost to the Treasury.

This is similar to France's 'Versement Mobilité', which was first introduced for the Paris region in 1971. It now accounts for more than half of the city's transport revenues, compared with just 18% funded by central government subsidies. The policy has gradually expanded to other urban regions and the reduced dependency on fares and central government has allowed French cities and regions to become bolder in their transport policies, from building new tram lines to eliminating fares entirely.

/04. REFORM OUR RIGID FISCAL RULES

The UK has persistently underinvested compared with its peers across both the public and private sectors[10]. Our view, and one evidenced in the Northern Powerhouse Independent Economic Review, is that this investment gap is holding back the productive potential of both the Northern Powerhouse and UK economies. Attracting long term investment through the Mansion House Compact is of course welcome, but it must now be supported by a pragmatic approach to public sector borrowing for investment.

If we are to deliver the much-needed infrastructure, including Northern Powerhouse Rail in full, spending decisions must not be hamstrung by rigid, arbitrary fiscal rules including requiring a falling debt ratio within five years. Rather than protecting the public finances, these damage them in the long term by constricting much needed economic growth. As Royal Society of Arts Chief Executive Andy Haldane has said, "Adhering to existing fiscal rules risks underinvesting today in tomorrow's economic and environmental health."[11] We therefore urge you to amend the current fiscal rules to allow important investment to be brought forward and the benefits to be realised sooner.

[9] https://www.northernpowerhousepartnership.co.uk/1-tourism-levy-could-raise-428million-a-year-in-tax-for-english-councils/
[10] IPPR analysis of OECD 2023
[11] https://www.ft.com/content/d57567c3-cd97-4cbe-be00-6cf50886b308