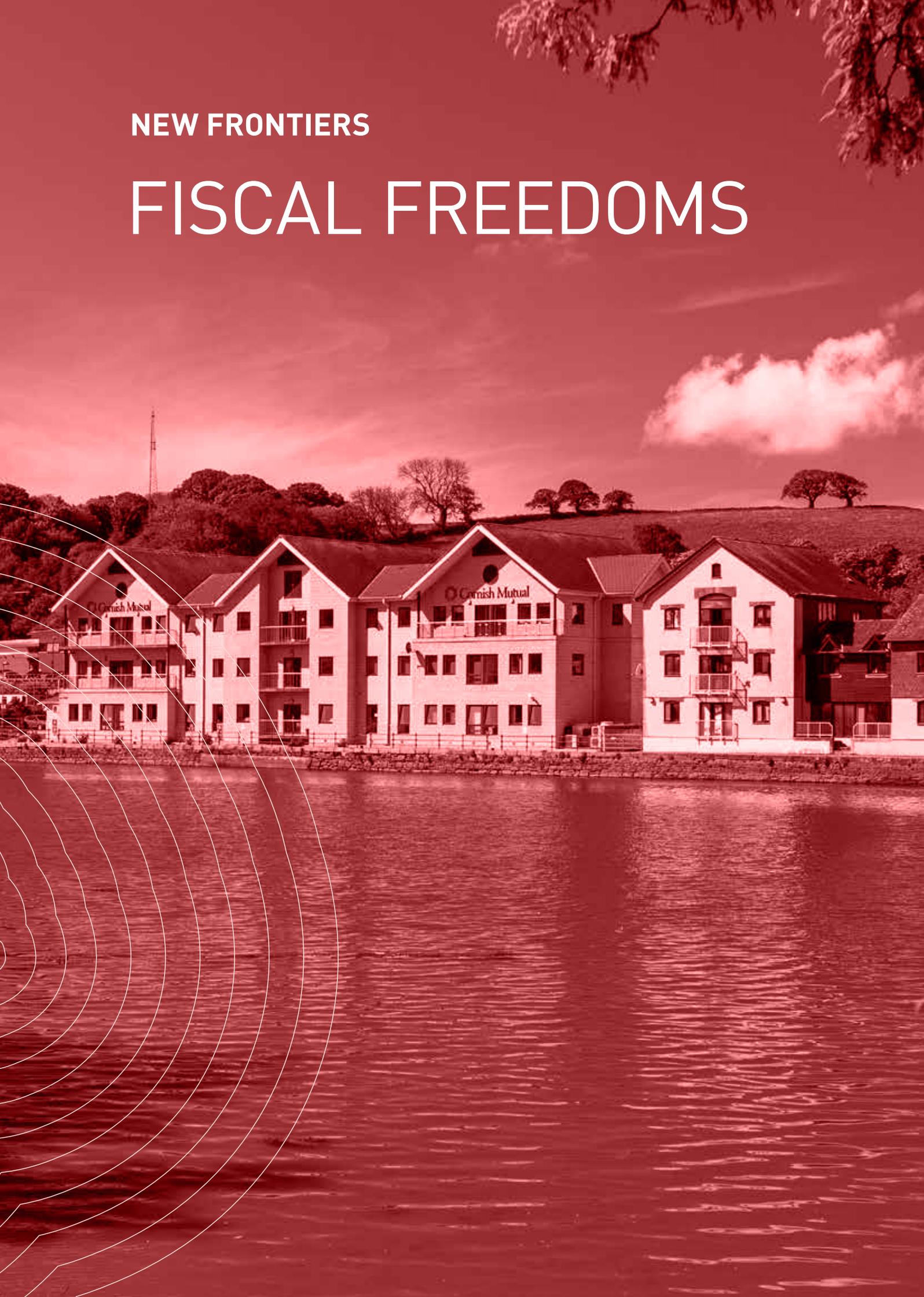


NEW FRONTIERS

FISCAL FREEDOMS



FISCAL FREEDOMS

Cornwall Council is committed to ensuring that Cornwall receives fair funding for the services that it provides; whether this is for the roads that we maintain, or for service provided to our children, the Council has been forthright in its campaign for a fairer funding settlement for the people of Cornwall. Working in conjunction with this, we are also committed to developing greater flexibilities in the way that money raised in Cornwall is allocated. Through the Cornwall Devolution Deal, Cornwall has obtained greater local control over transport spending and achieved Intermediate Body status for the EU Growth Programme to give us more influence over how the available funds are managed in Cornwall and the Isles of Scilly. The Government has also confirmed its commitment to work with Cornwall Council to develop and deepen our 100% Business Rate Retention Pilot for 2018/19.

We now want to build on Cornwall's progress in this area by opening a conversation with the

Government on the devolution of fiscal freedoms. Cornwall currently has some control over the funds outlined above, but does not have complete freedom to decide how the funds should be managed, targeted and spent. Cornwall has two separate asks in relation to the devolution of greater fiscal freedoms: firstly, Cornwall would seek to have more influence over the management of business rate policies in Cornwall, particularly regarding the application of mandatory reliefs; secondly, Cornwall wishes to explore the potential establishment of a VAT escalator pilot for Cornish SMEs. We are also keen to explore, based on our original Case for Cornwall propositions, the option of localising 2p from every litre of existing fuel duty, and we would also welcome a discussion on changes to legislation that could result in second home owners who pay no business rates or council tax making a contribution towards the cost of essential services in Cornwall.



The Council has been forthright in its campaign for a fairer funding settlement for the people of Cornwall

BUSINESS RATES

Context

The Government has also confirmed its commitment to work with Cornwall Council to develop and deepen our 100% Business Rate Retention Pilot for 2018/19.

We now want to build on our progress in this area by opening a conversation with the Government to give Cornwall Council more influence over the management of business rate policies in Cornwall, particularly regarding the application of mandatory reliefs.

The proposals in this chapter apply to Cornwall only and do not cover the Isles of Scilly.

Unlocking barriers

The rationale for change

Cornwall's 100% Business Rates Retention Scheme went live in April 2017 and, according to that agreement, will remain in place up to the 'roll out of a national scheme'. The Business Rates Retention Pilot represents a fundamental move away from the statutory Local Government Finance structure and we would like to explore how greater flexibility can be built into the scheme.



Our ask

We are seeking support for the roll-in of Government Grants as part of Cornwall Council's 100% Business Rate Retention pilot and would like this to be included in the forthcoming Local Government Finance Settlement.

We request:

- The underlying structure of the existing pilot will continue i.e. that in exchange for 100% business rate retention, Cornwall Council will forego other Government grants including Revenue Support Grant, Rural Services Delivery Grant and Highways/ Transport Capital Grants.
- That in order to maintain fiscal neutrality, there will be a corresponding adjustment to the Council's Top Up grant – benchmarked against the Government 'Business Rate Baseline' for Cornwall Council.
- That the business rate pilot will continue to operate at 'no detriment' to Cornwall Council i.e. in the event that the Council is actually worse off as a result of the pilot, then the Government will make good that difference through additional grant.
- Other funding streams will be rolled into the pilot, in particular the currently ring-fenced Public Health grant and the extending of flexibility around Highway funding, enabling the Council to borrow against the funding previously received for Highways.
- We will also explore the possibility of taking over from Government the authority to decide upon mandatory relief policy within Cornwall, thereby truly making this a rural pilot with decisions and benefits made at a local level and applied to support places and sectors to promote economic opportunity.

This will impact on and will require the commitment and support of several Government departments.

Our offer

We are seeking to develop the Business Rates Retention Pilot further in 2018/19 to benefit Cornwall locally, by determining the priorities our resources should be focused on, but assisting Government ahead of the technical national roll out of a scheme.

Benefits

As a result of the Business Rates Retention pilot, Cornwall will retain 100% of local business rates and, therein, 100% of growth. This provides not only a significant financial gain to Cornwall and a greater incentive for economic growth, but also greater financial freedoms in the way limited resources are used. For example, by 'rolling in' capital highways/transport grants, those resources can now be used for wider revenue preventative works, avoiding more costly major repairs.

We are seeking to further develop the Business Rates Retention Pilot to benefit Cornwall locally



VAT ESCALATOR

Context

Cornwall's business base is composed primarily of micro, small and medium sized enterprises. There are approximately 23,630 VAT registered businesses across the Cornwall region. Through existing activity such as the Cornwall and the Isles of Scilly's Growth Hub and Better Business for All initiative, considerable efforts have been made in Cornwall to assist new businesses to start and existing businesses to grow.

The proposals in this chapter apply to Cornwall only and do not cover the Isles of Scilly.

Unlocking barriers

The rationale for change

There has been a 13% growth in VAT registered businesses since 2010: but only half that of the UK total in the same period.

One issue that is consistently cited as a barrier to growth is the VAT registration threshold. There are approximately 44,000 businesses operating below the VAT threshold in Cornwall and the Isles of Scilly. Reasons for operating below this threshold vary, but often the decision to stay below is down to the fact that the level of growth required to maintain the income levels of the business owners is too great in the first years of a business' existence, which therefore represents a risk to it. Currently once the VAT threshold is reached, many businesses close, operate limited or seasonal opening hours (with the resulting impact on employment, coastal communities and productivity) or put off investment to the next financial year (therefore delaying growth).

Our ask

We propose to pilot an approach that encourages businesses at or near the VAT threshold (and who are not currently registered for VAT) to register on an 'escalator' scheme, as part of a wider strategy to foster high potential businesses to accelerate their growth, and to enable their transition above the threshold to VAT registration, enhancing the tax take.

Businesses would register on a four-year scheme, within which they would pay a tapered series of contributions, with those contributions used to provide business support to enable their growth in transitioning towards the threshold. The scheme would culminate, in the final year, with their registration at the normal VAT rate based on a sustainable business model. Businesses may de-register from the scheme at any point, depending upon their performance, but would only have a one-time ability to participate in the scheme. Contributions would be collected via the Cornwall Council Better Business for All service and administered by the Economic Growth service of Cornwall Council.

This proposition would be cost neutral for Government. Without the scheme, these businesses would not progress above the threshold as quickly, if at all. Resultant VAT revenue would accrue to Government following the final year of the scheme. The scheme's fostering of sustainable business growth could also result in employment growth (with a consequent rise in tax payers and increase in purchasing power), and increased business rate revenue to the Council. The four year growth should be ring-fenced for economic development purposes.⁴³ The scheme would be an important element of increasing the productivity of both Cornwall and the UK.

⁴³ This is explicit in our '10 opportunities' strategy for sectors such as tourism (in that case, for strengthening and adding value to the supply chain).

Our offer

Funds generated would be retained in Cornwall to support the journey to business growth through targeted economic development support. Participants would thereby gain access to targeted support from various business support initiatives (e.g. Growth Hub and BIG2) in order to maximise the chance of successful transition from their current scale of operation. The flexibility of a gradual transition to above the VAT threshold will enable costs to be redeployed to overheads and investment in the early years of the business' existence, helping it to establish, grow employment, and enhance their environmental performance.

Benefits

The scheme would encourage investment, enabling businesses room to develop during their early years through tailored business support. Resultant tax revenues rises from those progressing and sustaining above the threshold would accrue to government, potentially bolstered by consequent supply chain evolution. Increased employment would not only generate additional income tax, national insurance receipts and savings in social security payments, but also generate additional VAT through an increase in the number of (employed) individuals with disposable income.

As an aspect of 'regulatory compliance', early years VAT rates would also reduce the cost of HMRC regulation and time costs for business bureaucracy (estimated to be 1-2% of turnover) for investigation, as the scheme would be administered by Cornwall Council.

The scheme would also assist in the re/use of industrial and commercial building space to support sustainable business development and opportunity for workspace in the countryside.

The pilot may also provide a model to be rolled out across the UK, supporting the UK's competitiveness in Europe post-Brexit.

Pilot an approach that encourages businesses at or near the VAT threshold to register on an 'escalator' scheme, as part of a wider strategy to foster high potential businesses to accelerate their growth, and to enable their transition above the threshold

ALLOW CORNWALL TO CREATE A BETTER ROADS FUND FUNDED BY THE LOCALISATION OF 2P IN EVERY LITRE FROM EXISTING FUEL DUTY

Cornwall's geography means that our road network is extensive with the Council responsible for repairing and maintaining over 7,303 kilometres of highway from major principal roads to narrow country lanes.

With a diminishing budget, the Council is facing challenges to keep Cornwall moving safely. Allowing Cornwall to retain 2p per litre from the

existing fuel duty will generate approximately £7.5 million a year that would be used to maintain our rural roads.

This proposal applies to Cornwall only and does not cover the Isles of Scilly.



SECOND HOME OWNERSHIP; WORKING ON LEGISLATION TO ENSURE EVERYONE CONTRIBUTES

The second homes market represents nearly 9% of Cornwall's housing stock overall and exceeds 20% in 47 out of our 213 Parishes. The average cost of housing is 10.9 times the average annual salary (compared to 6.7 nationally) which puts home ownership beyond the reach of many people.

An increasing number of Cornwall's towns and villages have more than 1 in 5 dwellings classed as second homes, which are distinct from holiday homes in that they are invariably empty for large periods of the year.

Some of the owners of these homes do not pay either council tax or business rates, seeking exemptions that mean that no contribution towards essential services is made. Cornwall and the Isles of Scilly want to start a dialogue with Government on how this can be overcome through legislation, and would welcome the opportunity to discuss how this could be developed.

The second homes market represents nearly

9%

of Cornwall's housing stock overall