

Section Two – Government Funding

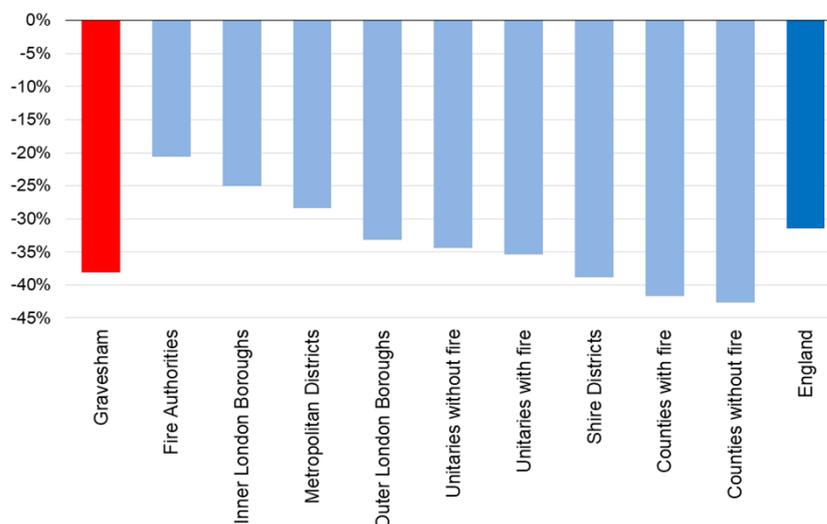
Provisional Local Government Funding Settlement 2019-20

1. The provisional settlement sets out the level of funding assessed by Central Government for councils (the Settlement Funding Assessment – SFA) and is made up of two elements – Revenue Support Grant (RSG) and Business Rates Retention. Since 2018-19, the Business Rates retention element of the assessment increases each year in line with CPI, with the RSG element effectively used to bring the funding received by councils to the level assessed by Central Government.
2. On 13 December 2018 the Provisional Local Government Finance Settlement for 2019-20 was announced by the Ministry for Housing, Communities and Local Government (MHCLG). The provisional settlement is the final year of the multi-year finance settlement announced in 2016-17 and completes the Government's intended reduction in the total level of funding for local government over the period to 2019-20, as shown below for Gravesham:

Settlement Funding Assessment	2016-17	2017-18	2018-19	2019-20
	Final Settlement £m	Final Settlement £m	Final Settlement £m	Provisional Settlement £m
Revenue Support Grant (RSG)	1,225,770	590,150	--	-
Business Rates Retention Baseline Funding Level	2,713,350	2,768,740	3,048,190	2,917,280
Settlement Funding Assessment	3,939,120	3,358,890	3,048,190	2,917,280
£ Change (to Prev. Yr)	--	- 580,230	- 310,700	- 130,910
Change %	--	-14.7%	-9.3%	-4.3%
Cumulative change %	--	-14.7%	-22.6%	-25.9%

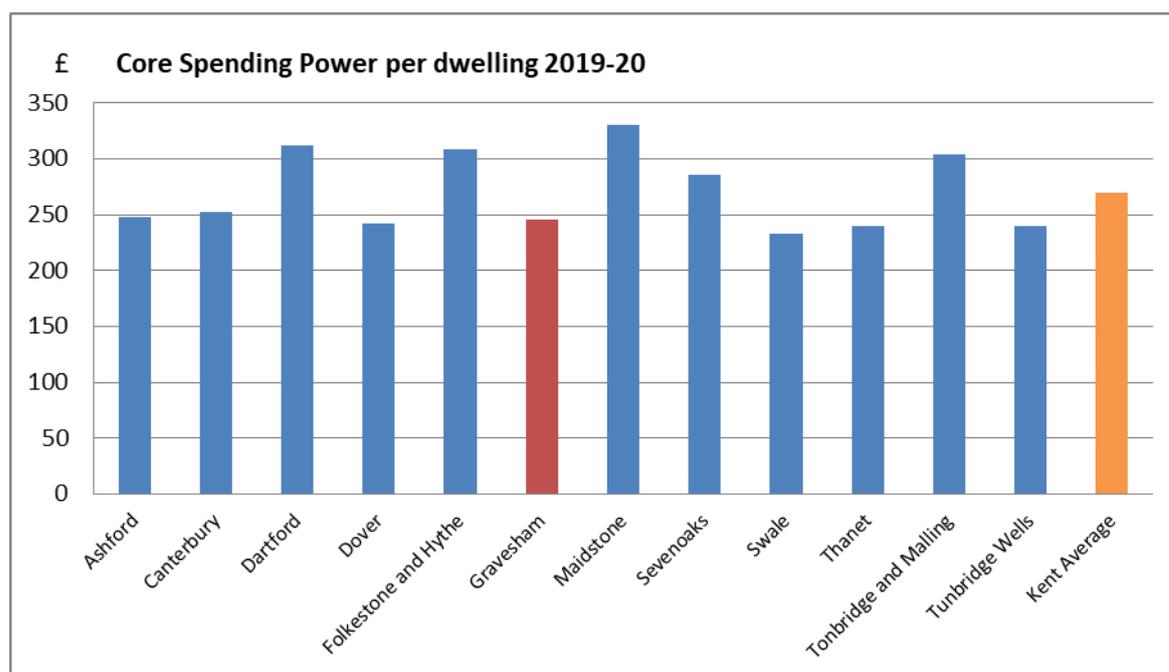
3. The SFA for the council is a slightly improved position than that expected due to the decision of Government to provide an additional £153m of funding to those authorities that were due to pay negative RSG for 2019/20. For Gravesham, this amounted to £243,710 that the council was expecting to lose by way of a reduction to its business rates retention baseline funding level. The graph below shows the cumulative change in SFA by class of authority since the multi-year settlement period, demonstrating that Shire Districts, such as Gravesham, have been significantly affected by government funding reductions.

Cumulative Change in headline SFA by class of authority – 2015-16 to 2019-20



Core Spending Power

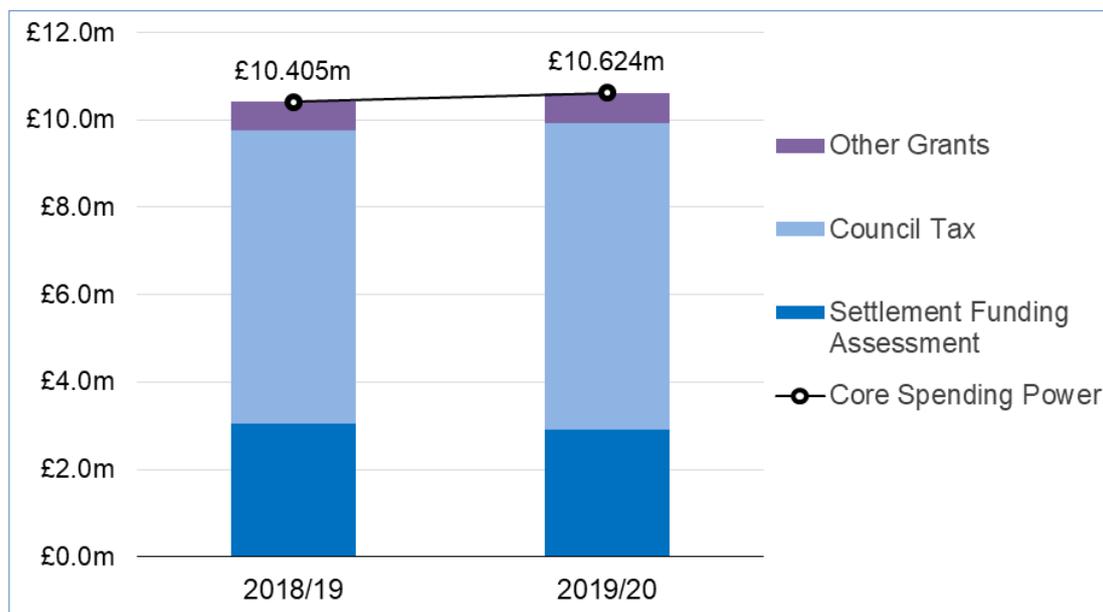
4. Core Spending Power is the headline figure used by MHCLG to represent the core revenue funding available for local authority services, including estimates of Council Tax and locally retained business rates. The provisional settlement indicates that Gravesham will have an increase of 2.1% in its Core Spending Power for 2019-20 based on a series of assumptions, particularly relating to growth in council tax receipts. It should be noted that not all of these assumptions are likely to materialise and are set out in paragraph 8 in more detail.
5. The Kent view of assumed Core Spending Power per dwelling for individual district authorities is shown in the graph below.



6. In 2019-20 Gravesham will continue to have the fifth lowest level of assumed spending power per dwelling at £246. This is an assumed increase of 2.1% (£5 per dwelling) compared to the equivalent Core Spending Power measure in 2018-19.

7. The assumed Core Spending Power for Gravesham is analysed in the graph below.

Gravesham Borough Council – Core Spending Power 2018-19 and 2019-20



8. It should be noted that the information above assumes:
- **A reduction in SFA of 4.3%** - as set out in the table at paragraph 2 of this appendix.
 - **Growth in council tax receipts of 4.4%** - growth in the council tax base for 2019-20 is based on average annual growth between 2014-15 and 2018-19 (calculated at 1.4%) and assuming that the council will increase their Band D Council Tax in line with the referendum limit of 3%.
 - **Growth in other grants of 8.3%** - this includes New Homes Bonus and an amount received as compensation for under-indexing the business rates multiplier in previous years.
9. In reality, the maximum council tax growth the council can generate is 2.8%, constituted of a 0.17% reduction in the council tax base in 2019-20 (as set out in Appendix 4 of this report) and a 2.97% increase in council tax chargeable to reflect the requirements for council tax amounts to be divisible by nine. This has the effect of 'overstating' Gravesham's Core Spending Power for 2019-20 by some £109,000, equating to an actual increase of 1.1% in its Core Spending Power for 2019-20. The Core Spending Power calculation also takes no account of any increased spending pressures the council may face in 2019-20 which could result from demands on homelessness support services or achievement of government targets around waste

New Homes Bonus Scheme

10. The New Homes Bonus (NHB) Scheme commenced in April 2011 and was intended to reward councils for supporting the local delivery of additional homes. Funding for the scheme is provided through top slicing the RSG available for local authorities.
11. From 2017-18 the design of the scheme was changed to enable it to become a cash-limited scheme, with annual allocations being paid for four years (rather than six) and introduced a national baseline of 0.4% below which annual allocations would not be made. In broad terms the introduction of the baseline means the council receives NHB funding only after 163 net additional homes have been delivered. These changes have had a more significant impact in the level of funding that can be received in areas of low growth or that attract development of lower band properties, such as Gravesham.
12. Allocations continue to be an un-ring-fenced grant, thus enabling the council to maintain its policy of taking NHB Funding directly into Working Balances.
13. Under the scheme the council has secured indicative NHB funding for 2019-20 of £611,150. This is above the level of funding that was previously in the MTFP, with the increase principally due to there being 349 net additions to the housing stock of the borough between October 2017 and October 2018, above the 160 net additional homes needed to meet the 0.4% national baseline.
14. The Government have retained the option to adjust the baseline in future years to reflect significant and unexpected housing growth. This may affect allocations in future years.
15. It should be noted that the longevity of NHB scheme is currently unknown, pending the outcomes of the Spending Review 2019 and the Far Funding Review; indications suggest that this funding stream may be withdrawn.

Business Rates Retention Scheme

16. The Business Rates Retention Scheme was introduced by government to incentivise councils to deliver growth through encouraging business development and new business set-up. Under the scheme, the government has determined a baseline level of funding to be retained by the Council from business rates (shown in the table at paragraph 2 above). If business rates increase, then the Council will receive a proportion of the increased rates due. If business rates decrease, the Council will share in the reduction in business rates.
17. The Government has been keen to progress the planned move to 100% business rates retention and on 1 April 2017 launched a programme of pilots of 100% business rates retention to functional areas. Kent & Medway were successful in securing Pilot status for 2018-19, with this covering the geographic area of Kent and comprising Kent County Council, Medway Unitary Council, Kent & Medway Fire & Rescue Service and the 12 District Councils. A competitive bid process was held to select pilot areas for 2019-20 and it was announced as part of the provisional settlement that Kent & Medway had been unsuccessful in retaining pilot status for 2019-20, effectively losing any benefit derived from retaining the 50% of the estimated business rates growth that would have previously been returned to HM Treasury. In response to this decision, a letter of representation has been sent on behalf of all Members of the Kent & Medway Pilot to MHCLG seeking reconsideration of the decision not to award Pilot status to Kent and Medway. Any decision is unlikely to be known before publication of the Final Settlement, which is expected no later than the 31 January but after the Cabinet meeting at which the proposed budget for the council will be agreed. The budget has therefore been prepared on the basis of being no pilot arrangements, but this report includes a recommendation to adjust the budget to reflect any change to the Pilot Status decision for Kent & Medway as time may allow.
18. On the basis that Pilot Status is not secured for 2019-20, Business Rates arrangements for the county will revert back to the Kent Pool arrangement meaning that the county will retain a greater proportion of growth in business rates that would have otherwise been returned to Government by way of the 50% levy on growth. Any benefit derived from being part of the Kent Pool will continue to be directed through the agreed mechanism that sees 30% retained by this council, 30% allocated to the Growth Fund Reserve, 30% receivable by KCC and 10% to a Safety Net Reserve.
19. The baseline level of business rates in 2019-20 for Gravesham is £2,917,280. Modelling of anticipated business rates to be generated in 2019-20 (including the projected benefit of membership of the Kent Pool) indicates a benefit to Gravesham of £277,390 beyond that which was previously expected. Of this, £57,750 will be realised as a direct benefit to the Medium Term Financial Plan in 2019/20, with a further £219,640 being the budgeted contribution to the Growth Fund Reserve, intended to be directed to initiatives and projects stimulating economic growth within the county.