

Section Two – Government Funding

Provisional Local Government Funding Settlement 2020-21

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 20 December 2019 the Provisional Local Government Finance Settlement for 2020-21 was announced by the Ministry for Housing, Communities and Local Government (MHCLG). The provisional settlement is for one year only, with the future funding of local government being informed by the 2020 Spending Review and the other local government funding reforms that are planned for introduction from April 2021 (including the Fair Funding Review and reforms to the current Business Rates Retention System).
3. The total level of funding for the council in 2020-21, compared to the previous four-year settlement period are shown below:

| Settlement Funding Assessment | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------------|
| | Final Settlement £m | 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 | 2,964,810 |
| Settlement Funding Assessment | 3,939,120 | 3,358,890 | 3,048,190 | 2,917,280 | 2,964,810 |
| £ Change (to Prev. Yr) | -- | 580,230 | 310,700 | 130,910 | 47,530 |
| Change % | -- | -14.7% | -9.3% | -4.3% | 1.6% |
| Cumulative change % | -- | -14.7% | -22.6% | -25.9% | -24.7% |

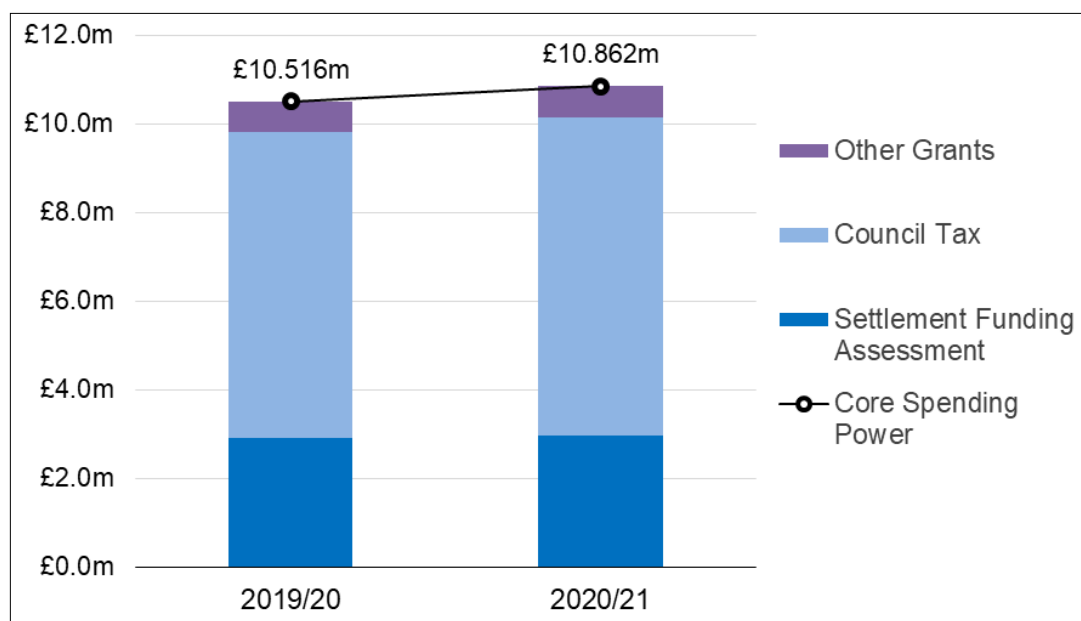
4. The SFA reflects an inflationary increase in the Business Rates Retention Baseline Funding Level of 1.63%, in line with the September 2019 CPI inflation figure.
5. The provisional settlement also confirmed that government would be eliminating negative RSG amounts in 2020-21. For Gravesham, this was budgeted at £243,710 that the council was expecting to lose by way of a reduction to its business rates retention baseline funding level.

Core Spending Power

6. 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 3.3% in its Core Spending Power for 2020-21 based on a series of assumptions, particularly relating to growth in council tax receipts

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

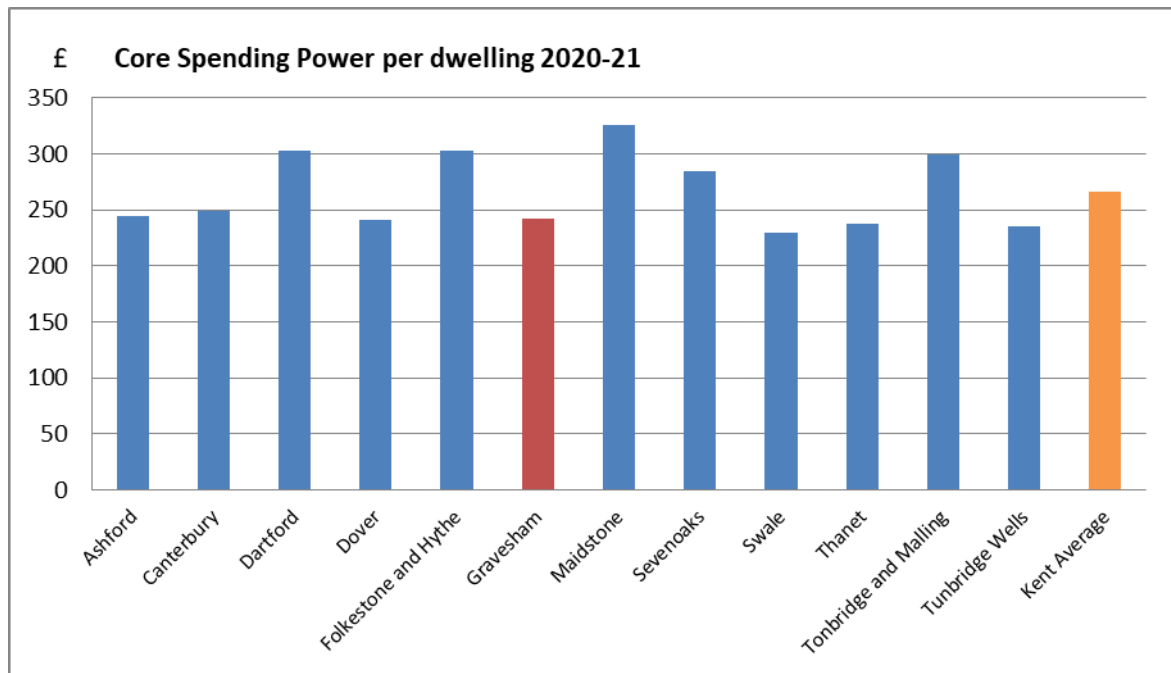
Gravesham Borough Council – Assumed Core Spending Power 2019-20 and 2020-21



8. The information above assumes:

- **An increase in SFA of 1.6%** - as set out in the table at paragraph 2 of this appendix.
 - **Growth in council tax receipts of 4.1%** - growth in the council tax base for 2020-21 is based on average annual growth between 2015-16 and 2019-20 (calculated at 1.6%) and assuming that the council will increase their Band D Council Tax in line with the referendum limit of 2%.
 - **Growth in other grants of 2.2%** - this includes New Homes Bonus and amounts received as compensation for under-indexing the business rates multiplier in previous years and for the switch to CPI for the purposes of uprating the multiplier from 2018-19 onwards.
9. Analysis indicates that the actual increase in Core Spending Power is nearer to 3% as a consequence of a 1.19% increase in the council tax base in 2020-21 and a 2.44% increase in council tax charges (as set out in Appendix 4 of this report)
10. It should be noted that the Core Spending Power calculation takes no account of any increased spending pressures the council may face in 2020-21.

11. The Kent view of assumed Core Spending Power per dwelling for individual district authorities is shown in the graph below.



12. In 2020-21 Gravesham will continue to have the fifth lowest level of assumed spending power per dwelling at £251. This is an assumed increase of 3.72% (£9 per dwelling) compared to the equivalent Core Spending Power measure in 2019-20.

New Homes Bonus Scheme

13. 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, with payment amounts based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is a further payment made for providing affordable homes.
14. 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.
15. Under the scheme the council has secured indicative NHB funding for 2020-21 of £603,010. This is above the level of funding that was previously in the MTFP, with the increase principally due to there being a net increase in the housing stock of the borough of 309 units between October 2018 and October 2019. This was above the national baseline of 0.4%, or 180 net additional homes. Allocations continue to be as un-ring-fenced grant, thus enabling the council to maintain its policy of taking NHB Funding directly into Working Balances.
16. The Government have stated that funding of New Homes Bonus beyond 2020-21 will be subject to the 2020 Spending Review and potential new proposals that may come from this.

Business Rates Retention Scheme

17. 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 three 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.
18. In order to maximise the level of business rates retained locally, the council has been part of the Kent Business Rates Pool since 2015-16 and it has been confirmed that the Pool will continue to operate in 2020-21. The pool is a partnership between Kent County Council and most of the Kent Districts with the primary objective of promoting growth within the respective partner areas. The establishment of the pool delivers the benefit of enabling the levies on business rates growth payable by the districts to be offset by the tariff payable by the County Council and Kent Fire, thus enabling more business rates income to be retained locally. There is, however, the risk associated with the pool that should a council's business rates decline to a level below their respective safety net level, it will receive no national support to reduce its losses. In recognition of this, the pool agreement distributes any levy saved between the council, the County Council and a Growth Fund in equal shares and a small percentage to fund a safety net provision.

19. Modelling of anticipated business rates to be generated in 2020-21 (including the projected benefit of membership of the Kent Pool) indicates a benefit to Gravesham of £529,650 beyond that which was previously expected and reflected in the Medium Term Financial Plan. Of this, £290,470 will be realised as a direct benefit to the Medium Term Financial Plan in 2020/21, with a further £239,180 being the budgeted contribution to the Growth Fund Reserve, intended to be directed to initiatives and projects stimulating economic growth within the county.