

Section Two – Government Funding

Provisional Local Government Funding Settlement 2021-22

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 the Consumer Price Index (CPI) inflation measure, with the RSG element effectively used to bring the funding received by councils to the level assessed by Central Government. From 2018-19 onwards Gravesham has not been in receipt of RSG.
2. On 17 December 2020 the Provisional Local Government Finance Settlement for 2021-22 was announced by the Ministry for Housing, Communities and Local Government (MHCLG). As like last year the provisional settlement is for one year only, with the future funding of local government remaining unknown. Other local government funding reforms that were planned for introduction from April 2021 (including the Fair Funding Review and reforms to the current Business Rates Retention System) have been put on hold until at least 1 April 2022.
3. The total level of funding for the council in 2021-22, compared to the previous five-year settlement period are shown below:

Settlement Funding Assessment	2016-17 Final Settlement £m	2017-18 Final Settlement £m	2018-19 Final Settlement £m	2019-20 Final Settlement £m	2020-21 Final Settlement £m	2021-22 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	2,964,810
Settlement Funding Assessment	3,939,120	3,358,890	3,048,190	2,917,280	2,964,810	2,964,810
£ Change (to Prev. Yr)	--	- 580,230	- 310,700	- 130,910	47,530	-
Change %	--	-14.7%	-9.3%	-4.3%	1.6%	0.0%
Cumulative change %	--	0.0%	-9.3%	-13.1%	-11.7%	-11.7%

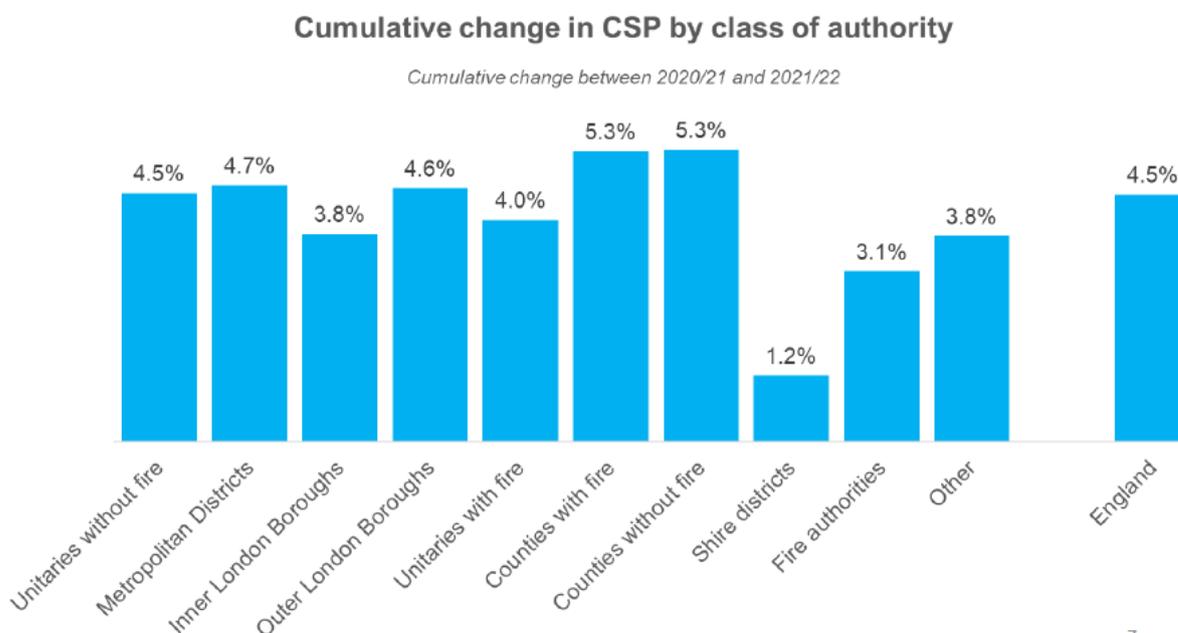
4. The SFA reflects an inflationary increase of 0% in the Business Rates Retention Baseline Funding Level, albeit the council is compensated for this through a corresponding increase in a separate grant received by the council.
5. The provisional settlement did introduce a new Lower Tier Services Grant intended to ensure that no lower tier council had a decrease in spending power. For Gravesham, the provisional settlement indicated that this grant would be £126,260.
6. The provisional settlement also confirmed that government would be eliminating negative RSG amounts in 2021-22. 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.

COVID-19 Funding

7. Local Government have played a critical role in the national response to the COVID-19 Pandemic Central Government has put in place various schemes to help compensate for some of the financial losses that Councils have incurred. To date, Gravesham has received four tranches of un-ring-fenced funding from MHCLG during 2020-21 totalling some. £1.8m. The provisional settlement included announcements that the council would continue to receive support from Central Government during 2021-22 as follows:
- Further financial support of £609,284 for additional expenditure pressures expected to emerge in the first three months of the financial year;
 - Extension of the Sales, Fees and Charges Compensation Scheme on a pro-rata basis for the first three months of the financial year, which is intended to recompense for 75% of irrecoverable losses;

Core Spending Power

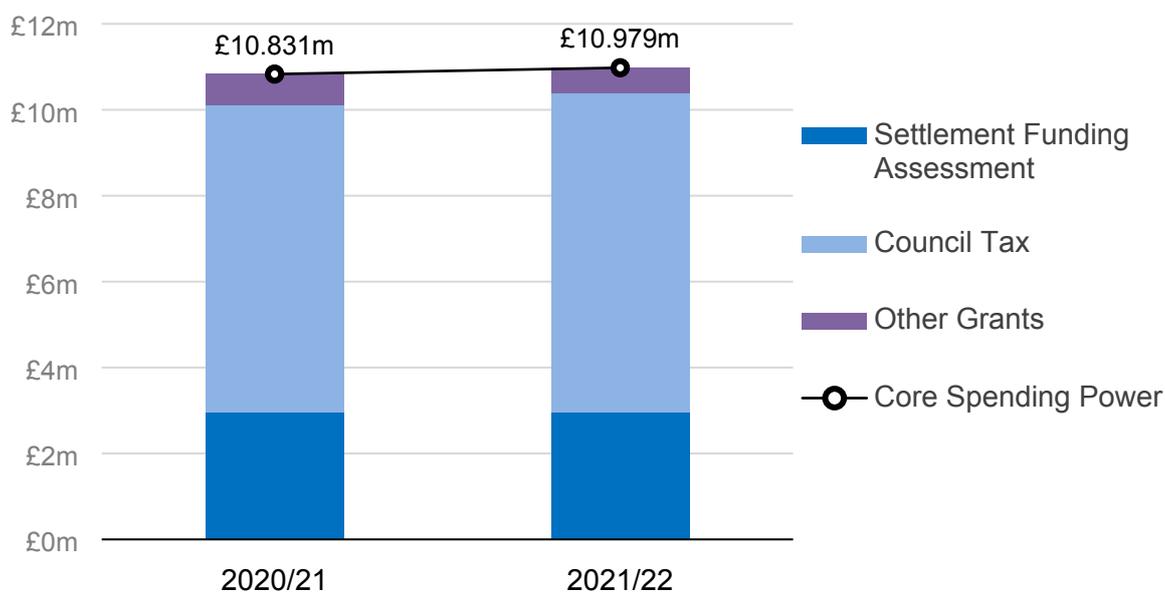
8. Core Spending Power is the headline figure used by MHCLG to represent the core revenue funding available for local authority services, including estimates of Council Tax and locally retained business rates.
9. At a headline level, the Spending Review indicates a 4.5% increase in cash terms in Core Spending Power for local government in 2021-22 compared to 2020-21. It is, however, important to recognise that Shire Districts will only see a cumulative change in Core Spending Power of 1.2%.



Source: LG Futures

10. The provisional settlement indicates that Gravesham will have an increase of 1.4% in its Core Spending Power for 2021-22, slightly above the average of 1.2%. This increase of 1.4% is, however, based on a series of assumptions by Central Government, particularly relating to growth in council tax receipts
11. The assumed Core Spending Power for Gravesham is analysed in the graph below.

Gravesham Borough Council – Assumed Core Spending Power 2020-21 and 2021-22



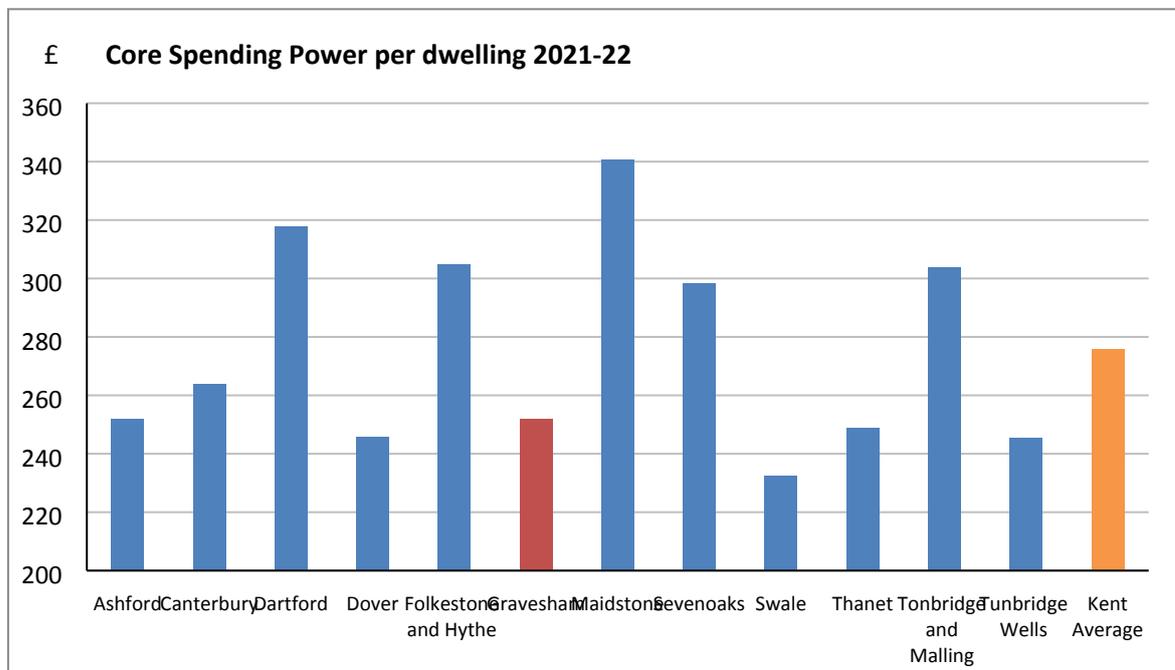
12. The information above assumes:

- **No increase in SFA** - as set out in the table at paragraphs 2 and 3 of this appendix.
- **Growth in council tax receipts of 3.9%** - growth in the council tax base for 2021-22 is based on average annual growth between 2016-17 and 2021-22 (assumed at 1.46%) and that the council will increase their Band D Council Tax in line with the referendum limit of 2% or £5, whichever the higher.

In reality, the maximum council tax growth the council can generate is 2.7%, constituted of a 0.26% increase in the council tax base in 2021-22 (as set out in Appendix 4 of this report) and a 2.38% increase in council tax chargeable to reflects the requirements for council tax amounts to be divisible by nine
- **Decreases in other grants of 18%** - this includes New Homes Bonus and the Lower Tier Services Grant.

13. The provisional settlement has effectively created a situation where this council's ability to increase in Core Spending Power for 2021-22 is fundamentally dependant on an increase in council tax, further increasing the reliance on this source of funding to fund services due to sustained cuts to central government funding over the last decade.

14. It should be noted that the Core Spending Power calculation takes no account of any increased spending pressures the council may face in 2021-22.
15. The Kent view of assumed Core Spending Power per dwelling for individual district authorities is shown in the graph below.



16. In 2021-22 Gravesham will have the sixth lowest level of assumed spending power per dwelling at £252. This is an assumed increase of c2% (£3 per dwelling) compared to the equivalent Core Spending Power measure in 2020-21.

New Homes Bonus Scheme

17. 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.
18. 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. The scheme was further adapted in early 2020, whereby allocations for 2020-21 would be payable in-year only.
19. Under the scheme the council has secured indicative NHB funding for 2021-22 of £311,050. This is below the level of funding that was previously in the MTFP due to there only being 55 net additions to the housing stock of the borough due to the COVID-19 Pandemic, less than the 167 net additional homes needed to be delivered to meet the 0.4% national baseline. 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.
20. As outlined at paragraph 5, the reduction in NHB funding has been offset, in part, by Central Government introducing the Lower Tier Service Grant. For Gravesham this amounts to £126,260 for 2021-22.

Business Rates Retention Scheme

21. 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.
22. 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 2021-22. 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.

23. The budgeted costs for being part of the Kent Business Rates pool during 2021-22 are £301,250. If the council was not part of the pooling arrangement then a sum of £755,330 would be payable to MHCLG.