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Dear Tracey,

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Thank you for your letter of 24 March following our meeting with Tonbridge and Malling District Council the day before.

Of course, we recognise that councils can experience significant volatility in their business rates income for a number of reasons including where businesses fail. In this instance the failure of Aylesford Newsprint means that the Council's income from business rates is some way below what was expected. This means that on the current position, Tonbridge and Malling will not benefit from the rates retention scheme.

As we discussed, the risks present in the system can equally bring reward and many authorities have seen benefits from the scheme. As such, the Government has always recognised that the rates retention scheme involves the transfer of greater risk to local authorities, alongside the potential for greater reward. For 2015/16, 362 authorities (94%) will retain £544m more in 2015-16 than their baseline funding level. So whilst I appreciate this will be of little comfort to the Council, overall the rates retention scheme is proving to be very successful.

However, the Treasury have launched a long term review of business rates and as part of this we are asking how we can use business rates to improve the incentive for local authorities to drive local growth. Clearly the Council's current circumstances will be relevant to that part of the review and I note they will be responding to the discussion document. Views are invited by 12 June but my officials have already brought this case to the attention of the Treasury.

You asked if the Department could waive the Council's 50% central share business rates payment in respect of Aylesford Newsprint. Unfortunately, the arrangements for payment of the central share are prescribed in legislation and there is currently no flexibility in those rules for the Secretary of State to make different arrangements for some authorities. This, of course, means we cannot change the central share payment in the short term. However, this case has highlighted the potential for small authorities such as Tonbridge and Malling to see a cash flow penalty where their income drops below the safety net within a year. I can assure you that it is something we will look at over the coming months.

KRIS HOPKINS MP