



Department for  
Communities and  
Local Government

The Rt Hon Clive Betts MP  
Chair, Communities and Local Government  
Committee  
House of Commons  
London  
SW1P 3JA

The Rt Hon Greg Clark MP  
*Secretary of State for Communities and Local  
Government*

*Department for Communities and Local  
Government*

4th Floor, Fry Building  
2 Marsham Street  
London SW1P 4DF

Tel: 0303 444 3450  
Fax: 0303 444 3289  
E-Mail: [greg.clark@communities.gsi.gov.uk](mailto:greg.clark@communities.gsi.gov.uk)

[www.gov.uk/dclg](http://www.gov.uk/dclg)

22 March 2016

**Budget 2016**

Thank you for your letter of 16 March about compensation to local councils for the business rates tax cuts announced at the Budget. This is certainly an important issue and I am happy to be given the opportunity to provide reassurance on this matter.

First of all, I should say that these tax cuts provide significant support to local businesses. The Small Business Rate Relief measure announced at the Budget will mean 600,000 of the smallest businesses will not have to pay business rates.

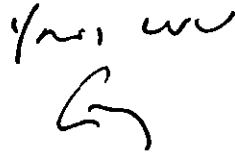
Local authorities will be compensated in full for their loss of income as a result of these changes. We have compensated authorities in full for every reduction to business rates we have made since the introduction of the business rates retention scheme.

This compensation will be paid in the same way as it has been previously, by "section 31" grant, and calculated on the basis of the returns that councils make under the rates retention scheme. It is a tried and tested method with which authorities are familiar and helped to devise.

The funding for these (s31) grants were provided for in Budget 2016 through the Budget scorecard (lines 15-17). These lines include a number of impacts, including the reduction in tax revenues for the public sector as a whole, the reduction in expenditure financed by business rates and a commensurate increase in grant funding to Local Authorities. We expect this to be effected at Supplementary Estimates as has been the case for similar business rate measures announced at previous Autumn Statements.

In the medium term, the impact on local authority revenues will be considered as part of the Government's work with the sector on implementing 100 per cent business rate retention. This will include the pattern of grants which are to be phased out and functions which are to be devolved. It is already clear, however, that the amount of additional business rates available remain substantial and far in excess of available grants. The Government will be consulting on the implementation of business rates in summer 2016.

We have always been clear that the transition to 100% retention will be fiscally neutral, and the set up of the system will be based on the actual amount of business rates available to authorities from that point onwards, taking account of any reductions.

Handwritten signature in black ink, appearing to read 'Greg Clark'.

**THE RT HON GREG CLARK MP**