The Chartered Institute of
Public Finance & Accountancy

# Local authority funding reform – resetting the business rates retention system

## Technical consultation

A submission by:
The Chartered Institute of Public Finance and Accountancy (CIPFA)

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**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org.

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# Introduction

CIPFA welcomes the opportunity to respond to the Ministry of Housing, Communities and Local Government's (MHCLG) technical consultation on *Local authority funding reform – resetting the business rates retention system*.

# Detailed comments

Detailed comments on each of the questions in the technical consultation are below. We hope this is a helpful contribution to the government's work in this key area.

## 1. Are there matters related to the reset that you believe should be covered in future reset engagement that are not mentioned in this consultation?

1.1 CIPFA emphasises that future consultations and the implementation timetable should consider the operational needs of local authorities. The lack of alignment results in additional burdens for local authorities in terms of time, resources and uncertainty.

1.2 The government rightly aims to ensure accurate data for the 2026/27 local government finance settlement (LGFS) and for the 2026/27 business rates retention scheme (BRRS). However, it is also crucial to consider the local authority budget-setting timeline and the complexity of operating the subsequent system on a day-to-day basis.

1.3 Local authorities need reasonably accurate indicative data before the end of summer 2026 for their 2026/27 budgets. Indicative data presented during the autumn will complicate the budget cycle, especially when finances are already under pressure. Data that is only available at the 2026/27 provisional local government finance settlement will further complicate setting local authority budgets.

1.4 The BRRS is complex, with calculations that many local authorities find challenging. This complexity affects both budget setting and timely budget monitoring and forecasting, reducing local confidence in available resources to support service delivery and delaying the recognition of issues often until year-end, when it is often too late to address them.

1.5 These changes are also being implemented in the run-up to local government reorganisation in England, which is itself causing uncertainty for local authority finances, staffing, budget planning, and consequently financial stability.

1.6 CIPFA is asking MHCLG to simplify the BRRS system and calculations as part of this year's reset measures.

## 2. Do you agree that provision should be built into the reset delivery process in year two to retrospectively adjust baselines to improve accuracy via a bespoke data collection in the summer of 2026?

2.1 CIPFA supports including a provision in the reset process to adjust baselines retrospectively in year two using data collected in summer 2026.

2.2 Accurate business rates baselines (BRB) are essential to delivering correct funding allocations to local authorities. A system is needed to remove any inaccuracies caused by estimations required to produce initial 2026/27 BRBs. The consultation's proposal for a retrospective adjustment without restatement to the 2026/27 LGFS BRBs would achieve this.

2.3 This adjustment could combine reset and revaluation corrections, and the process could be structured to allow the reconciliation adjustment(s) to be recognised within 2026/27 revenue according to the Code of Practice on Local Authority Accounting in the same manner as the 2023 revaluation reconciliation adjustment.

2.4 Assuming a full reset, these proposals would provide greater certainty about baseline funding from 1 April 2026 and help address forecasting issues. CIPFA wishes to note that additional budget adjustments may be needed for transitional protection or growth but recognises that this is beyond the scope of this consultation.

2.5 While CIPFA supports this proposal, we are concerned that 2026/27 local authority budgets might be inaccurate due to the complexities created by the tax policy changes and revaluation. We urge the government to provide more support and guidance to manage this risk.

## 3. Do you agree with the government's proposal to determine GRP using draft Valuation Office Agency list data and SCAT codes in 2026/27 and to update this measure for local authority data in 2027/28?

3.1 Given the uncertainties in the current data due to multiple changes occurring from 1 April 2026, we see no other option than to initially use SCAT codes, despite the acknowledged weaknesses in their accuracy.

3.2 Since the NNDR1 data will not be based on the actual 1 April 2026 list, we believe a bespoke data collection exercise in summer 2026 is essential to generate accurate BRBs from 2026/27 onwards.

3.3 CIPFA is concerned that many local authorities will struggle to properly resource a data validation exercise at short notice during summer 2026. We would ask the government to share the outline of the potential work as early as possible to allow for the local reprioritisation that may be needed.

## 4. Do you agree that the government should not make a deduction for reliefs when setting new baselines, instead compensating for reliefs separately via a section 31 grant? Do you see any issues with this approach?

4.1 CIPFA supports this proposal. Any change that reduces uncertainty and volatility and prevents local authorities from gaining or losing money due to factors beyond their control is welcome.

4.2 We note that this change might alter incentives to address avoidance and evasion, as empty properties would no longer reduce local authority income. It would also allow local authorities to choose between distinct types of economic activity (business, charity, etc) without being limited by financial impacts.

## 5. Do you agree that the government should use the estimate of future losses on the list used to set business rates multipliers at revaluations as the sector aggregate quantum for provisions for appeals?

5.1 The consultation's proposals to use a top-down adjustment for losses, as in previous revaluations, seem reasonable.

5.2 Any central estimate of the appeal loss adjustment needs careful consideration due to changes in the business rates retention scheme (BRRS), which may increase the quantum for appeal risk from 1 April 2026.

5.3 Given the lack of data, a flat-rate adjustment as part of the multiplier seems the simplest way to set an initial national quantum. Subject to our comments in 5.4 and 5.5 below, we support the government's intention to work with the sector to explore how to then allocate this between individual authorities.

5.4 Although appeal loss is a natural part of the system design and not a result of policy decisions, CIPFA notes that:

- determining a value for appeal loss has similar limitations to estimating 2026/27 relief values both nationally and locally
- authorities should not gain or lose financially due to factors beyond their control, including the accuracy of rateable values, which are determined centrally by the Valuation Office Agency
- the current system requires approximately three hundred local appeal provisions to be estimated instead of a single central one and is therefore burdensome, costly, complex and time-consuming.

5.5 Given these factors, CIPFA recommends that the government re-examines its current approach and reconsiders the benefits of managing appeal losses centrally. This approach, like the proposals for reliefs, would reduce the risk of inaccurate allocations of national estimates affecting local baselines. It would simplify the BRRS system, reduce costs and prevent disproportionate effects on local income due to factors beyond local authority control.

5.6 Finally, CIPFA notes that the consultation does not include proposals to adjust BRBs for interest loss, which is important and is likely to increase as more rates periods have non-zero interest rates.

## 6. Do you prefer a bottom-up approach using local authority-specific data or a top-down approach using a local authority average fixed percentage to account for bad debt?

6.1 CIPFA prefers a top-down approach, with the national quantum adjusted for outliers and exceptions.

6.2 If MHCLG uses a bottom-up approach, NNDR1 data is more suitable because it estimates the final sum expected to be written off as uncollectable for that billing year, unlike NNDR3 data, which covers all billing periods and is unsuitable for an annual funding determination.

6.3 CIPFA also encourages MHCLG to review the national estimate of bad debt loss included in the consultation. For 2024/25 (NNDR1), against a GRP of £37.1bn, local authorities estimated bad debt losses of £0.42bn, or 1.1% (1.1% 2024/25, 1.3% 2023/24).[1]

6.4 Even then, NNDR1 data has its limitations. For 2025/26, seven of 296 authorities estimated that their total write-off loss across all years for that billing period would be £0.[2]

## 7. Do you have any comments on the approach to the cost of collection allowance in setting new BRBs?

7.1 CIPFA supports MHCLG's plan to review the national quantum for this allowance.

7.2 We prefer aligning the cost of collection approach with the proposals on reliefs. Adjusting the cost of collection allowance into baselines and funding it directly via section 31 grants would simplify the BRRS.

## 8. Do you agree with the government's proposal to deduct an amount from collectible rates for designated areas?

8.1 CIPFA agrees with the government's proposal to deduct an amount from collectible rates for designated area amounts using the methodology outlined in the consultation. Any adjustment to figures using actual data for year two should also generate a correction to year one DA baseline figures using the same process outlined in question two.

8.2 In calculating the DA growth, an estimate of interest should also be included in the following expression (GRPDA – BLADA – bad debt DA – baseline DA)

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1 NNDR1 2025/26 LA_dropdown_ecomms_25.02.25. England Total Part 2, line 5, column 7 and Part 3, line 2, column 3.

2 NNDR1 2025/26 LA_dropdown_ecomms_25.02.25. Datasheet 3, column L.

## 9. Do you agree with the government's proposal to deduct an amount from collectible rates for amounts retained in respect of renewable energy projects?

9.1 CIPFA agrees with the government's proposal to deduct an amount from collectible rates for amounts retained in respect of renewable energy projects. Any adjustment to figures using actual data for year two should also generate a correction to year one renewable energy figures using the same process outlined in question two.