HMT's fundamental review of Business Rates call for evidence

Community Energy England response

Introduction

1. This is a response by Community Energy England which represents 250+ community energy groups and associated organisations across England involved in the delivery of community-based energy projects that range from the generation of renewable electricity and heat, to the energy efficiency retrofit of buildings, to helping households combat fuel poverty.

2. Our vision is of strong, well informed and capable communities, able to take advantage of their renewable energy resources and address their energy issues in a way that builds a more localised, democratic and sustainable energy system.

3. Community energy refers to the delivery of community led renewable energy, energy demand reduction and energy supply projects, whether wholly owned and/or controlled by communities or through partnership with commercial or public sector partners.

4. The overwhelming motivation of people and groups involved in community energy is to make a contribution to averting climate catastrophe, followed by a desire to bring community benefit.

5. We feel that all efforts of government should share these primary motivations and ensure that whatever else they achieve they also prioritise these goals.

6. So the review of business rates should prioritise improving the energy performance of and renewable generation on business property. Businesses contributed 18% of UK GHG emissions in 2018, not including industrial processes. The government will not meet its net zero target unless all possible resources are brought to focus on enabling building energy retrofit.

7. It should support social equity, maximising employment and viable sustainable communities by helping and favouring small independent businesses - which employ more people, increase community resilience and return more wealth and benefit to the local community (local multiplier effect).

8. **Community energy should be eligible for 100% rate relief**, whether it is a charity or not. According to government commissioned research, it generates 12-13 times the social and community benefit of an equivalent commercial installation. It often is the instrument by which businesses, schools, community buildings, local government buildings, churches etc.

are encouraged and enabled to install renewable energy and to do other energy interventions. (In the current P&M business rate regime many of these businesses would be deterred from doing it themselves by the increased business rate.) in 2019 community energy delivered [£4.6m of benefit](#) to the community (including £2.5m in community benefit funds across England, Wales and Northern Ireland)

9. These reliefs and removals could end up being cost neutral or yielding tax benefit as they encourage more renewable energy installations and a thriving solar industry, which has been severely impacted by the increase in both business rates and VAT for Energy Saving Measures (including solar panels and batteries).

3.1 Reliefs: Questions

1. How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?

1.1. Very few of the available rate reliefs and exemptions apply to community energy which has in some cases been heavily impacted by the increased rates on roof-top solar for self-consumption.

2. How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?

2.1. Central government should set a 100% rate relief for community energy (and schools installing solar panels) should be eligible for charitable rate relief and a strong recommendation that this should be at 100%. The Govt already has an agreed definition of what organisations qualify to be seen as community energy (used for Feed-in Tariff pre registration) and could use this definition for a 100% rates relief approach.

2.2. Alternatively central government should send a clear directive to Local Authorities that community energy (and schools) should be eligible for charitable rate relief and a strong recommendation that this should be at 100%.

2.3. This would drive a consistent approach among councils and prevent councils pursuing community energy groups to collect rates which can be worrying and time-consuming for the community energy group which will often be run by community volunteers with no experience of negotiating business rates.

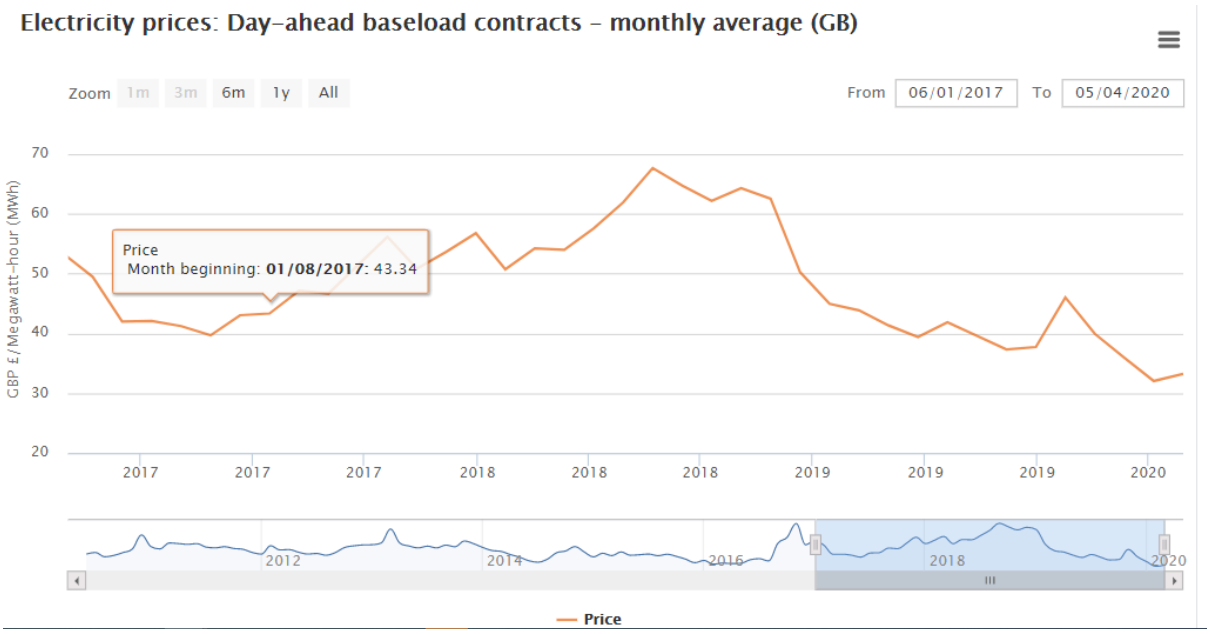
2.4. The current uncertainty around eventual business rates that will be levied is impossible to build into community business models and can tip a project into becoming unviable or severely impacting the community value it is able to deliver.

3. What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?

3.1. It is very difficult to value solar panel installations on buildings because their value very much depends on when they were installed, what the capital costs of installation were as against any subsidy available at the time. These factors have changed (to some degree interdependently) over recent years as subsidies have been withdrawn. The current per kW rate was set whilst the Feed in Tariff (FiT) was still functioning. New projects initiated since March 31 2019 will not be eligible for the FiT, will be functioning on tighter margins and therefore will be less able to pay business rates. The new valuation must take this into account.

3.2. This is also a good reason for instituting a 100% rate relief for community energy.

3.3. Additionally the value of self supply has changed as the wholesale price of electricity has



varied.

3.4. Many community energy organisations don't pay rent for the rooftops they install on. They provide discounted electricity to sites in lieu of rent. Adding in capitalised BR costs to the Power Purchase Agreement could make the offer less attractive and mean the array doesn't get built as a consequence.

4. What role should local authorities have in determining business rates reliefs and exemptions? Should reliefs and exemptions be set by central government or set locally?

4.1. The setting of rate reliefs by local authorities has been highly inconsistent. Very few community energy groups are constituted as charities. In some cases the 80% mandatory relief for charities has been applied when the charitable and community benefit aims of the community energy organisation have been explained. Getting the additional 20% discretionary relief has frequently been a struggle and generally it has not been granted. Other councils have completely refused to apply the relief.

4.2. The Solar Trade Association came to an agreement with the Treasury in 2016 that if the panels on a building are owned by a third party there are limited increases to business rates. But in practice community energy groups have to educate Councils repeatedly about this, sometimes each year. The Memorandum of Agreement is here https://www.solar-trade.org.uk/wp-content/uploads/2016/09/Summary-of-2017-Solar-PV-Memorandum-of-Agreement-redacted.pdf

4.3. A 100% rate relief for community energy should be set by central government.

5. Are you aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability? What could be done to tackle this?

5.1. We are not aware of any community energy groups mis-using tax reliefs. Since they are all organisations dedicated to climate change mitigation and community benefit any business rate that is not paid due to a relief being granted, will be spent to the wider benefit of society.

3.2 The business rates multiplier: Questions

6. What are your views on how the business rates multiplier is set annually and at revaluations?

6.1. It is good that the adjustments of the revaluation and the multiplier are coordinated to generally ensure a smooth maintenance of business rate real value. This ensures consistency of revenue and predictability for businesses. That said there have been anomalies especially related to the Plant and Machinery valuation which have caused increases of 6-8 fold for business owners who have solar panels and use the power generated within their own business.

6.2. On a community energy solar installation the value of Plant is depreciated each year over the investment life-time of the project (for example depreciated to zero after 20 years). If rates are to be charged on the added value of a depreciating asset the multiplier should change in relation to solar plant depending on the age of the plant. Business rates should only be levied on the depreciated value remaining? This level of complexity would be removed by removing solar from the P&M valuations.

7. How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?

8. How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?

9. What are your views on introducing additional multipliers that vary by geography, property value, or property type?

9.1. If a multiplier can make the tax more progressive and fair by increasing tax on those already wealthy (who in many cases will be able to mitigate other tax burdens but will be unwilling to move to a different area) then this is to the good.

4.1 Valuations and transitional relief: Questions

10. 10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

10.1. We support the move towards approximately 3 year revaluation intervals with flexibility to bring forward or delay revaluations if values would be affected by a significant event such as the current pandemic. Obviously price signals must have time to play through to property values. We support the postponement of the revaluation to 2023 and the Antecedent Valuation Date (AVD) being delayed to 1 April 2021. Due to economic mitigation measures put in place during the pandemic the full impact on values will not have fully percolated through by that date for every sector so some flexibility may be necessary in adjusting multipliers for different sectors for several years to come according to which areas of the economy are prospering or need additional support.. For example plant nurseries merited a relief due to having to close in the spring but the sector is now apparently thriving.

10.2. It may equally be possible or preferable to adjust multipliers. Or a combination of both. If a collapse in high street retail values has not fed through by April 2021 it may be necessary to reduce the multiplier to support the sector.

10.3. Over the coming years businesses with solar installed may close. Business or premise owners should not pay Business Rates on the solar Plant if the site is not using electricity and/or unoccupied.

11. What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

12. What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?

13. What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?

14. What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

15. If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

16. What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

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FURTHER INFORMATION

Community Energy England (CEE) was established in 2014 to provide a voice for the community energy sector, primarily in England. Membership totals 250+ organisations. Many of the member organisations are community energy groups, but membership extends across a wide range of organisations that work with and support the community energy sector.

www.communityenergyengland.org