The voice of the energy industry

Energy UK response to HM Treasury fundamental review of business rates: call for evidence

18th September 2020

About Energy UK

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering almost all (90%) of both the UK's power generation and energy supply for over 27 million UK homes as well as businesses.

The energy industry invests over £13.1bn annually, delivers around £85.6bn in economic activity through its supply chain and interaction with other sectors, and supports over 764,000 jobs in every corner of the country.

In this letter, Energy UK is responding to the questions from tranche 1 HM Treasury fundamental review of business rates: call for evidence.

Introduction

We consider that the Uniform Business Rate has reached unsustainable levels at a level in excess of 50p. This will stifle business investment in real estate and plant and machinery, thereby potentially leading to a long-term decline in tax revenue for the Treasury. Energy UK calls on the government to urgently reduce the Uniform Business Rate to a sustainable and fixed level to encourage investment. We also consider that the downwards phasing provisions contained within the transitional relief scheme should be abolished as soon as possible. Many of Energy UK's members have been paying in excess of double their true liability on assets since April 2017 when the last revaluation took place. This frustrates the whole purpose of a revaluation which is to redistribute the rate burden in accordance with changes in property values so that underperforming sectors receive support through the tax system. The Treasury Select Committee made a clear recommendation in their 2019 report that ratepayers should transition to their correct liability more quickly. The government should recognise this and terminate the existing scheme with effect from 31 March 2021.

So far as the specific questions asked in the call for evidence are concerned, we would make the following comments using the numbering of the tranche 1 questions as set out in Chapter 7 of the call for evidence.

Response

3.1 Reliefs

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?**

Energy UK considers the Local Authority element of discretion in the application of reliefs should be removed so that reliefs are more certain and facilitate greater business certainty.

By way of an example, in the case of s.44a relief for partly occupied property the intention is to allow ratepayers to claim partial relief on their rate liability when they experience practical difficulties occupying property to its full extent. Our members have reported that they regularly experience inconsistency of decision making across a number of Local Authority areas despite meeting the statutory criteria in situations with the same factual circumstances.

Energy UK considers that property assets that are not in economic use should not be subject to business rates. In cases where assets must be removed from service for unforeseen reasons, our members suffer lost income and enhanced repair and maintenance costs. Relief from business rates would provide financial support through these periods and ensure the long-term health of the asset. The same is true of a mothballed plant that may have a future use but where the application of business rates can often lead to early demolition. Mandatory reliefs in these circumstances would support long term retention of assets and business rates income.

Empty rate relief at 100% should be reinstated and the government should provide clarity as to the meaning of vacant. This should be unoccupied for its intended purpose. A recent example of the problems caused by such lack of clarity was the Local Authorities refusal to grant empty property relief on offices for 3 months in the light of the Covid-19 pandemic. Energy UK's members were unable to use their offices in the light of government guidelines but, in most cases, did not receive rate relief on the basis that office furniture remained in situ. This is an example of where the business rates system is not aligned with economic reality.

Energy UK believes that all properties, small and large, should pay their fair share towards the property tax to reduce the burden on larger properties. Occupiers of large properties are not necessarily as profitable as occupiers of small properties.

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

See the comments above. Reliefs should be mandatory and targeted at assets not in economic use.

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?**

Energy UK has no evidence to assist with this question.

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?**

For the reasons set out in response to 1. above, Energy UK considers that Local Authority discretion should be removed from the relief process. Businesses value certainty and it would be clearer to have a smaller number of reliefs but with total clarity as to where they are applied.

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?**

Energy UK is not aware of any misuse of tax reliefs. Our members comply fully with all statutory and regulatory obligations.

3.2 The business rates multiplier

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

Energy UK considers that the UBR has reached levels that are unsustainably high for businesses and which restrict business investment and growth. The Government should seek to reduce the level from above 50p and remove annual indexation to provide certainty and stability for businesses and to encourage investment.

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?**

When first introduced in 1990 the UBR was set at 34.8p. It has subsequently increased as a result of annual indexation to a level in excess of 50p. The multiplier should be fixed at a level of between 30p and 40p and not increased by reference to CPI each year. This would encourage investment and growth whilst protecting public finances in the medium to long run. Rental growth will feed through into higher Rateable Values and, therefore, liabilities at revaluations.

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

Energy UK considers the high level of business rates precludes any need for supplements.

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

Energy UK considers that this will add further complications to the business rates system and introduce greater unfairness between property sectors. This already exists with the application of retail rate relief to the leisure and retail sectors whilst no corresponding relief has been applied to the other industries. Indeed, no empty property relief has been applied for most office occupations. A single UBR offers some certainty between revaluations but should be fixed at a materially lower level.

Energy UK expects a level playing field for businesses in England to ensure a consistent allocation of capital expenditure across all regions.

Summary

Energy UK considers that reliefs should be mandatory and applicable nationally so that businesses have certainty. The existing downwards phasing provisions of the transitional relief scheme should be terminated with effect from 31 March 2021. The current level of UBR in excess of 50p is unsustainable and will continue to impact materially on investment and growth. A material reduction in UBR to a fixed level is required to promote growth and to protect public finances in the long term.

Should you have any questions regarding this response, please don't hesitate to get in touch.

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