

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

30<sup>th</sup> October 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 over 80% of both the UK's power generation and energy supply for the 28 million UK homes as well as businesses.

The energy industry invests £13bn annually, delivers £31bn in gross value added on top of the £95bn in economic activity through its supply chain and interaction with other sectors, and supports 738,000 jobs in every corner of the country.

In this letter, Energy UK make the following comments using the numbering of the tranche 2 questions as set out in Chapter 7 of the call for evidence.

## Summary

As highlighted in our response<sup>1</sup> to tranche 1 consultation, Energy UK believes the current level of Uniform Business Rate (UBR) is too high. We particularly note that gross rates receipts for the government from business rates have grown from £10.4bn in 1990 to in excess of £30bn considerably outstripping RPI and CPI.

Energy UK considers that a fundamental review of how plant and machinery is assessed for business rates is required to support the massive capital investment required to meet the UK's net zero target. This should be aligned with a Business Growth Accelerator Relief scheme and a material reduction in the level of UBR to encourage the required investment. Additionally, revaluations should be done every three years, transitional relief should be removed and the valuation and appeals periods should be shortened. Further, improvements in efficiency and operation of rates processes should be implemented.

We further feel that the approach to business rates surrounding low carbon technologies on the demand side should be reviewed, as these can act as a disincentive to the decarbonisation of businesses. The attached letter signed by a range of industry bodies details this position.

The valuation process should be amended to disregard revenue earned from government supported schemes.

The CCA process should be simplified and streamlined to assist ratepayers with managing their liabilities and speed up the check and challenge timescales.

## 4.1 Valuations and transitional relief

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

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<sup>1</sup> [www.energy-uk.org.uk/publication.html?task=file.download&id=7632](http://www.energy-uk.org.uk/publication.html?task=file.download&id=7632)

We consider that a frequency of revaluations based on 3 yearly intervals would strike the right balance in providing certainty to ratepayers and local government but also ensuring values are more reflective of prevailing market circumstances.

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

We consider that this will introduce considerable unfairness into the system by facilitating equal liabilities on ratepayers with distinct properties both in terms of floor area and efficiency. It is also likely to lead to more litigation as those ratepayers with properties on the cusp of zones seek to challenge their RV's.

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

There are already significant obligations on ratepayers to provide information to the VOA to support the valuation process. This could be made much simpler by a centralised online portal allowing for submission of information by spreadsheet and uploading of other relevant documents. This would also facilitate easier data analysis for the VOA. Paper Forms of Return should be abolished as they are time consuming, readily go astray in the post and do not facilitate easy analysis of data.

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

Ideally the period should be reduced to 1 year which, in conjunction with 3 yearly revaluations, would improve the reflection of prevailing market circumstances. It is noticeable that Scotland has already announced a move to a one-year period gap between valuation date and the date of revaluation.

**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?**

We think this would introduce significant complications into the valuation process and be very difficult to evidence given the fact that many properties are held freehold and owner occupied. A standard definition which is applicable to all has value.

**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?**

Energy UK members have raised concerns over the valuation methodology used as applied to heat networks. Energy UK supports a review of the existing approach to ensure that all technologies are being valued accurately and fairly.

We also consider it to be perverse that generating plant earning revenue through government sponsored schemes such as ROC's and FIT's are penalised through the valuation process. In our view the valuation basis should be amended to specifically disregard such income.

**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?**

The transitional relief scheme for the 2017 rating list was exceptionally penal for those caught in the downwards phasing scheme. Many of Energy UK's members will still be paying rates in the year 2021/22 in excess of double their "true" liability. 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. Moreover, the government should either remove downwards phasing altogether for the 2023 revaluation or ensure that any adjustments are phased in quickly over a

maximum of 2 years. Assuming 3 yearly revaluations this would ensure that all ratepayers transition to their correct liability during the life of the rating list.

## **4.2 Plant and machinery and investment**

### **17. What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?**

Energy UK's members report that business rates remain one of the single largest operating cost items for new investment. Low carbon technology often comprises the most capital-intensive power generation projects. A large proportion of the assets are subject to business rates and assessments (and therefore liabilities) will reflect the high capital investment costs. Our members report that the high incidence of business rates costs on low carbon infrastructure is having an adverse influence on investment decisions. As the UK accelerates its transition to a zero-carbon future it is imperative that any barriers to investment in the required technology are removed.

### **18. Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?**

There are a number of anomalies within the existing regulations which require review. For example, solar PV panels and wind turbines are generally not rateable but if installed for own consumption are. This can increase business rates liability by a factor of at least 10 times and completely undermine an investment case.

Generally low carbon technology is significantly affected by the existing regulations whereby a large proportion of assets fall to be assessed. Energy UK believes that the regulations need to be realigned with the zero-carbon agenda to support investment in low carbon.

In addition, we consider that a review of the regulations should encompass the size threshold currently applied to process plant and machinery under class 4. Plant such as boilers, heat recover steam generators and nuclear pressure reactor vessels are process plant and machinery and should not be subject to business rates regardless of size.

### **19. What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?**

As confirmed above there is significant evidence from Energy UK members that business rates costs are a serious concern for investment cases and influencing Final Investment Decisions. The government should be supporting critical investment in infrastructure to support the zero-carbon agenda and the need for additional power as the UK moves to electric vehicles.

We note the scheme operating in Scotland known as the Business Growth Accelerator Relief scheme. This applies 12-month business rates relief to new properties and extensions to existing properties. This is encouraging new investment in Scotland and should be replicated in England.

### **20. What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?**

Any concerns over loss of business rates income should be considered in the light of the scale of investment required in the UK required to meet the zero-carbon target. This has been estimated by the Institute for Public Policy Research (IPPR) AT £33 billion per annum. The critical point is to ensure that this investment happens and remove obvious barriers to investment. By reforming business rates to ensure lower operating costs for low carbon technology, investment will follow and in turn significantly additional business rates income for Local Authorities and Government.

**21. How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?**

See the comments in our response to Part 1 questions and comments above. The incidence of business rates in the UK is at an unsustainably high level and will stifle investment in fixed assets. A material reduction in the UBR and review of the regulations governing plant and machinery, as well as the introduction of a Business Growth Accelerator Relief scheme will incentivise investment and ensure maintenance of business rates income for the government in the long run.

Local Authorities could use their powers to set (aspects of) business rates locally- in order to attract low carbon investment - including heat networks, on-site generation and electric vehicle charging. They could do this through business rate reduction/exemption for investments which help them attain their strategic objectives (i.e. decarbonisation/carbon emissions reduction and fuel poverty alleviation). Heat networks would be one such investment in our view.

Energy UK recently joined other industry bodies in asking that business rates be reviewed as a tool in aiding green recovery. Removal of business rates on a temporary basis could stimulate growth in low carbon technologies as businesses take on these measures.

**22. How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?**

See comments above in respect of a review of the plant and machinery regulations to remove the anomalies relating to solar and wind installed at buildings and sites for onsite consumption. In addition, we would urge the government to remove revenue earned from government supported financial schemes such as ROC's and FIT's from the valuation process.

Energy UK recently joined other industry bodies in asking that business rates be reviewed as a tool in aiding green recovery. Removal of business rates on a temporary basis could stimulate growth in low carbon technologies as businesses take on these measures. Business rates can, under existing approaches, act to reduce the likelihood of businesses to adopt low carbon technologies like solar PV, low carbon heat installations, and EV chargepoints given higher rates for adoption.

### **5.1 Valuation transparency and appeals**

**23. What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?**

Whilst we recognise some merit in the CCA system e.g. the requirement to put forward a reasoned case for a reduced assessment at the outset, the existing system remains unwieldy and long winded. It could be simplified and streamlined to make it more responsive to ratepayers' concerns. Our key suggestions would be as follows.

- 1) Simplify the registration process enabling companies to register without personal information provision.
- 2) Undertake a single claim of all properties without the need for detailed evidence in respect of each property.
- 3) Facilitate the ability to appoint a single advisor/agent across the whole portfolio.
- 4) Allow the ability to move straight to challenge without the need to go through the check stage if the issues relate to valuation only and not to physical facts.
- 5) Reduce the timescales in which the VOA must decide to 3 months (from 12 months) for a check and 6 months (from 18 months) for a challenge.

We think these alterations to the existing CCA process would make it more user friendly, flexible and most importantly speed up the process of a check and/or challenge to the existing RV. This will have significant benefits for ratepayers and Local Authorities.

**24. What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?**

Information is provided to the VOA by member companies in response to requests for information. It is critical to our members that any information provided to the VOA is treated as confidential and not released without the prior consent of the company providing the information.

The existing Request for Information in paper form is cumbersome and the ability to have all requests through an online portal with the ability to upload information would significantly improve the process.

**25. What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?**

Our members would find it hugely beneficial if their advisors/agents were granted greater powers to manage the process on their behalf and can register and claim properties provided they have an appropriate letter of instruction. This would remove a time-consuming administrative burden from ratepayer companies.

## **5.2 Maintaining the accuracy of ratings lists**

**26. What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?**

Regular information is already provided on request and the process for information should be moved online and made simpler to submit in spreadsheet or document format before increased requirements are imposed upon ratepayers.

**27. What are your views on making a register of commercial lease information publicly available?**

We have no objection in principle to this provided confidentiality is maintained where required.

**28. What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?**

Should the VOA or billing authority initiate a request for information, this should be provided. However, it is not a core competency of the ratepayer to know what constitutes a notifiable change under the ratings rules and therefore not appropriate to put the onus on the ratepayer. This request should be in a simple form and be easy to submit online. Single submissions listing changes should be permitted and the requirement should be no more than a single submission annually.

## **5.3 The billing process**

**29. How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?**

All rate demands should be uploaded by Local Authorities onto a portal for a company to access and be sure that all demands are in a single place where they can be readily accessed. All demands should be in a simple and consistent format.

**30. What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?**

A centralised online system acting as a single depository for all rate demands would be sensible. This does not need to be linked to other business taxes but should enable a ratepayer to access all demands in a single place.

**31. What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?**

Clear information on how to access their portal and what information will be provided and in what manner. An online and telephone help desk.

**32. What, if any, criteria should be applied in exempting certain ratepayers from online billing?**

Smaller ratepayers without access to online networks or understanding may need additional support or exempting.

## **6 Exploring alternatives to business rates**

**33. What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?**

We see no logical rationale for moving to a Capital Value Tax. It does not change the basis of the tax being a property value based.

**34. What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?**

See above comments - we have no evidence of any benefits which would be derived. It would be a significant upheaval, incur substantial time and cost for no apparent benefit.

**35. How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this**

Capital value evidence will be harder to determine when more of the UK commercial property market operates on a rental basis as oppose to freehold sales.

**36. How would replacing business rates with a CVT affect the distribution of taxation?**

Without further information it is difficult to understand how the distribution would change as the tax would remain geared to property values, albeit capital as oppose to rental values.

**37. What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?**

Local Authorities may find business rates harder to collect as property owners may be more difficult to identify and contact than occupiers who are physically in possession.

Most leases contain clauses that the tenant will be responsible for business rates in any event so in these cases the cost would simply be passed on directly to the occupier. Otherwise, where the landlord incurs liability, rents are likely to increase so that business rates costs are indirectly recovered from tenants/occupiers.

**38. What lessons can be learned from other countries experiences with CVTs?**

We have no evidence to assist with this question.

**39. What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?**

We have no evidence to assist with this question. Clearly the incidence of taxation on commercial property occupation in the UK is materially higher than other European countries.

**40. What would be the benefits and risks of introducing an online sales tax?**

The significant benefit would be that the tax base is broadened thereby allowing greater scope for a reduction in the UBR applied to occupiers of real estate. This would support the principal aim to reduce the UBR to more manageable levels where the tax does not operate as such a significant disincentive to investment.

**41. Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?**

Goods sold online where VAT is levied.

**42. What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?**

We have no comments to assist with this question.

**43. How could an online sales tax affect the distribution of taxation?**

It should be used to reduce the UBR so that the incidence of business rates is reduced, and that tax is more evenly distributed between investors and occupiers of capital-intensive real estate and online businesses.

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