

HMT's fundamental review of Business Rates call for evidence

Community Energy England response part 2

Introduction

1. This is a response to part 2 of the consultation 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. The review of business rates should therefore prioritise improving the energy performance of and renewable generation on business property. Businesses contributed 18% of UK GHG emissions in 2018¹, not including industrial processes. The Committee on Climate Change warns that 'the UK's legally-binding climate change targets will not be met without the near-complete elimination of greenhouse gas emissions from UK buildings'. Since the legally binding targets are demonstrably inadequate to keep heating to 1.5 degrees² and will need to be revised, any government reforms should be aiming to drive carbon reduction from building further and faster to achieve zero-carbon well ahead of 2050 and from new

1

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/862887/2018_Final_greenhouse_gas_emissions_statistical_release.pdf

² <https://theecologist.org/2020/jun/08/beyond-climate-comfortable-ignorance> and Prof Kevin Anderson's paper: <https://www.tandfonline.com/doi/full/10.1080/14693062.2020.1728209>

buildings from now. 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 due to the local multiplier effect³.
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 installation⁴. 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 community⁵ (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).

4.2 Plant and machinery and investment: Questions

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

- 17.1. The inclusion of onsite generation for self-consumption in P&M valuation has led to 6-8 fold increases in business rates bills, penalising people who had 'done the right thing'. It very often wipes out any financial benefit from the installation and in some cases businesses are paying more in rates than they will save in energy bills. This creates a dis-incentive to invest in onsite generation at a time when we need to be incentivising everyone to take every possible action to transform to a zero-carbon, renewable and decentralised energy system. This is a 'greater good' which far outweighs any benefit that will accrue from a slightly larger tax take.
- 17.2. Investing in solar can also trigger businesses to be more energy aware and to invest in less visible and 'sexy' energy retrofit work such as demand management, battery installation, insulation, process efficiencies etc.

³ <https://www.nefconsulting.com/our-services/evaluation-impact-assessment/local-multiplier-3/>

⁴

<https://www.gov.uk/government/publications/community-renewable-electricity-generation-potential-sector-growth-to-2020>

⁵ <https://communityenergyengland.org/pages/state-of-the-sector>

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?

18.1. Solar should be removed from P&M valuation to encourage as many businesses as possible to install as much of it as possible. Many businesses have high daytime energy demands and roofs or premises that could generate significant amounts of energy for local consumption, thus avoiding expensive, inefficient centralised generation/transmission and the need for expensive and high-carbon network reinforcement to cope with increased demand from the electrification of heat and transport.

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

19.1. Businesses contributed 18% of UK GHG emissions in 2018⁶, 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 and renewable generation on buildings.

19.2. Onsite generation should be supported by being permanently exempt from business rates and even incentivised by business rate reliefs. We support the proposal that energy efficient buildings should pay lower business rates. Onsite generation is a form of system energy efficiency, reducing the amount of energy that must be supplied from the grid, which is higher carbon. It can also reduce or remove the cost of reinforcing the grid as energy demand increases.

19.3. Putting solar on existing rooftops can also increase resource efficiency, putting generation near to consumption, doubling the function of the roof space, reducing the amount of open land that needs to be used for solar.

19.4. It can also be a trigger of greater energy efficiency focus on the part of a business management, leading to further investment, increased efficiency, reduced waste and better business viability - returns on investments in energy efficiency are compounding, and long term.

19.5. Community energy owned solar panels should be exempt from business rates, either by 100% relief or under the P&M regime. According to a government commissioned report community energy brings 12-13 times the social and community benefit of an equivalent commercial installation⁷. In 2019 community energy delivered £4.6m of benefit to the community⁸ (including £2.5m in community benefit funds across England, Wales and Northern Ireland).

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

⁶https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/862887/2018_Final_greenhouse_gas_emissions_statistical_release.pdf

7

<https://www.gov.uk/government/publications/community-renewable-electricity-generation-potential-sector-growth-to-2020>

⁸ <https://communityenergyengland.org/pages/state-of-the-sector>

- 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?**
- 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?**
- 22.1. Business rates should reward energy efficient buildings and encourage retrofit of existing buildings. It should reward onsite generation wherever the energy is used. It should encourage the maximisation of onsite generation capacity (which current and proposed incentives, such as the reinstated CfD for onshore renewables, fail to do). If a business owner is prepared to invest in onsite generation they should not fear increased rates from putting more capacity on the site. Presently the only viable model is to tailor onsite renewable generation to average day-time load rather than installing the maximum capacity that the site or roof can accommodate, thus maximising local low-carbon generation which should be the aim.
- 22.2. We support the proposal in the call for evidence document that energy efficient buildings should pay less business rates. This will incentivise energy efficiency and retrofits in many cases but in some will penalise those already running expensive buildings leaving them unable to afford to invest in retro-fit. If there were a way to award reduced business rates to business owners who have a bona-fide project to increase the energy efficiency of their building to happen within one business rate billing cycle, this might incentivise business owners to embark on projects in the knowledge that they are receiving a bit of up-front support for it. We know from Carbon Trust evidence that especially small businesses find it very difficult to organise around the disruption of installing energy efficiency measures. If a system or building, however inefficient, currently works and yields sufficient margins it is often deemed too risky to meddle with it, whatever the longer term gains might be.

CONTACTS

Emma Bridge, Chief Executive, Community Energy England

Email: emma.bridge@communityenergyengland.org Tel: 033 3303 4126

Duncan Law, Policy & Advocacy Manager, Community Energy England

Email: d.law@communityenergyengland.org Tel: 07958 635181

Address:

Community Energy England, The Workstation, 15 Paternoster Row, Sheffield, S1 2BX

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