REA Briefing - 2017 Business Rate Rateable Value Revaluation

This briefing note has been put together following the presentation given by Keith Norman from Gerald Eve to the REA Finance Forum held on the 7th July 2016 concerning current proposals for the 2017 Business Rate Revaluation. His presentation slides are available and accompany this briefing.

Introduction

The Rateable Values (RVs) for business rates are undergoing a revaluation, replacing the 2010 rateable 'list' which is currently in place. Revaluations happen on average every five years, in order to reflect changes in the property market. Due to largely political reasons concerning the 2015 general election, the government took the decision to delay the 2015 revaluation until 2017, which is now underway. The Valuation List for 2017 will be set by the Valuation Office Agency (VOA) for England and Wales and the Scottish Assessors Association (SAA) in Scotland.

The valuation date for the 2017 revaluation is set as of the 1st April 2015, a standard two years prior to the valuation list in order that the RVs are based on evidenced rental values. The VOA is currently in the process of setting out their proposals for the 2017 Valuation list and is engaging with industry in relation to their proposals.

Within this briefing we have outlined both the background to the current revaluation, explaining why renewables could be especially hit by increases in business rates, as well as looking at the current status of the VOA discussions for each technology.

Discussions with the VOA about setting the 2017 RVs for different technologies are ongoing. They have already set out their draft proposals for some technologies, while for others there remains little clarity. The REA are well aware that the changes to RVs could have an impact on the operational costs of renewable projects and we are lobbying to get the best possible outcome for all clean technologies. The VOA is due to circulate the Ratings Bill 2017 – 2022 in September 2016.

It is also worth noting that fiscal support mechanism, many of which have been reviewed since the election, such as the FiTs and RHI are unlikely to have taken into account this increase in operating costs. The REA have already brought this to the attention of relevant Government ministers, as it is important that they take into consideration the full implications of these changes when setting the level of support available to renewable technologies. It will be one of many topics we will be talking to the new Department for Business, Energy and Industrial Strategy about in detail.

The REA are already in discussions with government and industry experts on this issue. Given the short time frame we have to act upon this, we encourage members to contact the REA as soon as possible if they are looking for us to take any particular action on business rates. Please contact Mark Sommerfeld (msommerfeld@r-e-a.net) with any comments or questions.

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General Background to Rateable Values for Renewables

- ***Who pays business Rates and are there any exemptions for renewables?***

Business rates are payable by all non-domestic organisations including commercial businesses, public sector organisations, schools, community projects and hospitals. Note that RVs are not grandfathered, so the revaluation is applicable to both existing and new projects.

In the case of renewables, there are currently some limited exemptions applied to agriculture , where the generation is used on site, and new micro generation (less than 50 kw after 1st April 2017). Note that there is also an existing exemption for micro generation built before 1st April 2017, however this is temporary and could be reversed in 2017; the REA are calling for this exemption to be made permanent.

- ***How are RVs Calculated?***

RVs are calculated in accordance with a 'Receipts and Expenditure' methodology, which looks at both a business's costs and revenues as of the valuation date, in this case the 1st April 2015. Importantly the Rateable Value takes into consideration any fiscal support measures being received as revenue. In the case of renewables this includes the RHI, FITs, the RO and CfDs. As such RVs for renewable projects tend to be relatively high because of the revenue stream received in the form of subsidy support.

- ***Why are renewables likely to see increases in Rateable Values?***

The previous valuation date for the 2010 list was two years earlier in 2008. At this time the only support mechanisms in operation was the RO. Since then RO banding, FITs, RHI and CfDs have all been introduced. While these have subsequently been included in the valuation of some businesses, projects built in 2012, or before, will not have had these support mechanisms included in their RV. As a result, the inclusions of these support mechanisms in the 2017 revaluation has the potential to see significant increases by a multiple of several times depending on the technology. It is possible that projects built after 2012 will also see some increases, but they are not expected to be as dramatic.

Current VOA Proposals by Technology

Solar Projects

In the majority of cases solar projects are expected to see little change to their business rates, especially if built after 2012 or in receipt of ROCs. However there is some very significant circumstance which could see severe RV increases for projects.

• Early FiT solar plants (2012 or before) are currently proposed to see a 3.5 times uplift in business rates, this is lower than originally proposed by the VOA, but still significant. Given a current rateable value of around.£8,000 per MW, this would suggest an increase to circa £28,000 per MW. Note this does not however necessarily mean a 3.5 times increases in liability. The liability is calculated in accordance with multiplying the rateable value by the Uniform Business Rate, while further reliefs may also be applicable (see below for further information).

• Roof Mounted solar for self consumption on business units are also an area of concern. Commercial properties which are assessed as a business unit and have their own solar panels on the roof will see the solar panels be rateable under their business unit valuation. This applies even though, under current legislation, if the same solar panels on the property are owned by a 3rd party they would not be rateable. So, for example, if a supermarket owns the solar panels they have put on their roof for self consumption then the solar panels become rateable as part of the assessment of the supermarket itself. In such cases the panels are considered 'plant and machinery' and the RV is based on assumed capital costs as of the 1st April 2015. As a result the proposed RVs for such projects could see increases of 6.1 to 7.7 times. Again given the current RV of £8000 per MW, this could see increases to £48,400 - £61,600 per MW in such cases.

This increase is the result of a quirk in the regulations, and there is potential for a legislative change which the industry is lobbying Government for. This could avoid such dramatic increases for roof mounted self consumption units, however the VOA themselves would not be able to make this adjustment. There is also a question of liability, as it is potentially possible that the solar array could be set up as a Special Purpose Vehicle (SPV), meaning the panels may not be rateable in such situations. While this would be bureaucratic solution, it is not ideal, and we are seeking further advice in relation to this situation.

Hydro

Current VOA proposals suggest a wide variation in rates for hydro projects dependant on the type, location and contractual position of the plant

- Low head and Dam ROC schemes are likely to see little change, with parity expected with the 2010 List
- High head ROC schemes are currently proposed to see a circa. 1.5 times uplift in RVs.
- Again old FiT hydro schemes, built in or before 2012, are expected to be the worst effected with a business rate increase of circa 2.5 – 4.5 times uplift.

Onshore Wind

Current VOA proposals look like the majority of onshore wind projects will see small increases or parity with the 2010 list.

- Pre April 2013 ROC accredited sites will likely see a small increase of circa 10%.
- Post April 2013 FiT or ROC accredited projects will be at parity with the 2010 List.
- Most severely affected will likely be the up to 500 KW 2012 FIT schemes which are expected to see an increase of 4-5 times the rateable value.

Biomass, Waste to Energy and AD

Discussion in relation to Waste to Energy, AD and Biomass are still very much in progress. No firm proposals have yet been put forward by the VOA so there remains potential for increases and, in some circumstance, reductions in the new RV. We are keen to get a greater number of members' views involved in these discussions, so please do contact the REA in relation to this. We will keep relevant members up to date with developments for these technologies.

<u>Additional Considerations</u>

Valuation risks not yet accepted by the VOA

Being as the Valuation Date is the 1st April 2015, the VOA are yet to take into consideration a number of changes which have affected revenue since that date. Most notably:

- The wholesale cost of electricity has fallen. On the valuation date the forward curve was reflecting £45 – £47 per MWh , this has subsequently collapsed to around £30 per MWh.
- For ROC projects, the ROC recycle value has decreased further since the valuation date.
- LEC's were also scrapped after the valuation date, with their removal coming into affect as of the 1st August 2015.
- Feedstock fuel contracts are off course highly variable, as is the level of revenue available from gate fees, all of which effects biomass, AD and waste to energy plants.

The REA are raising these issues in order to get the associated risks appropriately priced into the Rateable Value were possible.

Liability and Relief

Annual liability is calculated by multiplying the Rateable Value, which will be set in the 2017 list, against the Uniform Business Rate, which will be set by government around November 2016.

However some reliefs maybe available:

- Government is due to consult on the future of the **Transitional Relief Scheme** in England, which phases in large increase or reductions in liability by applying discounts to the bill. The Scheme officially ended on the 31st March 2015, but was extended to March 2017 for properties with a rateable value up to and including £50,000. The consultation is expected in autumn 2016. Given the potential for increase, especially for pre 2012 FiT schemes, it will be essential that upwards phasing is maintained, reducing liability. The REA will be pushing for this within our response.

- The threshold for Small Business Rate Relief was increased in April 2017. Qualifying small businesses will receive 100% relief available for RVs of £12,000, with a sliding scale up to RVs of £15,000. Note there remain questions as to whether setting up a project under a Special Purpose Vehicle (SPV) will be able to qualify as a small business in order get this relief.

Appeals

Government is both streamlining the appeals process and trying to reduce the number of spurious appeals that are submitted. They currently aim to introduce a three stage Check, Challenge and Appeal system which will require a full statement of case at the challenge stage. It is likely there will also be the introduction of a fee at the appeals stage. This will be introduced with the new rateable list in April 2017

Locational Business Rates

It is also worth bearing in mind that Local Authorities (LAs) can currently keep 100% of business rate income from renewable energy schemes. This will be extended to all business rates by 2020.

This is currently good news for renewables in terms of gaining planning permission, as it will be in LAs interest to see plants built. However, given that most Local Authorities are currently under resourced, it is unlikely they will use the opportunity to provide additional reliefs to those already available.

If you have any comments or questions in relation to this briefing please contact Policy Analyst, Mark Sommerfeld on: msommerfeld@r-e-a.net or telephone 0207 925 3580.

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Presentation to the Renewable Energy Association Finance Forum

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Introduction

- Keith Norman BSc FRICS
- Partner and Head of the Utilities Rating Team at Gerald Eve LLP
- Specialise in business rates advice to energy and utilities companies.
- Intention to cover at a high level
    - 2017 revaluation and potential implications
    - Political decisions affecting liability

2017 Revaluation – Valuation Date

- Revaluation effective from 1 April 2017 in England, Wales and Scotland
- Valuation Date 1 April 2015
- Current Rating List dates from April 2010 – Valuation date was 1 April 2008 prior to introduction of Feed In Tariff (FIT)
- Revaluations generally occur every 5 years but 2015 revaluation was postponed for 2 years until 2017.
- Valuation Office Agency (VOA) responsible for England and Wales. Scottish Assessors Association (SAA) responsible for Scotland.

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2017 Revaluation – Contractual Implications

- VOA/SAA use receipts and expenditure method of valuation
- Rateable Values (RV’s) will therefore reflect individual asset’s contractual position i.e. specific level of ROC or FIT income.
- Existing 2010 RV’s at modest levels because valuation date was prior to FIT’s scheme introduction.
- Most adverse implications reserved for older FIT contracted plant (2012 or before).
- Assets developed under ROC scheme or more recent FIT schemes likely to see less impact from the revaluation.

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2017 Revaluation – Potential Implications

<u>Solar</u>

- General parity with or reductions from 2010 List level except
  - Earlier (2012) FIT plants ; proposed 3.5 times uplift
  - Self consumption installations

<u>Hydro</u>

- Wide variations in RV's depending upon type, load factor and contractual position
- Low head and Dam ROC schemes – Parity with 2010 List
- High Head ROC schemes – c 1.5 times uplift
- FIT schemes – c 2.5 – 4.5 times uplift

2017 Revaluation – Potential Implications

Wind

- Onshore
  - Pre April 2013 ROC accredited – c. 10% increase
  - Post April 2013 accredited – Parity with 2010 List
  - Up to 500 KW 2012 FIT schemes – c. 4-5 times increase

Biomass

- Results not known yet but potential for increases or reductions dependent on specific circumstances

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Roof Mounted Solar

- Issue applies to sites installed for self consumption
- Could see increases in RV's of 6-7 times from existing 2010 List levels
- BUT depends upon how each case was valued on 2010 List.
- Arises from a quirk in the regulations governing what assets are rateable.
- Issue should not arise where solar panels are in 3rd party occupation
- Also does not arise for exempted assets
    - Domestic
    - Agricultural
    - New Microgeneration

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Microgeneration

- Installations for self consumption < 50 kw exempt from rates
- Temporary only, will cease on 1 April 2017 for existing assets
- Assets installed after 1 April 2017 should continue to benefit.
- Lobbying ongoing to make exemption permanent in all cases.

2017 Revaluation – Valuation Issues

- Extent of rateable assets
- Brown Price – Forward Curve reflecting £45 to £47 per mw hr at valuation date. Subsequently collapsed to c. £30 per mw hr.
- ROC recycle pot income levels on downward trajectory at valuation date.
- LEC's income – announced in July 2015 to be removed effective from 1 August 2015.
- Potential for material increase in business rates costs from April 2017.
- Risks around fuel contracts (biomass).
- Appeals can be submitted after 1 April 2017

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Other Issues Affecting Liability

- Annual Liability = Rateable Value * Uniform Business Rate
- Uniform Business Rate set by government. 2017/18 UBR will be announced around November 2016.
- Transitional relief scheme in England – phases in large increases or reductions in liability.
- Government will consult on transitional relief scheme – likely to be late Summer/Autumn 2016.
- Small Business Rate Relief – increased threshold from April 2017. 100% relief available for RV's of £12,000 for qualifying small business's with sliding scale up to RV £15,000.
- Questionable whether each Special Purpose Vehicle (SPV) qualifies as a small business.

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Appeals Procedure

- Government Consultation complete 2015
- Proposed 3 Stage Process
  - Check
  - Challenge
  - Appeal
- Potential Implications
  - Statement of Case required at Challenge stage
  - Potential fee for appeals
  - May reduce superfluous appeals but concerns over timescales

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Frequency of Revaluations

- Ongoing government consultation
- Three possible options
    - Existing regime
    - Self assessment
    - Formula
- Unlikely to be change in short term

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Localisation of Business Rates

- Local Business Rate Retention Scheme from April 2013
- Local Authorities retain 50% of growth in receipts and 100% of new income from renewable energy schemes
- From 2020 Local Authorities will retain 100% of all business rates collected
- Local Authorities will have flexibility to reduce Uniform Business Rate in their jurisdiction in order to attract inward investment
- Some Local Authorities may have modest powers to raise Uniform Business Rate in order to find infrastructure investment

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Summary

- Revaluation effective from 1 April 2017
- Impact may be mixed but most adverse impact on 2012 FIT contracted sites
- Some valuation issues remain in dispute so appeals should be considered
- Concern over roof mounted solar for self consumption
- Some exemptions apply
- Uniform Business Rate and transitional relief scheme will also affect liability
- Changes to appeals regime likely from April 2017
- Possible longer term move to more frequent revaluations
- Full localisation of business rates from 2020

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Any questions?