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# REA Response to the MHCLG Consultation on Decapitalisation Rates for the 2021 Business Rates Revaluation

Deadline: 30th May 2019

This technical consultation concerns whether the government should prescribe decapitalisation rates for 2021 and, if so, how the rates should be prescribed.

Covers England only.

Email direct responses to: ndr@communities.gov.uk
Email any comments on the REA response to: nsmith@r-e-a.net

## Introduction

The Renewable Energy Association (REA) is pleased to submit this response to the above consultation. The REA represents a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are over 550 corporate members of the REA, making it the largest renewable energy trade association in the UK.

Overall, the REA welcomes the recent suite of commitments from Government to decarbonisation, as part of the 2019 Spring Statement, and parliament's declaration of a climate change emergency. Businesses and Industrial sites accounted for over 20% of the UK's carbon emissions in 2018[1]. As such, incentivising decarbonisation for this tranche of the economy presents significant opportunities for the reduction of overall UK emissions. The UK is currently on track to meet its 2020 carbon budget, although behind on the 2025 carbon budget[2]. The 2021 business rates revaluation offers a strong opportunity to introduce a low cost method of incentivising businesses, especially heavy industry, to invest in low carbon technologies.

**REA Priorities for the decapitalisation rates review:**

1. The REA recommends that a new group is introduced for businesses owning or operating **on-site** low carbon technologies.
2. This group should be allocated a decapitalisation rate between the current two rates.

[1]Department for Business, Energy and Industrial Strategy, 2018, Table 1, Provisional UK greenhouse gas emissions national statistics 1990-2018 Excel data tables, See here.
[2]Committee on Climate Change, 2018, Reducing UK emissions: 2018 Progress Report to Parliament. See here.

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3. Eligible low carbon technologies should include; biomass and biogas, CCUS, energy storage, electric vehicle charging, geothermal and ground/air source heat pumps, solar PV/thermal, organics and green gas, waste to energy, and any **on-site** renewable energy generation or clean technologies.

## Details on REA Priorities

Studies by Carbon Credentials show that just 10% of UK businesses have set a carbon emissions reduction target[3], despite carbon emissions from businesses and industry accounting for over 20% of the UK's carbon emissions.

The UK is on track to meet its 2020 carbon budget target, although much of the heavy lifting has been done by the power sector, with other sectors including industry remaining flat over the past 10 years. Industry now is the second largest polluting sector, following transport (See Figure 1). The transport sector has seen heavy investment in electric vehicles and EV charging infrastructure, with targets set to end the sale of petrol and diesel vehicles by 2040, although business and industrial sites are lacking incentives to set decarbonisation strategies. Heavy investment is required in the business and industry sectors to aid in reaching the 2025 carbon budget targets, with the 2021 business rates revaluation offering a prime opportunity to create a low-cost incentive for businesses.

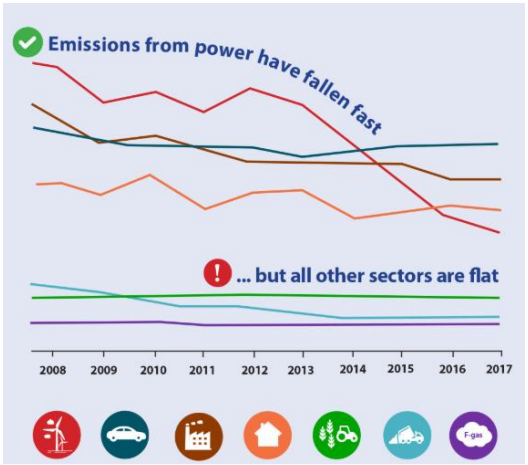


**Figure 1 - Emissions by sector, Committee on Climate Change, 2018**

Government so far has pledged £170m to help heavy industry decarbonise, through "net-zero" clusters, although short term incentives are required to support wide scale decarbonisation. Businesses offer an opportunity not only for decarbonisation, but to support the wider energy system transition by offering flexibility services which will in turn reduce national infrastructure investment costs. These are in addition to air quality improvements, offering improved welfare and health, and reducing strain on the NHS; increasing the green jobs sector; and supporting the UK to become a leader in low carbon technologies.

**UK Businesses owning and/or operating on-site renewable energy generation and clean technologies should be prescribed a lower decapitalisation rate**, to incentivise businesses to decarbonise.

- The REA suggests that only businesses with on-site generation or clean technologies (such as EV chargers) are eligible, for ease of administration.
- Technologies should include renewable energy generation (such as biomass, solar PV, or geothermal) in addition to clean technologies which support

[3] Carbon Credentials, 2018, https://www.independent.co.uk/news/business/news/climate-change-carbon-reduction-uk-companies-energy-global-warming-a8666906.html

energy infrastructure and wider decarbonisation (such as EV charging points or energy storage).

Business rates in a wider sense are also of concern to renewable energy generators for two primary reasons:

- Business Rates are a major cost for such businesses and could act as a disincentive to investment in UK infrastructure and energy generation as such.
- Many renewable energy sites (for example fuelled stations) cannot be valued in a straight-forward way and are therefore subject to protracted valuation which involve local Valuation Offices taking decisions which lack transparency or precedent. This is likely to become an issue for sites installing energy storage technologies too.

The issue of business rates has become a major concern for many companies in the Commercial & Industrial sector, with on-site renewable generation schemes facing increased charges. Tapered relief or payment holidays for solar/wind/hydro on-site renewables and such projects co-located with energy storage would be very beneficial for small scale renewables. Another option would be a two to three year payment 'holiday' or exemption for such sites.

This is a fundamental issue of providing a level playing field – gas CHP equipment and plant is already exempt from Business Rates and therefore a precedent has been established which actively discriminates in favour of a particular technology. Renewable sources should be given a level-playing field to be able to compete effectively.

More information on this can be found in our REA briefing from 2017, see here.