Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ

cc. Rt Hon Alok Sharma MP, Secretary of State for Business, Energy and Industrial Strategy

Rt Hon Kwasi Kwarteng MP, Minster for Business, Energy and Clean Growth

10 August 2020

Dear Mr Sunak,

We are writing to you as a group of trade associations and membership organisations representing the energy sector, to highlight the role that our members have to play in the green recovery and to ask that, alongside other measures that the government are working on to support this sector, you consider providing business rates and VAT relief to unlock the billions of pounds of projects and thousands of jobs this industry can provide.

We are at a crucial point for the country – our recovery from the pandemic has the potential to shape how we transition to net zero and tackle the climate emergency. The UK has an impressive record of decarbonisation in the energy sector and there is a stable, established base and strong appetite for increased growth as we look to decarbonise further and faster.

Across the renewable and storage industries there is a large pipeline of projects, which could provide 3 million job-years and add over £125bn to the economy[i]. The decarbonisation of heat, improved energy efficiency and the shift to electric vehicles also have the potential to provide thousands of jobs, including 150,000 in building renovation alone through to 2030[ii].

There are many routes to providing support and funding to boost these industries, all of which should be explored to deploy at the scale needed to meet net zero targets and to create sustainable, long-term jobs post-Covid. A whole package of measures must be considered to achieve this.

In the context of a green recovery, immediate, temporary tax relief for those technologies that are part of the net zero transition, would allow shovel-ready projects to immediately come forward, and give confidence to investors to support the industry as it recovers.

We therefore ask that the Treasury:

- **Provides business rates relief for clean energy technologies that are playing a role in the net zero transition, whilst developing a fairer and more coherent system of business rates and VAT for renewables and storage to unlock investment**
- **Reinstates the VAT discount of 5% for energy saving materials and expands the definition to include storage, air-source heat pumps and EV charging equipment**

More detail has been included below, and we welcome any questions or a discussion on this topic.

Yours,

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THE ELECTRICITY STORAGE NETWORK
Energy UK
REA THE ASSOCIATION FOR RENEWABLE ENERGY & CLEAN TECHNOLOGY
renewableUK
regen transforming energy
SOLAR TRADE ASSOCIATION

Additional information

As a group of trade associations and membership organisations, we have a broad membership that spans over 1000 companies and organisations, representing the energy industry from large-scale offshore wind sites to domestic heat pump installers. We are all committed to decarbonising the energy system and all of our members are playing a vital role in the net zero transition. We ask that you encourage and support this ambitious industry which can help the UK to build a sustainable and resilient future economy.

Business rates

Business rates are regularly flagged as a barrier to deployment of clean technologies, particularly those that are installed behind-the-meter at commercial and industrial sites, and small businesses. For example, supermarket chain Lidl recently installed solar PV across several of its sites, but face a business rates increase of 530%. Battery storage encounters similar costs, despite being a vital tool in decarbonising our energy system and a newer technology already facing several financial hurdles. A 10 MW system, if installed behind-the-meter, would face rates 400% higher than its grid-connected counterpart.

The current approach to heat networks, which the Government expects to comprise a significant proportion of zero carbon heat in 2050, shows similar discrepancies. The rateable value of heat networks amounts to £10,387 per kilometre of pipeline, against a rateable value of gas transmission and distribution networks which amounts to £2,382 per kilometre of pipeline.

VAT

Until 2019, certain clean technologies were eligible for a reduced rate of VAT of 5% when installed in residential properties. Due to an EU challenge, this UK Government was obliged to increase the rate back to 20% in 2019, with detrimental effects across the industry. For example, for solar PV, the capital costs for domestic consumers have reduced significantly, but are still relatively high and rates of return are marginal. An additional 15% VAT reduces the rates of return – we estimate that an average domestic solar installation will see payback time increased by two years, and the value of export payments will be negated for around six years. This is likely to reduce the number of installations and in turn affect businesses in the renewable, storage and energy efficiency industries. The Treasury have previously acknowledged concerns at this increase and spent several years appealing the ruling, recognising the detrimental effect it would have on the industry. Ministers stressed in 2019, that the decision could be revisited once the UK has left the EU.

The definition of 'energy saving materials' used for this rates relief is now outdated (defined in the VAT Act 1994) and should be updated to include storage, air source heat pumps and EV charging infrastructure, both public and private.

The power used to charge electric vehicles also attracts a discrepant rate of VAT - power at public charging stations is subject to the full 20%, but domestic charging is only 5%. This should be harmonised and reduced to 5% for both to encourage the use of EVs and public charging stations.

Installing energy saving materials, clean technologies and renewable generation in residential settings is a critical part of the transition to net zero and one that requires urgent action; the

Committee on Climate Change have identified this as one of the key priorities in their recent report to Parliament.

Existing exceptions

Good quality Combined Heat and Power (CHP) installations have received business rates relief for 20 years and this has been successful in encouraging industrial sites to reduce their energy costs and carbon emissions. Many industrial sites have made substantial investments because of the business rates regime. This is a successful example of how a long-term programme of rates relief has encouraged the move towards more efficient technology and helped to expand an industry.

Funding

Local authority budgets are under pressure for several reasons, not least the current pandemic. Business rates are a source of income for LAs and we would not want to increase any budgetary pressure at this time. We recommend that this be funded by the Treasury, as was the case with rates relief during the lockdown.

Timeframe

We recognise that business rates must be paid by energy infrastructure and generation – we propose that this is an immediate, but temporary rates relief and could be phased out over several years. In the longer term, more fundamental tax reform would be beneficial to encourage the uptake of clean technologies.

We are working as an industry to take part in the business rates review currently being undertaken by the Treasury to suggest a more nuanced approach that would incentivise clean technologies, whilst ensuring the industry still contributes its fair share of tax. All of this must be done with the consumer in mind, ensuring a fair and proportionate approach to tax as we transition to net zero.

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[i] https://www.regen.co.uk/unlock-renewables-for-a-green-recovery/
[ii] https://www.theeeig.co.uk/media/1096/eeig_report_rebuilding_for_resilience_pages_01.pdf

Signatories

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