

Local Government and Communities Committee Clerk
Room T3.60
Scottish Parliament
Edinburgh
EH99 1SP

28 May 2019

To whom it may concern,

Scottish Renewables' Response: Call for Evidence on the Non-Domestic Rates (Scotland) Bill

Scottish Renewables is the voice of Scotland's renewable energy industry, working to grow the sector and sustain its position at the forefront of the global clean energy sector. We represent around 250 organisations working across the full range of renewable energy technologies in Scotland and around the world, from large suppliers, operators and manufacturers to small developers, installers and community groups, and companies right across the supply chain.

Renewable energy is a key part of Scotland's economy. Scotland's renewables output was 70% of our gross electricity consumption in 2017 while supporting more than 17,000 jobs¹. With renewed ambition from the Scottish Government to reach 'net zero' carbon emissions by 2045, the need for a fleet of renewable energy generators has become ever more apparent.

However, the sector is operating in a particularly challenging economic climate. 2015 saw market support mechanisms for renewable generators greatly reduced or cut altogether². These changes to government policy have threatened thousands of jobs, billions of pounds' worth of investment and thousands of megawatts of renewables projects in the development pipeline – jeopardising progress towards our climate change targets.

The Renewables Obligation (RO) closed in 2016³, the Feed-in-Tariff is subject to severe depression⁴ and the UK Government is currently consulting on the closure of

¹ <https://www.scottishrenewables.com/sectors/renewables-in-numbers/>

² <https://www.scottishrenewables.com/publications/written-evidence-investor-confidence/>

³ <https://www.ofgem.gov.uk/environmental-programmes/ro/about-ro/ro-closure>

⁴ <https://www.ofgem.gov.uk/environmental-programmes/fit/fit-tariff-rates>

the scheme⁵. The Renewable Heat Incentive is also expected to close in its current form in 2021.

A limited number of large-scale projects have secured support through the Contract for Difference scheme, the auction mechanism introduced to replace the RO. Currently some technologies are not being given the opportunity to compete in these auctions. The CfD mechanism is specifically designed to drive down costs, so only projects that can offer competitive costs for renewable energy will secure contracts. This means that the business operating environment that projects are developed in will have a considerable bearing on their success.

The industry therefore has developed a keen focus on efficiency and cost-reduction, and business rates are an increasingly important overhead for our members' businesses.

Business rates are one of several fiscal measures in the Scottish Government's control and are therefore a tool to be leveraged to create a competitive economic climate in Scotland which support's the government's objectives, including renewable energy targets and energy strategy objectives.

Scottish Renewables welcomed the Barclay Review and the intention to reform the business rates system in Scotland to better support business growth, long-term investment and to reflect changing market-places. We believe that the Non-Domestic Rates (Scotland) Bill (from hereon in 'the Bill') should be used to enact the Review's recommendations, and where possible go further to ensure a fit-for-purpose ratings system develops.

We responded in detail to the Barclay Review⁶ and we welcome this Call for Evidence as business rates continue to be considered, and changes implemented, by Government.

Scottish Renewables supports the Bill overall as it brings in more frequent revaluation cycles which will enable the better reflection of market conditions and continues reforms of the rates system following the conclusion of the Barclay Review.

⁵ <https://www.gov.uk/government/consultations/feed-in-tariffs-scheme>

⁶ <https://www.scottishrenewables.com/publications/consultation-response-barclay-review-business-rate/>

It must though be recognised that the Bill is designed around a system currently undergoing a range of reforms, including the tribunal system, revaluation cycles and the digitisation of various supporting infrastructures. Flexibility must be built into legislation to enable the system to adapt as reforms are implemented and technology develops.

At present, we would argue that the business rates system in Scotland is overly-complex, rigid and can act as a disincentive to investment. The Barclay review put forward some welcome recommendations to improve this, but as we have set out elsewhere⁷ we believe there remains room for improvement.

It is also our view that renewable energy assets are an anomaly in the ratings system. It is increasingly apparent that non-domestic rates are not an appropriate method of taxation for renewable energy assets and we would welcome a wider conversation with Government regarding an alternative taxation mechanism better able to capture the complexities of renewable energy projects.

In the meantime, given the challenging economic climate the renewables industry is operating within, it is our position that non-domestic rates for renewable energy assets need to be reconsidered if we are to meet the Scottish Government's ambition detailed in the Energy Strategy⁸ and 'net-zero' ambitions.

We have identified four key areas which, if tackled, could create a ratings system that is simpler, fairer and would increase Scotland's competitiveness and support the renewable energy industry.

1) Responding to change

- The ratings system will only be effective if it is able to effectively respond to both macro-economic changes and sector-specific circumstance.
- We welcome measures to enhance the frequency of revaluations to every three years.
- We welcome measures to condense the time period between the tone date and the revaluation to one year.
- We continue to believe that there is merit in introducing a mechanism to assess and reflect fundamental changes in the economic circumstances of areas or sectors.

⁷ <https://www.scottishrenewables.com/publications/consultation-response-barclay-implementation-consu/>

⁸ <https://www.gov.scot/Topics/Business-Industry/Energy/energystrategy>

- Given the closure of the Feed-in Tariff, coupled with the Scottish Government's ambition for local energy project development, we believe business rates relief for renewable energy projects of this scale (5MW or less) is required to support these projects and meet government ambitions.

2) **Supporting business growth and long-term investment**

- We welcome the proposed Plant and Machinery legislation review to ensure that onsite generation and district heating networks are valued fairly and reasonably.
- We would also welcome the Scottish Government considering implementing reliefs to support investment in key or emerging sectors such as renewable heat.
- Business investment is a key enabler of productivity and inclusive economic growth. Non-domestic rates must be considered in the context of the Scottish economy, as well as Government ambition across a range of strategies – including energy. Rates policy should be part of an economy-wide, coordinated strategy, that aims to develop a vibrant and competitive business environment in Scotland.
- Research undertaken by Scottish Renewables has demonstrated the extent to which business rates – when not evaluated appropriately – have burdened the renewables industry⁹. The impact of rates alongside other forms of business taxation must be appropriately considered by Government – especially while there are ongoing reviews such as the Tretton Review of Hydropower rates.

3) **Improving Transparency, standardisation and consistency within the system**

- We continue to have concerns over the transparency of the ratings system. We would welcome the Scottish Government taking steps, via legislation if necessary, to ensure transparency of process and accountability as standard.
- As we have set out in some detail in previous responses, a key challenge for the renewables sector in navigating recent revaluation cycles has been a lack of access to underpinning methodologies. There is a long-standing issue of ratepayers seeking clear and timely information in order to estimate future costs and allow assessment of whether an appeal is considered necessary.

⁹ <https://www.scottishrenewables.com/publications/position-paper-business-rates/>

- Early visibility of information, including the methodology of how any estimate was made, will undoubtedly reduce the need to lodge precautionary appeals.
- Transparency and accessibility of information will depend upon open and direct collaboration between ratepayers and assessors. Digital solutions to enable this should be considered as well as re-considering the appropriate structure of forums where ratepayers/their representatives and assessors regularly meet. We would welcome consideration of this by the committee.

4) Enabling the early rating of next-generation renewable energy development

- The renewable energy industry is seeing the emerging development of subsidy-free development. While the future of government mechanisms remains uncertain, we would expect increasing volumes of generation across some technologies to come forward without the requirement for subsidy.
- There is currently no proposed methodology that the industry has had sight of to rate such a development.
- This means that our members are currently unable to accurately forecast their outgoings, adding a considerable degree of uncertainty into project development.
- Similarly, as we move to decarbonise our heat and transport sectors – as per Government ambition – we expect to see the emergence of innovative energy solutions that bring together multiple technologies within the same site.
- Again, industry lacks a clear understanding of the valuation process and methodology for these developments.

We would be keen to engage further with the Committee to discuss how the Bill can be used to ensure a fit-for-purpose and future proofed ratings system in Scotland which allows our climate and energy ambitions to be met.

Yours sincerely,



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Scottish Renewables