Green light for investment

How the business rates system can encourage businesses to invest

In partnership with

November 2020

Tax and Regulation

AVISON YOUNG

About the partner

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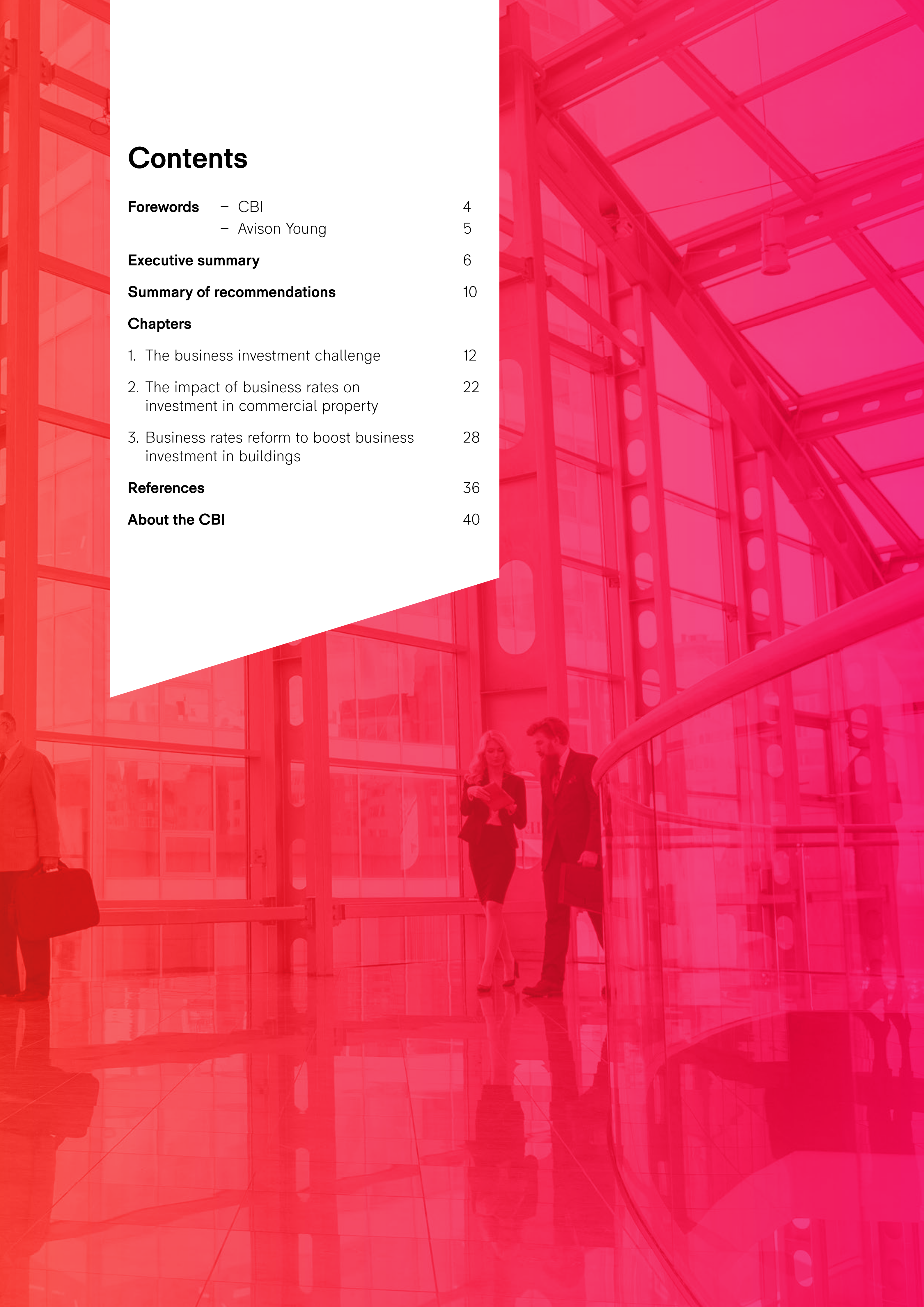

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Foreword CBI

Business investment plays a key role in raising productivity and living standards, creating economic opportunity, and providing solutions to global challenges. However, in the UK business investment as a share of GDP has lagged international peers for four decades, constraining economic growth potential and our international competitiveness. In a previous CBI report, *Catching the Peloton*, highlighted the role of a country's business and policy environment in fostering investment and innovation. It pointed to several structural problems constraining UK business investment, including gaps in policy incentives – particularly relating to investments in commercial property, which appears to have driven an overall underperformance in business investment.

More recently, the UK has experienced significant political and economic uncertainty stemming from our departure from the European Union, as well as the subsequent pandemic. Combined, this has resulted in UK business investment being more negatively affected than our G7 peers. Without a step-change in policy to address the long-standing barriers to business investment, the impact of the pandemic is likely to be prolonged, and the UK will continue to fall behind its G7 counterparts on investment performance.

Moreover, as technology continues to advance at pace, the structure of the economy will continue to change and the policy environment needs to be an enabler of further productivity improvements. Tax incentives are a crucial part of this but we must also review the taxes which unintentionally discourage business investment, including business rates.

While there are many levers the government can use to stimulate business investment, addressing the challenges in the business rates system would play an important part. Through reform of the system, business rates could play a critical role in meeting our net-zero ambitions by driving investment in low carbon technologies for commercial property. It is therefore important that the government consider business rates reform as part of its wider policy agenda, including how to ensure a sustainable economic recovery.

We are pleased to have partnered with Avison Young again to examine the impact of business rates on business investment. Together, we have developed a set of proposals to reform the business rates system that we hope will help to address these challenges.

Annie Gascoyne
Director of Economic Policy, CBI

Foreword Avison Young

The UK economy faces significant challenges over the next few years as it struggles to confront difficult issues resulting from the Covid-19 pandemic, Brexit, and the pressing need to accelerate the drive to net-zero carbon emissions by 2050. To meet these challenges, the government needs an economy where business investment is positively encouraged by government policy. The current business rates system is a barrier to investment, penalising businesses who want to invest and work in sustainable and energy efficient buildings.

Avison Young and the CBI believe the lack of stimulus through business rates is bad for the economy and bad for the environment, and propose a package of reform measures which will encourage good behaviour and help drive higher levels of investment across the commercial property sector. A business rates reform must reflect the challenges of the 21st century, and we should rightly question why businesses investing in clean energy solutions should pay more in business rates. The current system is counter-intuitive by not encouraging businesses to make the right decisions which are ultimately good for us all.

Avison Young has very much enjoyed working with the CBI to deliver a set of well-reasoned proposals, which share our common aspirations of incentivising positive business behaviours through tax to ensure this government is promoting the right business decision-making around the green agenda.

David Jones

Principal and Managing Director,
Business Rates, Avison Young

Executive summary

Business investment is a core determinant of sustainable economic growth and prosperity, and should therefore be a pivotal part of rebuilding the economy following the pandemic. As an enabler of productivity improvements and, ultimately, a key determinant of household earnings and living standards, business investment not only creates economic opportunities, but it also helps to provide solutions to global challenges. Stimulating business investment therefore has the potential to drive the economic recovery and rebuild the economy, promoting sustainable economic growth and prosperity. This makes it a pivotal part of the government's strategy.

UK business investment remains weak both relative to historical standards and international peers, which means the potential gains from boosting business investment could be huge. The UK's business investment growth has been slowing since the 1990s, and while this trajectory has been broadly matched by other G7 countries, since the financial crisis the gap has widened substantially. At the same time, the pandemic has hit the UK economy harder than in other G7 economies, putting the UK firmly at the bottom of the G7 ranking. This is not only a drag on the UK's growth potential, but it also demonstrates the potential gains to be made from reaching similar levels of investment intensity seen in other G7 countries.

However, the economic impact of the pandemic has not only worsened the business investment picture, it has also limited the ability of many businesses to invest in the near term. With the turnover of many businesses falling dramatically, accessing the necessary cash flow to cover the costs that need to be paid regardless of turnover has been crucial. But to do this, many businesses have had to take on higher levels of debt. As Covid-19 cases rise and restrictions tighten, many businesses are unlikely to see a full recovery in their turnover in the near term. At the same time, the end of the transition period is getting closer with limited clarity on the UK/EU future economic relationship. Together, these factors create an extremely difficult trading environment for businesses, constraining business investment growth in the near term.

The policy environment needs to provide businesses with the confidence to invest, with tax policy a key lever the government can use to directly stimulate business investment. A country's policy environment determines many business investment decisions, which means the UK government has many policy levers at its disposal to stimulate business investment. But tax policy is one of the few ways in which the government can directly stimulate business investment using, for example, tax incentives or minimising tax as a barrier to investment. Tax incentives such as the capital allowances regime, reduce the overall cost of an investment, while tax can also act as a barrier to discourage investment that would have negative consequences for the economy and society.

However, there are gaps in tax incentives for investment in commercial property, despite commercial property remaining a core part of business investment. The composition of business investment has changed significantly in recent years, as investment in Intellectual Property Products (IPPs) began to grow at pace, while investment in buildings and structures, as well as Plant & Machinery (P&M), gradually deteriorated. Despite this, investment in commercial property (buildings and P&M) remains integral, accounting for over half of total business investment. While some of this change is likely due to structural changes in the modern economy, part of this is also explained by the tax landscape for buildings and P&M. The burden of property taxes in the UK is much higher than the rest of the G7, accounting for 4% of GDP compared to 1% in Germany. At the same time, tax incentives for buildings and P&M are less competitive in the UK. This makes the UK less desirable as a place to invest, particularly when that investment involves the acquisition of commercial property.

On top of this, the business rates system is a key barrier when making decisions to invest in commercial property. Business rates are too often cited by businesses as a barrier to investment in property. This is because a business rates bill is based on the rental value of a property, which increases as improvements are made. The high burden of business rates (a tax rate of close to 50%) often means that the cost of a higher business rates bill outweighs the benefits associated with improving the property, making the investment commercially unviable. In addition, the calculation of a business rates bill also includes certain P&M items, so installing any of these items also comes with an associated business rates cost. While the higher business rates bill comes immediately after a property improvement is made, in reality it takes a period of time for businesses to get back to full operation and even longer before reaping the benefits of that investment.

The scope to decarbonise buildings as part of the net-zero agenda is huge, but business rates currently act as a barrier to green investments. Investments in a property that would reduce its carbon footprint, for example through improving its energy efficiency, are often the types of investment that are commercially unviable because of the associated higher business rates bill. Green technologies such as solar panels are included in the business rates calculation which can be the tipping point of that investment not going ahead. This means that too often these investments do not take place, which is out of kilter with the government's net-zero ambitions. Decarbonising buildings (both domestic and commercial) is a key part of the road to net-zero, with 80% of buildings that will exist in 2050 already built. Therefore, it is imperative that the policy environment supports this.

As the government and business look to build back better and reach the net-zero target, there is an opportunity to reform the business rates system in support of this agenda. It is clear that stimulating business investment has huge economic potential, and that the business rates system has a role to play in this. While reforming business rates is not the silver bullet, it has an important role in ensuring business rates are no longer a barrier to investment in property. Encouraging commercial property investments through a minimum 12-month exemption on any business rates increase associated with property improvements will help businesses to make viable investment cases, while regularly reviewing the P&M regulations will ensure that the system keeps pace with the modern economy as new technologies are developed. Extending the original exemption for property improvements that result in an improvement in the building's Energy Performance Certificate (EPC) and exempting certain green P&M will incentivise businesses to make those green investments that reduce the carbon footprint of their buildings, helping to deliver sustainable economic growth and prosperity.

"As the government and business look to build back better and reach the net-zero target, there is an opportunity to reform the business rates system in support of this agenda."

Summary of recommendations

Together, the CBI and Avison Young have developed a set of four proposals to reform the business rates system that will help to boost business investment more generally, while also supporting the green agenda and driving sustainable economic growth and prosperity. The proposals can be grouped into two broader objectives:

Encouraging investment in commercial property through a 12-month exemption as a minimum on any rateable value increase following property improvements, and a regular review of the P&M regulations

1. Introduce a similar measure to Scotland's Business Growth Accelerator Relief that enables improvements to existing properties to receive a minimum 12-month exemption from increased business rates payments to encourage investment in the existing property stock.
2. Review the P&M regulations to ensure they are relevant for the 21st century, with a statutory commitment to keep this under regular review to ensure they keep pace with a changing economy and advancements in technology.

Supporting the government's net-zero ambition by exempting certain P&M and linking energy efficiency improvements to further business rates incentives

3. Where property improvements result in an improvement in the property's EPC, those properties should benefit from an additional business rates exemption (in addition to the minimum 12-month exemption) to encourage businesses to reduce the carbon footprint of their buildings. For this to be effective, implementation of the 2020 Action Plan to reform EPCs must be implemented in parallel.
4. Exempt certain existing P&M and new technologies that directly link to the 'green' agenda (including solar photovoltaics and heat pumps) from the P&M regulations to help stimulate investment in the green economy.

While reform to the business rates system is not the only solution to the business investment and the net-zero challenges, it has a critical role to play in both. Therefore, the government should consider this business rates package of proposals as part of its wider policy thinking on how to ensure a sustainable economic recovery and become carbon neutral by 2050.

The business investment challenge

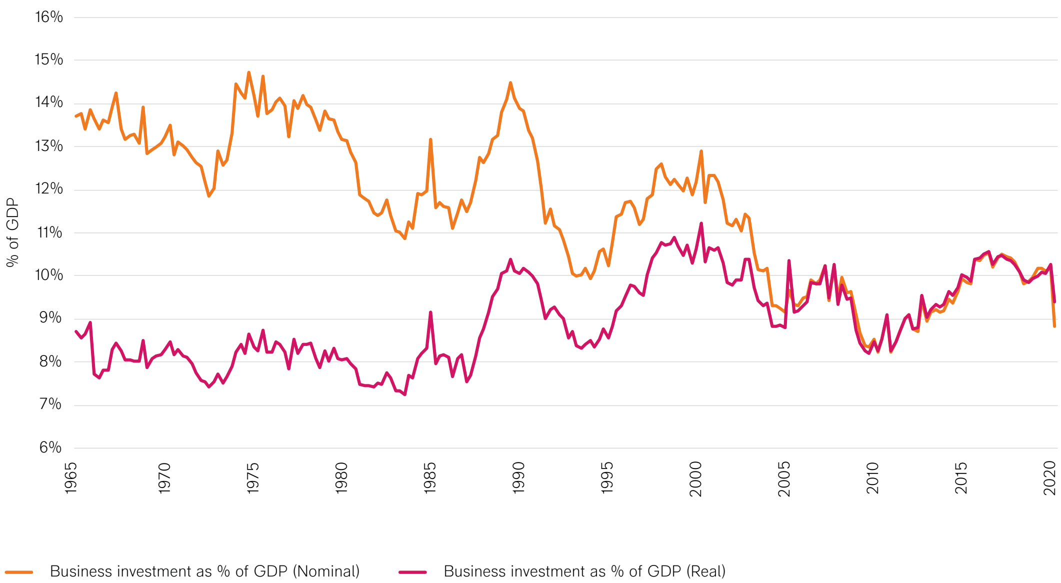
UK business investment performance has been slowing since the 1990s, lagging international peers, and experiencing a deeper impact during the pandemic

It is widely acknowledged that the UK suffers from a lag in productivity growth relative to other advanced economies, which has resulted in a slower recovery in GDP since the global financial crisis than elsewhere in the G7. As productivity growth continues to stagnate, this will constrain improvements in living standards, as well as long-term economic resilience.

Business investment is a key enabler of productivity improvements, creating economic opportunities and providing solutions to global challenges. However, subdued business investment is a key factor constraining the UK's productivity and economic growth potential, as well as the UK's international competitiveness. As shown by **Exhibit 1,** over the last four decades, business investment in the UK has seen a persistent decline in nominal terms[1] relative to the size of the economy, deteriorating from a peak of 14.7% of GDP in 1989, to a low of 10% at the end of 2019. While business investment growth has fluctuated with the economic cycle, it has generally experienced a more dramatic impact than GDP growth during times of economic distress and has seen a more subdued recovery.

More recently, the UK economy has seen a significant hit from the Covid-19 pandemic. While data is not yet available for the entirety of 2020, quarterly data points to a dramatic fall in business investment in the first half of the year. Between Q1 2020 and Q2 2020, business investment fell by 26.5%, in volume terms, exceeding the loss in GDP of 19.8% over the same period. This is the largest quarterly fall on record[2] - by comparison, the largest quarterly fall in business investment observed during the downturn of 2008/09 was 9.6%.

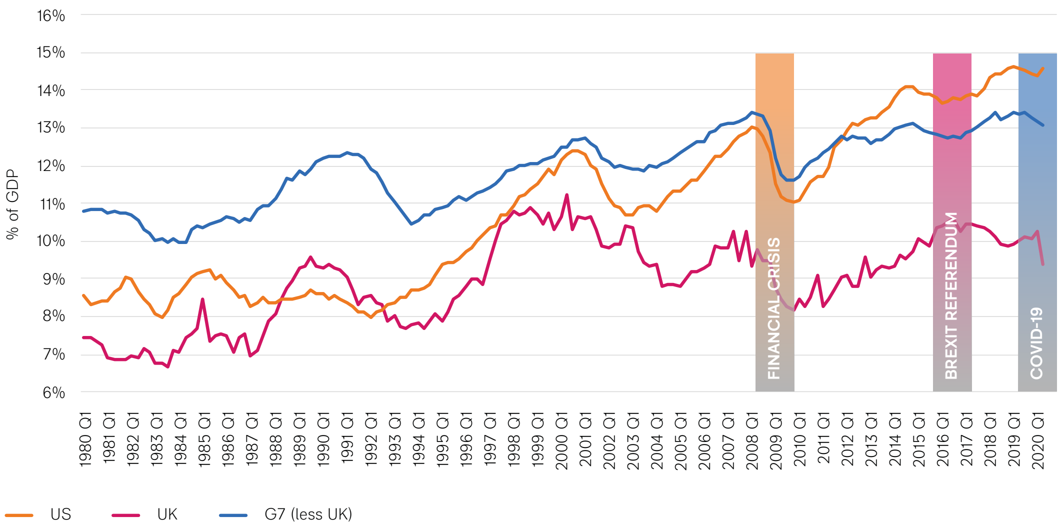
Exhibit 1 Business investment as a % of GDP in the UK



Source: ONS UK Economic Accounts – Business investment & GDP time series (Sep 2020)

The UK is also underperforming its international peers, remaining at the bottom of the G7 ranking for most of the last four decades. While movements in investment intensity (business investment as a percentage of GDP) have largely followed the same trajectory as the rest of the G7 for most of this period, the gap has visibly widened since the financial crisis. Most notably, as **Exhibit 2** shows, investment intensity in the UK grew broadly in line with that in the US prior to the late 1980's, but subsequent performance has seen the gap widen as US investment surged ahead. This means that while in 1992, the US had the same investment intensity as the UK, at around 8% of GDP, since the financial crisis, the US has overtaken the G7 average leaping to a new peak of 14.6% of GDP in 2019 compared to just 10% in the UK (and an average of 13.3% across the rest of the G7).

Exhibit 2 Business investment as a % of GDP in the G7 (real)



Source: Oxford Economics, 13th October 2020 update

The UK's exit from the European Union and the 2020 pandemic have played a large part in the UK's G7 ranking. The results of the 2016 referendum led to subdued business investment growth relative to other G7 economies, with heightened uncertainty around the nature of the departure from the bloc and the future UK/EU relationship, constraining business confidence and capital spending plans. **Exhibit 2** shows that the UK's relative position continued to deteriorate after the second half of 2016 (from 10.6%, to 9.9% in Q1 2019), while the investment intensity of other G7 economies continued to rise.

Despite the pandemic being a global crisis, hitting many economies around the world, the latest available data shows that business investment in the UK has been impacted more than the rest of the G7. Business investment at the end of Q2 2020 was approximately 73% of its Q2 2016 levels, whereas the next hardest hit G7 economies (Italy and France) saw investment fall to around 83%, and 91% of their respective Q2 2016 levels.[3] While this can be partly explained by differences in government response to the pandemic, historical trends point to long-standing differences in performance that may be attributed to other factors.

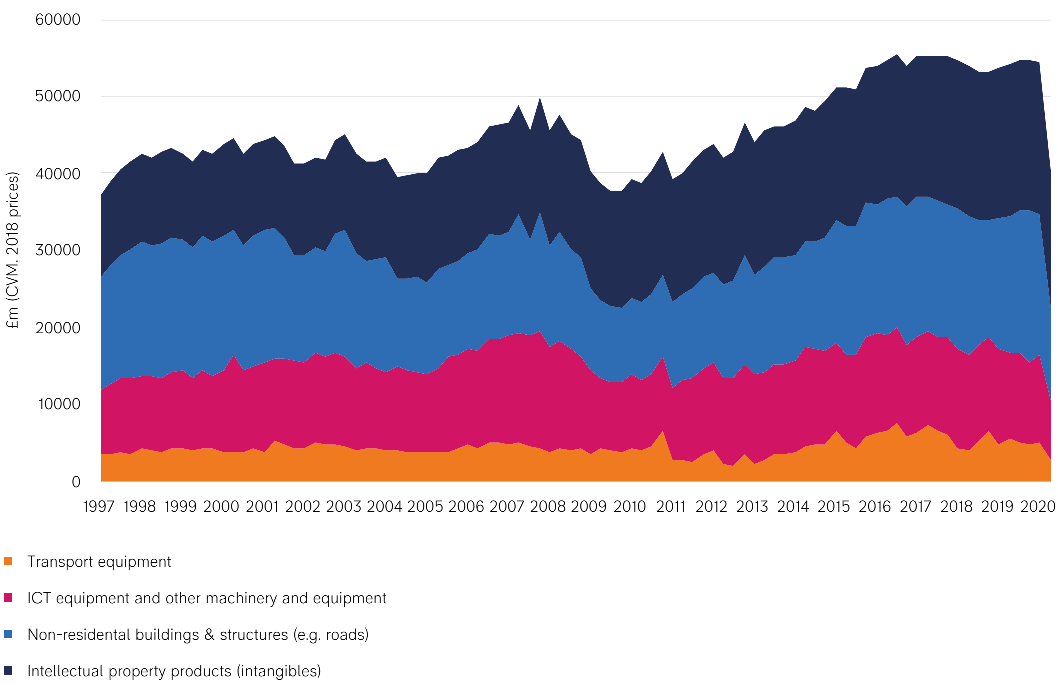
Investment in property remains a core part of business investment, but this has been declining since the early 2000s

Business investment is made up of a range of tangible and intangible asset types, including buildings and structures, transport equipment, Plant & Machinery (P&M; including ICT), and Intellectual Property Products (IPPs). When looking at a breakdown of investment by asset type (as shown by **Exhibit 3**), there is a clear shift in the components of business investment: the share of investment in P&M (including ICT) and non-residential buildings and structures has shrunk over time, while the share of investment in IPPs has grown.

Between the late 1990s and 2019, the importance of IPPs grew from 27% to 40% of total business investment, whereas the importance of buildings and P&M shrunk from around 67% to 56% over the same period. The pandemic has accelerated this shift, as the impact on investment in IPPs has been significantly less severe than the impact observed on investment in other asset types.

Therefore, historic underperformance in business investment is predominantly related to underperformance on investment in buildings and structures, and to a lesser extent due to reductions in investment in P&M. The deterioration in business investment intensity between the early 2000s and the financial crisis, which saw business investment volumes decline by 14% from Q2 2000 to Q2 2019, was driven by a 37% fall in investment in buildings and structures and a 28% fall in investment in machinery and equipment. In contrast, over the same period, IPP investment grew 26% in volume terms, the only asset that continued to see increased investment growth.

Exhibit 3 Business investment by asset type, £m



Source: Business Investment by Asset Type - ONS, 30th Sep 2020[4]

This shift in the UK's business investment away from physical assets, towards intangible assets can be partly explained by structural changes in the economy, including a change in business models, driven by technology advancements. However, it is also clear that growth in business investment has been constrained by either declining or slower growth in buildings and structures and P&M.

The economic impact of the pandemic and the uncertainty surrounding the end of the Brexit transition period will limit the ability for many businesses to invest in the near term

The pandemic has had a dramatic impact on the economy and as demonstrated above, on business investment. Results from an ONS survey show that many firms have stopped any capital expenditure, or are seeing lower levels than normal due to the pandemic.[5] In the absence of policy action, this trend is likely to extend into the medium term if the economic recovery becomes more prolonged, and/or the pandemic itself persists for longer than expected. There are several underlying factors that will constrain the ability for businesses to invest in the coming months:

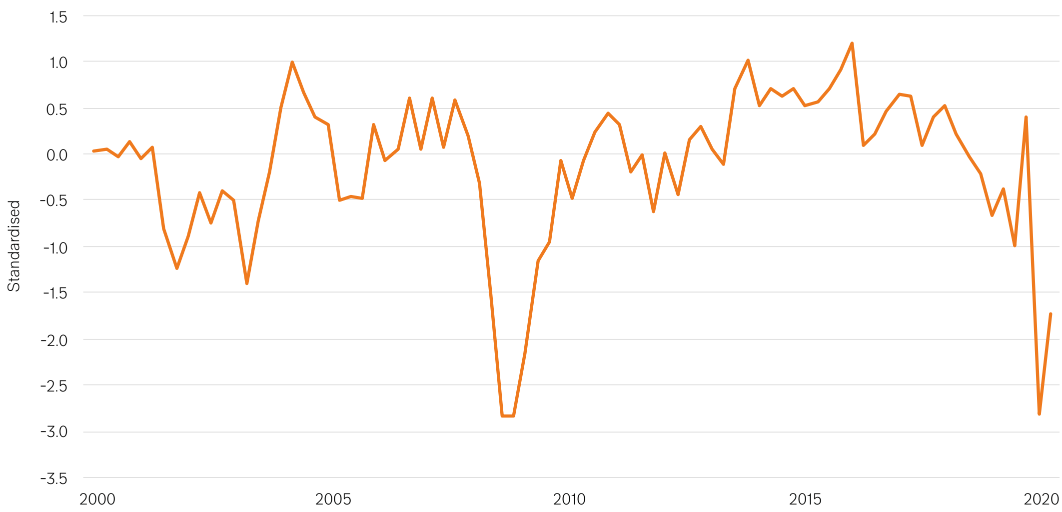
1. Weakness in the recovery of demand as government restrictions remain or tighten, and consumer incomes fall further

The pandemic has had a significant impact on the demand side of the economy, with government restrictions forcing individuals to limit their mobility and interaction with one another and many businesses forced to temporarily close. This has led to a reduction in economic activity and working hours across the economy and, in turn, impacted household incomes and their ability to spend. As a result, the financial performance of UK businesses has seen a huge hit, and despite many businesses re-opening, weak demand remains a challenge for many businesses. According to an ONS survey more than 70% of businesses across all sectors reported decreased turnover in September 2020.[6]

However, with Covid-19 cases now increasing in the UK, restrictions are tightening again. Both the severity and the length of time the restrictions remain in place, as well as the associated government support, will impact the speed at which demand can recover in many sectors and regions throughout the UK.

This uncertainty around future demand is already weighing on investment intentions, as evidenced by the CBI's business surveys.[7] Survey data on capital spending plans indicates that the investment outlook is likely to remain bleak in the short term, with two thirds of firms reporting a lack of demand as a primary concern to re-start operations in September 2020.

Exhibit 4 Investment Intentions – CBI Survey Composite (Standardised % balance)



Source: CBI business surveys, Q3 2020

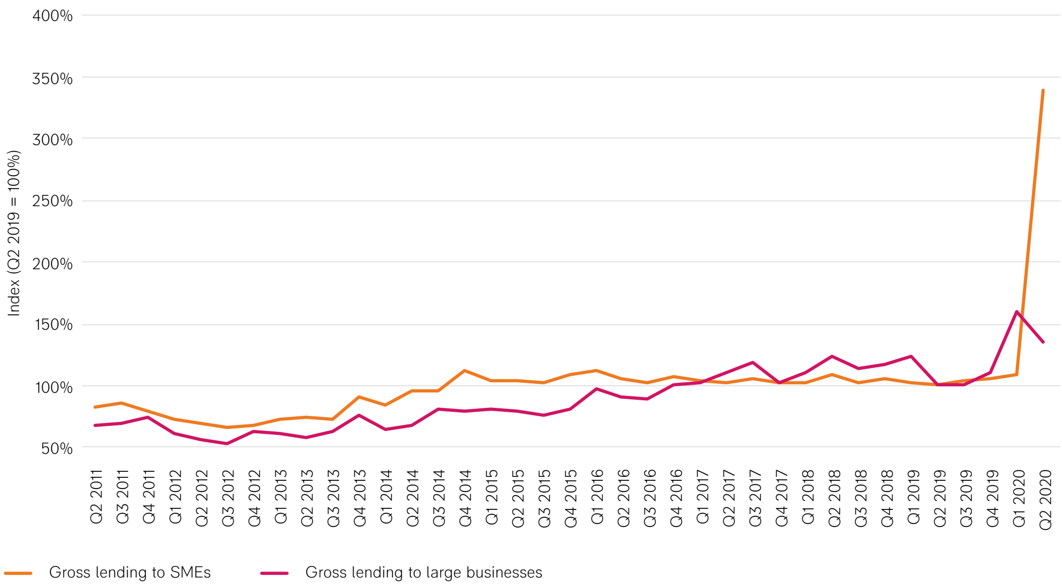
While there are likely many contributing factors to this outlook, uncertainty of demand has been cited by over three quarters of respondents as a factor to limit investment in the next year, a record high (76%), surpassing last quarter's record (73%).

2. Reduced cash flow and the associated increase in debt has created a need for businesses to repair balance sheets in the near term

Accessing the necessary cash to meet payment deadlines relating, for example, to fixed costs that need to be paid regardless of turnover, has been a key challenge for many businesses during the pandemic. Throughout the crisis, firms have cited fixed costs, such as property costs, as a drain on cash flow while partially closed or operating with subdued demand. With little to no revenues, businesses' cash reserves have been running dry, with between a quarter and a third of businesses across most sectors relying on less than 3 months' reserves, and between 40% and 60% having less than 6 months' reserves.[8]

In many cases, businesses have had to take on substantially more debt to cover these costs, particularly small and medium sized businesses (SMEs). Exhibit 5 shows a sharp increase in lending (excluding overdrafts) to both SMEs and large businesses by financial institutions in Q2 2020 relative to the same quarter in 2019, with the increase in lending to SMEs particularly stark. By the end of Q2 2020, lending to SMEs was 340% higher than 12 months earlier, and lending to large businesses 136% higher. This is partly explained by increased lending through the government's four new coronavirus business loan schemes.[9] In October 2020, these schemes had attracted more than 1.3m business applications to-date, amounting to a total of £58 billion across all schemes.[10]

Exhibit 5 Gross lending (exc. overdrafts) to businesses by financial institutions



Source: Bank of England Database – Money and Lending, October 2020

The CBI's surveys suggest that firms continue to operate at reduced capacity, meaning fixed costs are spread across a smaller income base, affecting short-term viability. As a result, firms are reportedly more inclined to cut fixed costs where possible and hold off on investment to repay this new debt. CBI surveys show that the share of manufacturers citing cash flow-related concerns as factors limiting capital expenditure all rose to survey-record highs in September 2020, although the October surveys showed a slight improvement.[11]

At the same time, many businesses have seen higher cost pressures through the increased use of PPE and the costs associated with making workplaces Covid-19 compliant. As a result, rates of return on investment now need to be higher to make an investment viable. CBI surveys show a spike in concerns over inadequate net returns to investment in Q3 2020, which reached their highest in twenty years for the manufacturing sector in July 2020, and highest since 2005 for non-financial services, before easing in October.[12]

3. Uncertainty around the UK's future relationship with the European Union as the end of the transition period approaches

The impact of the pandemic also coincides with the UK nearing the end of the transition period on 31st December. On the 1st January 2021, the UK will be in a new relationship with the EU. With CBI surveys reporting that three in four firms are concerned about the UK's transition period coming to an end, this is clearly creating uncertainty for the business community.[13]

Brexit uncertainty has already been a limiting factor for investment decisions, but many businesses now feel less prepared as resources have been redeployed towards dealing with the ongoing pandemic. CBI surveys show a significant change in preparedness since January 2020, with one in five firms feeling less prepared for Brexit in Q3 2020 compared to the start of the year. This differs across sectors, with CBI surveys pointing to manufacturers as the least prepared (27%), followed by distribution (26%) and services (18%).[14]

However, regardless of Brexit, competitiveness pressures were already spurring investment in technology, intellectual property and new products, trends which have been accelerated by the pandemic. This may help to explain the resilience that investment in IPP had seen during the pandemic relative to investment in other assets.

It is likely that uncertainty will continue to weigh on investment in the coming few months as businesses wait for more clarity on the UK and the EU's future economic relationship before undertaking large investment decisions. Brexit uncertainty is therefore expected to continue to be a drag on business investment in the near term.

Boosting business investment will be vital as the UK economy recovers and rebuilds after the pandemic, and the policy environment should support this

It is clear from the evidence that business investment in the UK is underperforming both relative to historical standards and to international peers, and that this underperformance has been deepened further by the pandemic. The CBI's *Catching the Peloton* report[15] examined the underlying factors behind the UK's poor performance pre-pandemic. The analysis in this report found that structural issues have persisted even in the absence of economic downturns, with the latter only acting to exacerbate the UK's business investment challenge. These structural challenges can be grouped into the following two categories, with some factors becoming more pertinent since the pandemic:

- **Financial obstacles** – constraints associated with structural issues in financial markets, including access to patient capital, and limited internal funding within firms due to high levels of debt
- **Real economic obstacles** – other constraints that are not linked to a business's finances such as the attractiveness of the UK's business environment, including its tax policy landscape, uncertainty about the political environment, skills shortages, and many more

It is likely, therefore, that the UK faces several structural barriers to investment, and addressing these will require a package of solutions, both by government and by business. The pandemic has only emphasised the importance of addressing structural problems that hold back investment. As a key driver of productivity, boosting business investment has the potential to aid the economic recovery and support the UK in rebuilding the economy, delivering future growth and prosperity.

Therefore, as the government looks to rebuild the economy following the pandemic, stimulating business investment must be a pivotal part of the government's strategy. But if the UK economy is to realise the multitude of benefits associated with business investment growth, it is crucial that the government provides the right policy environment so that businesses have the confidence to make those investment decisions.

“The UK relies more heavily on property-based taxes than across the rest of the G7, and business rates impact decisions to invest in commercial property and P&M, as the investment can trigger a higher business rates bill.”

The impact of business rates on investment in commercial property

The UK's tax system plays a key role in encouraging business investment, but there are currently limited incentives for investment in commercial property

A country's policy environment determines many business decisions, including decisions on where, when, and how much to invest. The UK government has a range of policy levers at its disposal that can help to encourage business investment. Public sector investment in areas such as infrastructure or skills can increase the viability of, and therefore incentivise, private sector investment, while smarter regulation can reduce barriers to investment. However, these policy levers tend to encourage business investment directly into areas the government believes are critical to future economic growth. In many cases, there is a rationale to allow the market to determine investment decisions, which the government can achieve for example through grant funding or tax policy.

Both the tax burden and the infrastructure underpinning the tax system have an important role to play in the business investment landscape. Internationally, the OECD has highlighted the impact of the tax rate on the rate of return on an investment.[16] At the same time, a complex and unpredictable tax system increases the cost of undertaking an investment.[17] These factors therefore directly affect the investment decisions businesses make.

The mechanisms through which the tax system contributes towards business investment decisions can be grouped into two areas:

1. **Tax incentives** – The government can use tax incentives to directly reduce the overall cost of investment, and as a result increase the investment's rate of return. Tax incentives are particularly important in encouraging businesses to invest either more broadly or as a way of targeting certain types of investment. Capital allowances, for example, encourage businesses to bring forward capital investment, whereas the R&D tax credit encourages businesses to invest in innovative projects in science and technology.
2. **Tax as a barrier** – It is a desirable function of some taxes to deter certain behaviours with the objective of reducing negative societal and/or economic consequences. However, in some cases taxes unintentionally create such barriers and thus, in themselves, stifle what would otherwise be welcome activity. Business rates is an example of a tax where both the level and the scope of the tax can stifle business investment in commercial property.

To understand where tax policy could be acting as a barrier to investment, a first step is to revisit the asset types that have been driving the subdued business investment picture. The evidence demonstrates that the UK is underperforming in some areas of business investment more than others.

The importance of buildings and P&M to business investment (49% in Q2 2020, down from 67% twenty years earlier) is particularly pertinent, but this has been declining as intangible investments have increased in importance (44% in Q2 2020, up from 27% in Q2 2000).[18] While part of this shift could be explained by structural changes in the economy, such as new business models that typically require a higher share of intangible investment, an economy such as the US which is undergoing similar structural changes has still seen a surge in overall business investment. Supplementary evidence suggests this comparably weaker investment growth for buildings and P&M could be partly explained by the tax landscape.

Firstly, the UK relies more heavily on property-based taxes than across the rest of the G7. OECD data shows that UK property taxes as a share of GDP are the highest across the G7, at 4% compared to 1% in Germany.[19] This reliance has been increasing over time while over the same period countries such as the US and Japan have seen a relative decline. This means the tax burden associated with operating a business in the UK that requires commercial property is higher than in other G7 countries, which makes the UK less attractive to international investment particularly when that investment requires the acquisition of commercial property.

Another contributing factor is that tax incentives on industrial buildings and P&M are less competitive in the UK relative to the rest of the G7. Analysis in the CBI's *Catching the Peloton* report finds that when purchasing an asset, the cost businesses can recover using capital allowances is the lowest in the G7, explained by: 1) the absence of capital allowances for industrial buildings and 2) one of the least competitive capital allowances regimes for P&M (second to last after Germany).[20]

The government has since introduced the structures and buildings allowance (SBA) at the 2018 Budget as a step to addressing this.[21] However, similar analysis conducted for 2019 finds that this has only moved the UK up one rank to sixth place when looking at the competitiveness of the overall capital allowances regime, with the UK now just slightly ahead of Japan.[22] The UK is still significantly lagging the top performer, France, because both the cost businesses can recover on P&M and buildings in the UK is well below that on offer in France.[23] It is clear, therefore, that the UK tax system could go further in encouraging businesses to invest in commercial property.

Business rates impact decisions to invest in commercial property and P&M, as the investment can trigger a higher business rates bill

One area of tax policy often cited by business as a barrier to investment is business rates. As stipulated in the CBI's response to the Treasury Select Committee's inquiry, business rates are a key factor for business when making investment decisions relating to commercial property.[24] Whether that investment is the acquisition of a property or an improvement to an existing property, business rates matter because an investment in a property can result in a revised business rates liability.

When making investments that improve an existing property, these investments can immediately increase the market rental value of the property and as a result the property's rateable value and its associated business rates liability. This means that when improving the specification or expanding part of an existing premises, the business rates liability can increase immediately after the scheme of works reaches practical completion, regardless of whether the improvements have started to deliver value for the business. In reality it takes time for businesses to get back to full operation following property improvements, which means that in the interim, businesses that improve their properties are hit by a potentially significant increase in their business rates bill.

Often this can be the deciding factor when evaluating an investment proposal, as the increase in the rateable value of the property (and the resulting increase in the business rates burden) reduces the commercial viability of undertaking that investment. This effect can be particularly pertinent for foreign businesses deciding where to locate a business that requires the acquisition of property, and as a result could reduce the UK's international competitiveness.

Exhibit 6 Case Study illustrating the impact of business rates on investment decisions

The impact of business rates on manufacturing investment in P&M

Manufacturing and other production industries such as utilities rely heavily on large buildings as well as plant and machinery, which are subject to business rates. Due to the nature of these sectors, there is typically a long lag between an investment decision being made and the investment becoming commercially viable and generating returns for the business. In addition, the size of the investment required up front as well as subsequent investments required to maintain assets are often significant, with returns only realised over several years. Consequently, investment decisions in these sectors are based on long-term assumptions about the tax and regulatory environment, of which business rates are a factor.

A manufacturer recently reported that "business rates are considered as contributing to the increasing cost of doing business in the UK, particularly in comparison to other European sites, and represent a drag on productivity at a time of economic uncertainty". Within the context of delivering greater operational efficiencies and cost savings for the business, business rates reportedly have an impact on the business cases associated with investment in P&M.

The inclusion of some P&M associated with the efficient running of a property can act as a barrier to property improvements

While a notable proportion of the value relating to P&M is exempt from business rates,[25] the current business rates P&M regulations[26] provide a list of P&M that is rateable for business rates purposes. Therefore, in some cases investment in certain P&M not only increases the rental value of the property, but can also increase the scope of the property that is rateable, resulting in a higher business rates liability. This list can often act as a barrier to investment.

Broadly, the regulations stipulate that where P&M forms part of the economic activity undertaken within the building, known as 'process P&M', it should be exempt from business rates (for example, a food manufacturer may use P&M to control the temperature for hygiene purposes). Under the regulations the Valuation Office Agency (VOA) should only have regard to P&M that increases the value of the building, known as 'service P&M', which allows the property to be used for its intended purpose (e.g. heating or lighting).[27] The associated P&M regulatory list identifies named items that are specifically rateable. Within this list, many items that would enable a more productive use of a building, including some green technologies (such as renewable energy), are rateable.[28]

Therefore, if these P&M items are installed within a building, the property's rateable value and consequent business rates liability would increase. This higher business rates bill would apply from the date of completion of the works and therefore before any return on investment can be realised, which often reduces the investment's commercial viability. Taking, for example, a landlord undertaking a significant refurbishment of a dated office including installing a modern air conditioning system and LED lighting, this refurbishment could lead to a significant increase in the main price per square meter used to calculate the property's rateable value.[29] The resulting increase in the property's rateable value could make the investment uneconomical and act as a barrier to investing in certain P&M items for the landlord or owner-occupier, as well as holding back any potential cost savings and productivity gains these investments could realise for the occupier.

While some green technologies are considered rateable, the regulations do explicitly specify the exemption of microgeneration on the property in order to support the objectives in the Climate Change and Sustainable Energy Act 2006.[30] Furthermore, providing the ratepayer has a Climate Change Levy certificate, combined heat and power plants are also not rateable. There are, therefore, clearly inconsistencies in how P&M which can improve a building's energy efficiency is treated within the current regulations.

Moreover, technology has advanced significantly since these regulations came into force, rendering the list of exemptions obsolete and leaving many new, and more efficient, technologies that meet the same objectives within the scope for rating. Examples of these newer technologies include: Electric Vehicle (EV) infrastructure; energy storage systems (including batteries); hydrogen 'ready' boilers; heat networks; more efficient heat pumps, biomass boilers, hydro power, or solar photovoltaics (PV); other self-generated renewable energy; and energy to grid services (e.g. flex, smart and vehicle-to-grid).

While such technologies would notably increase a property's energy efficiency and reduce a property's carbon footprint (behaviours the government is looking to encourage), business rates often act as a barrier to the roll-out of these technologies. Business rates in its current form therefore works against the government's wider objectives to tackle climate change and reach net-zero by 2050.

While decarbonising properties is a large part of achieving the government's net zero ambition, business rates act as a barrier to green investments

The government's ambition to reduce carbon emissions to net-zero levels by 2050 is one of the country's biggest challenges. The target places a clear duty on government to support emissions reduction across the country, but business also has a significant role to play in meeting these targets.

The built environment contributes around 40% of the UK's total carbon footprint. Within this, commercial buildings account for 14% of emissions from the UK's building stock.[31] While the carbon footprint of the built environment has reduced since 1990, the Committee on Climate Change's (CCC) most recent advice to Parliament highlights limited progress in reducing emissions from buildings over the last decade (a 13% reduction from 2008-18).[32] By comparison, the power sector saw a 67% fall in emissions during 2008-19, achieved through a "well-designed, coherent and effective package of policies to encourage low-carbon investment", according to the CCC.[33]

Reducing energy demand, as well as encouraging more efficient energy use will play an important role in making further progress. Improving the carbon footprint of commercial property is a clear area where progress can be made with the right regulatory and policy frameworks, as well as sufficient access to information and finance. Commercial buildings are also prime candidates for onsite renewable power generation and low carbon heating and cooling solutions, due to the availability of space and the financial benefit of reduced energy costs that can be delivered from deploying clean technologies.

However, the scale of the challenge to retrofit the existing stock of commercial property is significant. While newly constructed buildings are more energy efficient, 80% of domestic and non-domestic buildings in 2050 will have already been built.[34] This scale represents a huge opportunity: if the government raises the minimum EPC level to a B rating by 2030, this would result in 85% of the existing building stock requiring an upgrade, delivering energy bill savings estimated to be in the region of £1 billion to businesses, whilst creating a trajectory worth £6.1 billion (NPV) to the UK economy.[35] Landlords would also benefit from these energy efficiency improvements through higher rental values and lower operational costs during periods when a property is vacant.

The road to net-zero buildings will require a shift in the way the existing stock of property is improved and upgraded. As the government and regional authorities have signalled, building standards and regulations (such as the Minimum Energy Efficiency Standard, or MEES) are set to tighten over time to 2050. Landlords and occupiers will therefore be mandated to either follow the national regulations or, where planning requires, follow tighter local and regional planning requirements at an accelerated pace for larger projects and new developments. However, at the same time, the business rates system acts as a barrier to investment in decarbonising commercial property.

The need for financial incentivisation towards installing energy efficiency measures was highlighted in the Call for Evidence on the Government's "Energy efficiency scheme for small and medium sized businesses" in 2019. This included linking business rates with energy efficient premises, suggesting that "landlords would be incentivised to improve [the energy efficiency of their buildings] to appeal to businesses attracted by the prospect of lower business rates."[36] There was also a suggestion that building standards regulations (including EPCs) should also apply to non-domestic owner-occupiers. Currently this can only be achieved by owner-occupiers obtaining voluntary EPCs, which although useful in helping understand a building's fabric and energy efficiency to a degree, are not enforceable through MEES regulations with no onus on the building owner to improve the energy efficiency of the building.

A 'business as usual' approach to encouraging operational efficiency improvements, or simply ensuring that properties are compliant with building regulations, will therefore not be sufficient to achieve the goal of net-zero carbon emissions.

Encouraging green investments that decarbonise buildings will require addressing the barriers to investment that occur in the first place, including the barrier of business rates. While business rates is not the only barrier, addressing this barrier will go some way to supporting the net-zero agenda. But achieving this in practice will require collaboration between owners and occupiers, with a shared understanding of the costs and benefits involved.

Business rates reform to boost business investment in buildings

Addressing investment barriers in the business rates system will help to boost business investment and contribute towards the government's net-zero agenda

It is clear from the evidence set out in this report that the UK has a multitude of challenges where reform to the business rates system could support. These can be grouped into four key challenges:

1. **The business investment challenge:** Business investment is underperforming both historical and international standards, with investment in buildings and P&M a drag on this investment picture.
2. **Gaps exist in the tax system for incentivising buildings and P&M:** One factor likely contributing towards the weakness in investment in these asset types is the tax policy landscape. Incentives exist for other types of investments, but the UK is less competitive when it comes to the tax environment for buildings and P&M.
3. **Business rates is a barrier to investment in commercial property:** As well as limited tax incentives, certain taxes unintentionally discourage business investment, one of which is business rates. The inclusion of certain P&M and the potential for an immediate increase in a property's rateable value following an improvement in a property's specification or size, can often be the tipping point of making an investment decision commercially unviable.
4. **Business rates discourage investment in the decarbonisation of commercial property:** In many cases the types of investments that do not go ahead are investments that would lead to a reduction in a property's carbon footprint, contributing towards the government's net-zero target.

Through its impact on productivity, boosting business investment to international levels has the potential to drive a sustainable economic recovery, contributing towards economic growth and prosperity. While there are many levers the government can use to stimulate business investment, addressing the challenges in the business rates system would go some way to supporting this. It would not only support investment in commercial property in the round but would also support the government's net-zero ambitions.

Together, the CBI and Avison Young have developed a set of proposals to reform the business rates system that would help to address these challenges, encouraging investment in commercial property and incentivising green investments. While reform to the business rates system is not the only solution to address these challenges, it has a critical role to play. Therefore, the government should consider this business rates reform package as part of its wider policy thinking on how to ensure a sustainable economic recovery and meet its net-zero target by 2050.

Encouraging investment in commercial property through at least a 12-month exemption on any rateable value increase following property improvements, and a regular review of the P&M regulations

As evidenced, the business rates system can often discourage investments that should be financially viable from being realised. To address this, the CBI and Avison Young recommend, as a minimum, the introduction of a new 12-month business rates exemption scheme for properties in England that have undergone improvement works, estimated to cost £75-£100m based on historical property improvements.[37]

This means that, subject to the ratepayer notifying the VOA of any improvement works, for example through confirming the updated specification, the rateable value would not immediately increase to reflect these improvements. Instead, the original rateable value would be maintained for the subsequent exemption period following completion. After this initial exemption, the rateable value would then increase to reflect the improvement works and the revised liability would be payable. To discourage poor behaviour, if the improvement works are not declared, the VOA would have the ability to retrospectively increase the property's rateable value from the date of practical completion of the works.

This proposed scheme would operate in a similar manner to the Business Growth Accelerator Relief introduced in Scotland in April 2018, with some adjustments to address the limitations identified in the Scottish scheme. Properties which undergo improvements as part of a change of use, and assessments which are split or merged yet also improved during this process, do not qualify for the Scottish Accelerator relief. The proposed English scheme would have a wider scope to encompass these scenarios, ensuring that all property improvements can be effectively incentivised.

Delaying the increase in a property's rateable value will allow the business to start realising the benefits of their investment before being hit with the additional cost of business rates, as well as providing adequate time to plan for an increase in their total liability once the exemption period comes to an end. This will enable businesses to put forward a more viable investment case to undertake improvements to their property or wider property portfolio. It will also promote self-certification by encouraging landlords and occupiers to provide the accurate property data to the VOA. Access to real-time information would assist the VOA in its duty to maintain an accurate rating list, as well as reducing the workload for the billing authorities in undertaking inspections and background research to identify those properties undertaking works.

Recommendation 1

Introduce a similar measure to Scotland's Business Growth Accelerator Relief that enables improvements to existing properties to receive a minimum 12-month exemption from increased business rates payments to encourage investment in the existing property stock.

The evidence also demonstrates that part of the barrier to business investment is explained by the inclusion of certain P&M within the scope of a property's rateable value. Whilst there is a rationale for many of the current components to remain as named items, the P&M regulations have not been reviewed since 2000 and are therefore lagging the speed of technological advancements of the modern economy. The current legislation refers to many historic practices from well before the 21st century and does not refer to many of the new technologies coming onto the market. The government therefore needs to consider whether the existing regulations remain appropriate and relevant twenty years later.

A review of the P&M regulations should form part of the government's current fundamental review of business rates. The review should include consultation with businesses to determine what should and should not be included. Further to introducing updated P&M regulations, a statutory commitment to keep this list under regular review should be introduced to ensure it keeps pace with technological improvements. As part of this, the government should consider reviewing the P&M regulations at each revaluation. Modernising the P&M regulations on a regular basis will ensure they support the government's wider policy objectives and enable, rather than hinder, business investment in property and P&M that has wider economic and societal benefits.

Recommendation 2

Review the P&M regulations to ensure they are relevant for the 21st century, with a statutory commitment to keep this under regular review to ensure it keeps pace with a changing economy and advancements in technology.

Supporting the government's net-zero ambition by exempting certain P&M items and linking energy efficiency improvements to further business rates incentives

The barriers of business rates to business investment more generally also extend to property improvements to decarbonise buildings. The inclusion of certain green investments in the rateable value, and the immediate increase in the business rates liability following such improvements, often make green investments commercially unviable.

In the context of an economic recovery from Covid-19, any savings that can arise for businesses from improved energy efficiency would be welcomed. Combining this with the government's policy objective to 'build back better' and the UK's long-standing target around net-zero carbon emissions, it is a critical time to implement schemes that encourage building improvements, in particular those that improve the energy efficiency of commercial property.

However, the initial exemption set out in recommendation 1 may not be sufficient to incentivise businesses to undertake these types of investments due to a longer rate of return before savings can be realised. Therefore, the CBI and Avison Young recommend extending the exemption scheme for investments that improve the energy performance of a property, to provide businesses with the incentive to make these investments now. This will both aid a sustainable economic recovery and contribute towards the government's net-zero agenda.

Enhancing the property's energy performance should be defined through energy efficiency improvements using the level of improvement in the EPC of a property as a measure to determine the additional period of exemption awarded as demonstrated by **Exhibit 7**. To determine eligibility, the ratepayer would be required to provide certification in the form of a new improved EPC rating. These exemptions would run with the property, rather than a single ratepayer. Even though the ratepayer could initially be the landlord, this exemption would then pass to the occupier (and any subsequent occupiers) to ensure that the benefits and incentives for making the building improvements are shared.

Exhibit 7 EPC band improvement and proposed period of exemption

EPC Band Improvement	Additional Business Rates Exemption
1 Band	6 months
2 Bands	1 year
3 Bands	2 years

Not only could the above business rates proposal help to further incentivise the adoption of energy efficient improvements within the commercial building stock, it could also bring simultaneous benefits for the EPC certification system, namely:

1. There are currently little incentives available for landlords/occupiers to maintain an accurate and up to date EPC certification. Adopting this proposal could therefore encourage ratepayers to commission regular certificates, particularly following schemes of works.
2. While the extent of non-domestic buildings in the UK without EPCs is unknown; research from the Mayor of London's "London Building Stock Model" suggests that only 24% of commercial properties in London are known to have EPCs.[38] Linking this business rates proposal to EPC certification could therefore also instigate a notable improvement in the number of certified properties.

As part of the proposal, both the CBI and Avison Young would also recommend that the properties identified as qualified exemptions[39] from the current EPC regulations, also require EPC certification.[40] This would encourage energy efficiency improvements across all property types, and help to bring a greater proportion of the commercial property stock within the EPC remit. Ultimately, this would allow building energy efficiency to be better understood and building improvements to be quantified, while allowing these properties to be brought into the scope of the proposed business rates exemption scheme.

The ancillary benefits mentioned above would also align with the government's 2020 Action Plan,[41] which sets out proposals to reform EPCs so that they become more reliable, accurate and trusted. This includes ensuring that they become a tool that drives property performance, whilst supporting policy and evolving the data registry to account for other relevant data sources to support effective decision making on improving energy performance in buildings. Therefore, for this exemption scheme to be most effective the proposed action on reforming EPCs in the 2020 Action Plan should be implemented in parallel.

To demonstrate the impact and suitability of the proposed exemption schemes in achieving this objective, **Exhibit 8** provides a set of worked examples for three types of commercial buildings across different sectors and geographies undertaken by Avison Young. This research supplements and updates the 'Costing Energy Efficiency Improvements in Existing Commercial Buildings' study undertaken by the Investment Property Forum (IPF) research programme in October 2017.[42]

Exhibit 8 Illustrative examples of building upgrades and business rates incentives

Building Type	Office (Manchester)[43]	Office (Victoria, London)[44]	Industrial (Thames Valley[45]
Pre upgrade EPC	F	F	G
Target EPC	B	B	B
Original Rateable Value - Estimated	£405,000 (£75/m^2)	£2,295,000 (£425/m^2)	£357,000 (£70/m^2)
Original Rateable Charge (p/a)	£202,500	£1,147,500	£178,500
Total indicative cost of works (£)	£2,038,500	£2,065,500	£548,250
Revised Rateable Value - Estimated	£702,000 (£130/m^2)	£2,970,000 (£550/m^2)	£459,000 (£90/m^2)
Revised Rateable Charge (p/a)	£351,000	£1,485,000	£229,500
Increase in Rateable Charge (Original to Revised)	£148,500	£337,500	£51,000
Exemption granted based on EE improvement	12 + 24 months	12 + 24 months	12 + 24 months
Total Business Rates Saving (£)	£445,500	£1,012,500	£153,000
Business Rates Saving (% of cost of works)	21.9%	49%	27.9%

Source: Avison Young research based on IPF and internal expert knowledge [46, 47]

For example, a period (pre-1940s) office building in Manchester city centre with an EPC rating of F and in need of energy efficiency improvements, could initially have a rateable value of £75 per square metre. However, if this property underwent a significant refurbishment programme to modernise the building and improve the EPC rating to B, an improvement of four bands, the rateable value could increase by as much as 70% to £130/m2. For a building of this size, this could lead to the rateable value increasing from c. £400,000 to £700,000.

In the absence of any proposed business rates reform, not only would the landlord be trying to recover the costs of undertaking these energy improvement measures, which for a building of this size is estimated to be in the order of £2 million, from the date of practical completion of the works, they could be facing an increase in their annual rateable charge of £150,000.[48] But the proposed initial business rates exemption would provide estimated savings of c. £150,000 per annum, with the additional business rates exemption linked to EPC improvements of 24 months estimated to provide further savings of c. £300,000 (over two years). Together, indicative business rates savings from this proposal could be in the region of £450,000. This would reflect approximately 22% of the total indicative costs of the improvement works.

While the business rates savings, indicative costs and typical payback periods will inevitably differ across different property types, geographies and starting EPC, this analysis by Avison Young clearly demonstrates how implementing the proposed policy could allow the business rates system to act as an incentive for landlords (working with tenants) and owner-occupiers to invest in energy efficiency building improvements.

Helping fuel a green recovery and stimulate demand for energy efficiency through business rates exemptions could be the ideal way to provide businesses with the investment case for carbon reduction in their buildings. In turn, this would help generate demand for technology and the skills required to transform the built environment.

Recommendation 3

Where property improvements result in an improvement in the property's EPC, those properties should benefit from an additional business rates exemption (in addition to the exemption set out in recommendation 1) to encourage businesses to reduce the carbon footprint of their buildings. For this to be effective, implementation of the 2020 Action Plan to reform EPCs must occur in parallel.

In addition, as previously discussed, the evidence shows there is a lack of consistency in exempting green energy within the P&M regulations. Therefore, as part of the review of P&M set out in recommendation 2, the government should ensure the regulations incentivise, rather than disincentivise improvements in energy efficiency and low-carbon technology.

Therefore, green technologies (and associated items) installed at a property which have been 'wholly or mainly' installed on the grounds of producing energy on site and improving the energy efficiency of the building, should not be named items on the updated P&M regulations. This means these items will not impact a property's rateable value and in turn the business rates liability, increasing the viability of investing in these items. After reviewing the P&M regulations, the CBI and Avison Young believe the following items currently listed should be exempt from rating given the wider economic and societal benefits they could realise:

- Water wheels; water turbines; rams; governor engines; penstocks; spillways; surge tanks; conduits; flumes; sluice gates.
- Aero-generators; wind turbines.
- Solar cells; solar panels.
- Cables and conductors; switchboards, distribution boards, control panels and all switchgear and other apparatus on any such equipment.
- In addition, any P&M relating to the storage of such power such as: storage batteries with stands and insulators, regulating switches, boosters and connections forming part of any such equipment should be excluded from rating.

As new technologies are introduced, if these are deemed to be environmentally friendly and are used 'wholly or mainly' for the provision of power and/ or water to the property, they should also be exempt from the P&M regulations and should not give rise to increased rateable values. While including many elements of 'green' P&M as rateable is not the only barrier discouraging energy efficiency improvements to buildings, it is one barrier that the government should consider removing as part of the measures required to achieve the UK's net-zero target.

Recommendation 4

Exempt certain existing P&M and new technologies that directly link to the 'green' agenda (including solar PV and heat pumps) from the P&M regulations to help stimulate investment in the green economy.

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2. Excluding the effects of a re-classification in 2005
3. Note that the latest data available for France, Germany, and Italy is Q1 2017; the figures thereafter to Q2 2020 are Oxford Economics estimates updated as at 13th of October 2020
4. The 'Intellectual Property Products' asset classification was previously known as 'intangibles' and changed with the Blue Book 2018 release. Plant also allocated between other machinery and equipment, hardware and telecoms and all included under 'ICT and other machinery & equipment'.
5. ONS Business Impacts of Coronavirus Survey (BICS) – Wave 13 (24th August to 6th September 2020)
6. ONS Business Impacts of Coronavirus Survey (BICS) – Wave 14 (7th to 20th September 2020)
7. Includes the CBI's Services Sector Survey (exc. the separate Financial Services Survey), Industrial Trends Survey, Distribution & Trades Survey
8. ONS Business Impacts of Coronavirus Survey (BICS) – Wave 14 (7th to 20th September 2020)
9. Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS), Bounce Back Loan Scheme (BBLS), and Future Fund
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23. Ibid.
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25. This has been the case since the Rating and Valuation Act 1925 [the "1925 Act"]. Only the items contained within the Third Schedule to that Act were rateable [s.24(1)(a) of the 1925 Act]
26. Valuation for Rating (Plant & Machinery) Regulations, 2000
27. Regulation 2A [SI 2000 No 540] provides, by virtue of s.26(2) & (3) of the Climate Change and Sustainable Energy Act 2006, for the exemption from rates of microgeneration installations generating less than 50kW electricity or 45kW thermal energy for use on the property.
28. Table 1, Page 5 - Valuation for Rating (Plant and Machinery) (England) Regulations 2000 [SI 2000 No 540]
29. Avison Young Business Rates Department – Expert Opinion
30. Defined in the P&M Regs at Reg 2A(3) as: 'In this regulation "microgeneration capacity" means the capacity of plant or machinery to be used for the generation of electricity or the production of heat - (a) which, in generating electricity or (as the case may be) producing heat, relies wholly or mainly on a source of energy or a technology mentioned in section 26(2) (interpretation) of the Climate Change and Sustainable Energy Act 2006; and (b) the capacity of which to generate electricity or (as the case may be) to produce heat does not exceed the capacity mentioned in section 26(3) of that Act'.
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42. Investment Property Forum - 'Costing Energy Efficiency Improvements in Existing Commercial Buildings', October 2017
43. Ibid.
44. Pre-1940's office with floor area of 5,400m2. Base spec: Natural ventilation, 50% single glazing, T8 lighting and <60% efficient gas boiler. Upgrade spec: HVAC, 50% single glazing, LED lighting and ASHP.
45. 1990's industrial warehouse with floor area of 5,100m2. Base spec: Airconditioning, 10% single glazing, T8 and metal halide lighting, uninsulated walls and roof and 65% efficient gas boiler. Upgrade spec: Refurbished fan coil units, 10% single glazing, LED lighting, roof insulation and higher efficiency gas boiler.
46. Additional source: Spons M&E Services Price Book 2019& BCIS TPI Index (Q3 2017 - Q3 2020)
47. These examples serve to illustrate the impact business rates exemptions may have on cost savings to energy efficiency improvement works and the incentivising role they can have for building owners and occupiers. The methodologies used in the above calculations are for illustrative purposes only and should not be applied to specific buildings as all buildings differ. Factors which may impact costs include construction type, location, supplier, age of building and plant, design specifics, lease length, existing infrastructure etc. In many cases, seemingly inconsequential factors may considerably impact costs.
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Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

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