

GUIDANCE NOTE 43

USE OF CHPQA TO OBTAIN EXEMPTION FROM BUSINESS RATING OF CHP PLANT AND MACHINERY

Introduction

GN43.1 The purpose of this Guidance Note is to advise CHPQA Responsible Persons (RPs) on the eligibility of their Scheme for exemption from Business Rating for CHP Plant and Machinery (P&M), and to provide them with step-by-step guidance on how to claim such exemption. Definitive guidance on Rating methodology and how the Rateable Value of a Hereditament¹ is determined can only be obtained from the Valuation Office Agency (Assessors Office, Scotland)². This note has been prepared in consultation with the Valuation Office Agency.

GN 43.2 The rateable value of a property represents the annual rental value based on certain statutory assumptions. It is meant to be a reasonable assessment of the rent at which a landlord and tenant would strike a bargain for the tenant to take the property on defined (statutory) terms.

GN43.3 Plant and machinery (P&M) is rateable as part of a hereditament if it is named in the Valuation for Rating (Plant and Machinery) (England) Regs 2000 [SI 2000 No 540] as amended by the Valuation for Rating (Plant and Machinery) (England) (Amendment) Regs 2001 [SI 2001 No 846]. For Wales the regulations are SI 2000 No 1097 (W.75) and SI 2001 No 2357 (W195) respectively. P&M that is to be assumed to be part of a hereditament (and is therefore rateable) is set out in the regulations in a Schedule divided into Classes 1 to 4. The system in Northern Ireland is different.

GN43.4 The 2001 regulatory amendment made provision under Class 1 of the Schedule that some of the named P&M, comprising a CHP plant fully/partially exempt within the meaning of para 148(2) and 148(3) of Schedule 6 to the Finance Act 2000 would not form part of the hereditament and would therefore not be rateable. In order to come within the fully/partially exempt definition the CHP plant must have a certificate granted to it by the Secretary of State.

What qualifies for exemption

GN43.5 The rating exemption applies to specified plant and machinery contained within a CHP Scheme, which qualifies for, and is in possession of, either a full or partial Secretary of State (CHP) Exemption Certificate. The exemption extends to accessories associated to the power generating plant and machinery (these items may be rateable in their own right elsewhere in the P & M Schedule) but not to heat recovery plant and machinery. The exemption does not cover buildings or other

¹ A Hereditament is anything liable to rates and is the unit used for rating. It is a site that is a separate business unit with a beneficial occupier. It may incorporate other business activities, for example, a hospital, may include an energy centre, owned, managed and maintained by an Energy Services Company but the whole will generally be considered as a single Hereditament with one beneficial occupier. The Energy Centre may be contained in its own building complex within the grounds of the hospital and could, in these circumstances, constitute a separately rateable hereditament.

² The nearest Valuation Office to any hereditament can be found under Valuation Office Agency (VOA) in the telephone directory, see <https://www.gov.uk/government/organisations/valuation-office-agency>. In Scotland, applications should be directed to the Assessor for the local Council or Valuation Joint Board. Contact information for Assessors is available from the local Council.

plant as set out in the Schedule to the *Valuation of Rating (Plant and Machinery) (England) Regulations 2000* (SI 2000 No 540) (As Amended).

The exemption applies to the following Plant and Machinery (P&M), and to their associated accessories (valves, filters, controls, et cetera)³:

- Steam engines; steam turbines; gas turbines; internal combustion engines; hot- air engines; barring engines.
- Continuous and alternating current dynamos; couplings to engines and turbines; field exciter gear; three-wire or phase balancers.
- Storage batteries with stands and insulators, regulating switches, boosters and connections forming part of any such equipment.
- Shafting, couplings, clutches, worm-gear, pulleys and wheels.³

If any of the P&M excluded under Class 1 is also shown within any other Class within the Schedule it will be rateable under that Class. Turbines, generators, foundations, settings etc. appear in Class 4 (with certain qualifications for rateability) so something not rateable under Class 1 could be caught as rateable under Class 4. However, if an item is rated under Class 4 rateability is limited to main plant items and does not extend to accessories.

GN43.6 Heat supply plant (such as boilers, feed water pumps etc.) are not included in the exemption as they do not fall to be rated under the SI 2000 No 540 Plant & Machinery Regulations 2000 Class 1 Table 1 (b), (c), (d) or (k). Several heat supply items do not fall within the Schedule to the P & M Regulations 2000 so are not deemed to form part of the hereditament and thus are not rateable.

CHP Schemes using Alternative fuels

GN43.7 Schemes using alternative fuels are eligible for exemption under SI 2000 No 540 but must be in possession of a Secretary of State (CHP) Exemption Certificate.

CHP Schemes producing mechanical power

GN43.8 Because the aim of the rating exemption is equal treatment with conventional power generating plant, a CHP Scheme, which includes some mechanical power output, is eligible for the exemption on all power capacity, regardless of whether it is electrical or mechanical power output. To be eligible for the exemption however, a Scheme must produce at least some electrical power and a Secretary of State (CHP) Exemption Certificate must be obtained

Stand-alone CHP generators

GN43.9 The 2005 rating valuations for stand-alone CHP generators (the ones assessed by statutory formula in the 2000 rating lists) have been prepared on the receipts and expenditure (R&E) valuation methodology. In simple terms, a valuation for rating using this method is calculated as follows.

- Establish the income flowing to the occupier from the occupation of the property.

³ SI 2001 No. 846 (2) (d) (ii) (bb)

SI 2000 No. 540 Class 1 Table 1 (b) (c) (d) and (k)

- From this, deduct the costs necessarily incurred to generate that income and to occupy the property.
- Deduct an amount to cover the depreciation of the non-rateable assets (these are the assets a tenant would have to provide to run the business from the property).
- The resultant figure is called the “divisible balance”. This is to be shared between the landlord (in the form of rent) and the tenant.
- The tenant’s share is the amount the tenant requires to induce him to take the tenancy, taking into account the extent of capital invested in non-rateable assets and the risk to which that capital is exposed.
- The landlord’s share (rent) is that which remains once the tenant has taken his share. This is the rateable value (RV).

In R&E valuations the exclusion from rating of certain plant and machinery has the effect of altering the balance of landlord’s and tenant’s contribution in terms of provision of the hereditament (landlord) and provision of tenant’s capital (including the exempt P&M) needed to run the enterprise. Adjustments are therefore needed within the R&E valuation to the sum allowed for depreciation on tenant’s assets and the tenant’s share of the divisible balance. Both serve to reduce the RV but it is not straightforward.

Embedded CHP plant

GN43.10 Where CHP plants form part of a larger hereditament, they will be assessed as part of that hereditament. In this case the exemption given to qualifying CHP P&M is given under Class 1 (d)(ii) because the power is not mainly or exclusively for distribution for sale to consumers. Under Class 1 (d)(ii) the extent of excepted P&M is less than that given under Class 1 (d)(i) because it only covers some of the items specified in Table 1 - the P&M coming within heads (b), (c) (d) or (k) of Table 1. Therefore, items remaining rateable are those mentioned in Table 1 of Class 1 under headings (a), (e), (f) to (j) or (l) to (n).

Government-owned premises and public buildings.

GN43.11 Rateable Value for such sites is likely determined using the Contractors test basis of valuation⁴. This is based on the capital value of plant decapitalised to an annual figure. In industry and commerce, the statutory decapitalisation rate is set at 5%. For specific categories of hereditaments, the statutory decapitalisation rate is set at 3.33 %. Thus, two identical CHP Schemes could be liable for different rates on the qualifying items. It follows that if both these properties had an identical CHP Scheme, the value of the exemption will be less for the specific categories of hereditament than in the private sector as different decapitalisation rates have determined the rateable values. The rateable value exemptions will differ due to location and legislative circumstances.

How to claim the exemption

GN43.12 The procedure for claiming the exemption is as follows:

The Occupier must acquire a Secretary of State (CHP) Exemption certificate. (N.B.

⁴ For a full explanation of the Contractors Test and other methods of determining Rateable Value, see VOA Rating Manual <https://www.gov.uk/government/organisations/valuation-office-agency>

The Valuation Officer/Assessor (Scotland) is unable to assist or advise in the process of obtaining a valid certificate)

1. Responsible Persons must submit a CHPQA Self-Assessment, the Self-Assessment must be validated and a CHPQA Certificate obtained. The CHPQA Certificate is renewable on an annual basis.

The Valuation Officer may request a copy of the Scheme details in order that a determination can be made as to what items on the hereditament are subject to the CHP Scheme.

Only “relevant” items contained within the Scheme details will be considered (deemed to be part of the CHP application). If an item is not recorded on the Scheme details, it will be deemed to fall out-with the CHP Scheme and will not be considered even though it is rated under SI 2000 No 540 Class 1 Table 1 (b), (c), (d), (k).

2. A Secretary of State (CHP) Exemption Certificate must be applied for (see www.chpqa.com). The certificate is valid indefinitely, as long as a valid CHPQA Certification is maintained. An example of the Secretary of State (CHP) Exemption Certificate is attached at the end of this Guidance Note.

Only a valid signed and dated Secretary of State Certificate will be accepted by the VOA.

Having acquired a valid Secretary of State CHP certificate:

- A. The preferred method to receive an alteration in the rating assessment is to request the Valuation Officer to alter the Rating List. It is advised that you discuss this matter with the Valuation Officer/Assessor before making a written application. Requests to alter the Rating List should be submitted to the relevant Valuation Office (VO), Assessor (Scotland), **together with the** Secretary of State (CHP) Exemption Certificate, to request exemption from rates on specific items of plant and machinery.

- B. An Interested Persons Proposal (IPP) can be served on the Valuation Officer (VOA) Assessor (Scotland)

If this method is to be adopted you are advised to consult a Rating Specialist in order to preserve your future rights of appeal against the rating assessment.

A Secretary of State Certificate must accompany any IPP.

It is advised that to avoid possible prejudice to appeal rights the method as set out at A above is followed.

- C. Where a request is made to alter the Rating List the Valuation Officer, (Assessor, Scotland) in assessing the items qualifying for exemption, may require sight of the relevant CHPQA Scheme details, which describes the plant considered to fall within the CHP Scheme boundary. The Valuation Officer will ask for these documents if required for **information purposes only**.
- D. The items that qualify for exclusion from rates can be found within the P & M Regulations 2001. **No other item can be considered.**
- E. The Valuation Office will deduct the Rateable Value of any exempt P&M from

the Valuation that was included or was deemed to be included in the Rating List as at 1 April 2001 (June 2001 in Wales) and/or 1 April 2005.

- F. The exemption from rates will only be applicable from the date on the Secretary of State certificate or on the 1 April 2001 if this date is prior to the Statutory Instrument coming into force.

Please note that Energy Services Companies (ESCOs) may submit a Self-Assessment to CHPQA and apply for Secretary of State (Exemption) Certificates on behalf of the site owner, but an Interested Person Proposal must be submitted by the site occupier or their rating advisor.

GN43.13 If the application for exemption is successful, the exemption will apply from 1 April 2001 for those CHP Schemes issued with Secretary of State (Exemption) Certificates before that date, and from the date of issue of the Secretary of State (Exemption) Certificates for all other CHP Schemes. (See notes on time limits and applications for alteration of the valuation.)

GN43.14 A request for alteration of the Rating List can be instigated by the Valuation Officer within a rate year. In order to preserve your future appeal rights on the whole hereditament you are advised to discuss this matter with either the Valuation Officer (Assessor Scotland) or a Rating Consultant.

CCL: Combined Heat and Power Station FULL-Exemption Certificate

Issued under Paragraph 148(4) to the Finance Act 2000



CHPQA Scheme Reference Number

Efficiency Percentage

Date of issue

The Secretary of State certifies the CHP Station (to which the CHPQA Reference Number above relates) as fully exempt for the purposes of the Climate Change Levy.

Signed by authority of the Secretary of State

Signature

Name in BLOCK letters

Note

1. This Exemption Certificate is issued according to the Climate Change Levy (Combined Heat and Power Stations) Exemption Certificate Regulations 2001, which also specify the conditions under which this Certificate may be varied or revoked.
2. This Exemption Certificate is in force from the date of issue onward. Subsequent variation and revocation provisions are regulated in the Climate Change Levy (Combined Heat and Power Stations) Exemption Certificate Regulations 2001.
3. Efficiency Percentage has the same meaning as the Power Efficiency stated on a CHPQA Certificate.
4. The term fully exempt combined heat and power station is defined in the Finance Act 2000, Schedule 6, paragraph 148.
5. Variation of this Certificate will be required if a combined heat and power station which was previously certified as being partly exempt subsequently satisfies the conditions for full exemption, and vice versa, or if its efficiency percentage falls below or rises above the prescribed threshold efficiency percentage.
6. This Certificate will be revoked if:
 - i. the combined heat and power station ceases to operate;
 - ii. the operator fails to send a copy of the current CHPQA certificate relating to the station to the Secretary of State by 30th June in each year after the year in which the application was made for an Exemption Certificate; or
 - iii. the operator makes a written request to that effect to the Secretary of State.
7. This Exemption Certificate remains the property of the Secretary of State and must be returned if revoked or varied.

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