



Federation of Small Businesses
The UK's Leading Business Organisation

SEVERE WEATHER

A MORE RESILIENT SMALL BUSINESS COMMUNITY

Report by
Federation of Small Businesses

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Federation of Small Businesses

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www.fsb.org.uk

Summary of findings

IMPACT:

- Two thirds of small businesses say they have been negatively affected by severe weather in the last three years.
- The financial cost of these severe weather events over this period was, on average, just under £7,000 for each affected business.
- Disruption to people (customers and staff) and logistics (supply chain, utilities and transport) are the most frequently occurring problems for small businesses during severe weather events.

PREPAREDENESS:

- Only 25 per cent of microbusinesses (those with fewer than 10 employees) have a resilience plan in place that specifically includes severe weather.
- Small businesses with previous experience of severe weather are more motivated to prepare resilience plans.
- 93 per cent of small businesses believe severe weather poses a risk to some part of their business.
- 64 per cent of small businesses have taken some action to manage the risk of severe weather to some part of their business.
- Only 19 per cent of small businesses have taken action to manage the impact of severe weather on their supply chain.

INFORMATION:

- 44 per cent of small businesses say they do not get information about severe weather resilience from any external source.
- 78 per cent of small businesses in flood risk areas are aware of the Flood Warnings Service offered by the Environment Agency or the devolved agencies of Scotland, Wales and Northern Ireland.

FLOOD INSURANCE:

- Nine per cent of small businesses at risk of flooding say they have difficulty finding flood insurance.
- Three per cent of small businesses at risk of flooding say flood insurance cover is unaffordable.
- Six per cent of small businesses at risk of flooding have been refused flood insurance cover.
- It is unclear how the Government's domestic Flood Re deal with the insurance industry will subsequently impact on the most vulnerable small businesses not included in the deal.

SOLUTIONS:

- 15 per cent of small businesses believe they can provide a positive contribution to specifically addressing the impacts of severe weather, through their products, services and innovation.
- Over 40 per cent of small businesses would be happy to act as a community resilience hub for their local community (storing and providing vital equipment in case of emergency).

Key recommendations

FOR SMALL BUSINESSES:

- Produce their own resilience plan that includes the potential impact of severe weather on different parts of their business, including their supply chain (imports and exports).
- Clarify their flood risk and where available, sign up to the Flood Warnings Direct service.
- Explore the potential benefits of flexible working for staff.

FOR GOVERNMENTS:

- Produce a strategy for small business resilience that takes account of both the direct and indirect economic impacts of severe weather, paying particular attention to impacts on customers and staff.
- Ensure continued availability of affordable and comprehensive flood insurance for small businesses, potentially through a dedicated Flood Re style agreement.
- Actively manage public perceptions during major weather events, promoting an “open for business” message.
- Provide an online one-stop-shop for small businesses, providing information and advice about resilience planning.
- Continue long-term strategic investment in flood defence funding and urgently review the cost benefit calculation for taking forward flood defence schemes.

FOR LOCAL AUTHORITIES:

- Work with small businesses via appropriate local networks (e.g. Local Enterprise Partnerships in England) to identify strategic resilience issues and to plan investment accordingly.
- Ensure all strategic business planning networks (e.g. Business Improvement Districts, Local Enterprise Partnerships and other business forums) have resilience on their agenda.
- Be proactive in offering hardship relief to affected small businesses in the aftermath of severe weather events.
- Ensure that the presumption of the National Planning Policy Framework (NPPF) in favour of sustainable development takes full account of the indirect, as well as direct, consequences of severe weather.

FOR LARGE BUSINESSES:

- Work with small businesses in their supply chain to identify areas of risk.
- Provide flexibility to small business suppliers during severe weather events.

FOR OTHERS:

Those involved in the investment, planning, and maintenance of major utility infrastructure networks should work together to:

- Establish and fund resilience hubs in partnership with local businesses.
- Work in partnership with the FSB and the insurance industry to develop a trusted resilience toolkit for small businesses.

Introduction

FSB and our membership

The Federation of Small Businesses (FSB) is the UK's leading business organisation. We exist to protect and promote the interests of the self-employed and those who run their own business. The FSB is non-party political and, with around 200,000 members, we are the largest organisation representing small and medium sized businesses in the UK.

Small firms make up over 99 per cent of all businesses in the UK, and make a huge contribution to our economy. They account for a third of all private sector turnover and employ almost half of the private sector workforce. A large proportion of these small firms are microbusinesses (fewer than 10 employees) and sole-traders.

Small businesses are driving the UK's economic recovery and it is in the national interest to ensure they are not placed at a competitive disadvantage by severe weather events. They require a holistic package of support and guidance to help combat the potential damaging impacts, both direct and indirect.

The needs of small businesses can sometimes be overlooked when it comes to long-term policy planning. They are often lumped together either with a domestic audience or with larger industry. Like household customers, they have a low level of expertise outside of their core business, they have limited available capital and purchasing power, and they often have similar levels of usage and expenditure on utilities like energy, water and telecommunications. However, small businesses are not covered by the same legal consumer protections afforded to household customers. This leaves them vulnerable across a range of consumer areas.

It is in this context that our research into a more resilient small business community should be seen.

Context

According to the Met Office, the winter of 2013–14 was the wettest on record¹. The flooding and storm damage that badly affected parts of the UK, including 3,200 commercial properties², was just the latest reminder about the impact that the weather can have on our communities and small businesses, as well as our wider economy.

The Association of British Insurers (ABI) estimated the direct insurable costs of these winter storms for households and businesses was £1.1 billion³, covering a combination of flood damage and storm damage. But even this figure did not take into account the indirect and ongoing economic consequences of the widespread disruption to infrastructure, transport and utilities.

One year on, many of those affected businesses are still coming to terms with the combined disruption and damage caused by these storms. As our climate becomes increasingly volatile, more needs to be done to prepare and protect small businesses in the future.

In recent years, severe weather has regularly been the number one cause of business disruption in the UK. River and coastal flooding, surface water, snow and cold temperatures, water shortage, wind damage and heatwaves all have the potential to impact on the day-to-day activities of small firms.

1 <http://www.metoffice.gov.uk/news/releases/archive/2014/early-winter-stats>

2 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/356341/S18_report_2013_14_Final_v2.pdf

3 <https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Flooding/2014-floods-in-numbers>

Background

The financial cost to business caused by the 2012 floods was £200 million⁴. Despite this, FSB evidence suggests that few small businesses have planned for or taken adequate action to improve their resilience against severe weather.

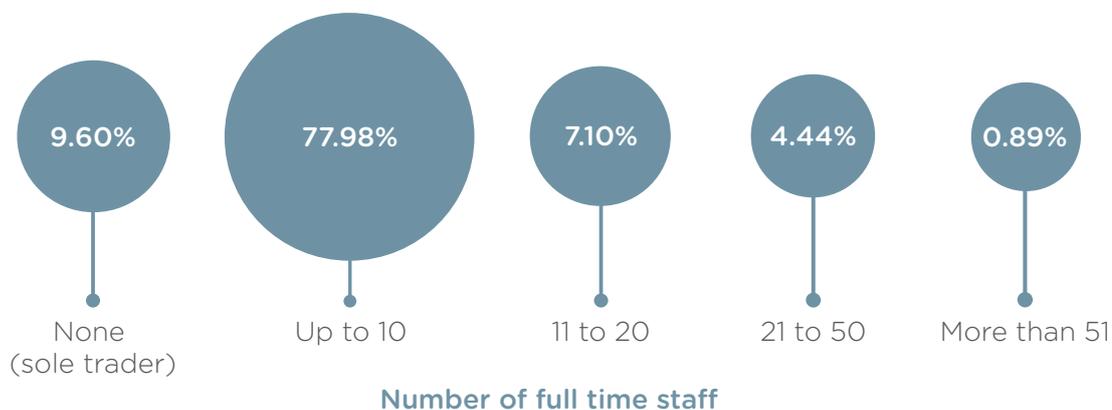
The Adaptation Sub-Committee (ASC) recently reported that the UK’s buildings and infrastructure are not prepared for a changing climate and more needs to be done to protect vital infrastructure services and increase investment in flood defences⁵. The Sub Committee also highlighted a lack of available information about small business preparedness. This long-standing lack of information has been the driving force behind recent FSB research. Small business owners are a notoriously difficult audience to engage with. Any time spent answering survey questions is time spent away from running their business. It is no surprise, then, that previous research in this area has been limited. Most of what *has* been carried out so far has focused either on domestic households or on the larger end of the SME scale (up to 250 employees).

Research overview

The FSB research was carried out by Verve, an independent research agency. Verve carried out the online survey of 1,199 small business members in November 2014. Over 78 per cent of those surveyed were microbusinesses, but sizes ranged from sole traders to those with over 50 employees.

Research was carried out across England, Wales, Scotland and Northern Ireland. In most cases,

Table 1: Survey respondents by size of business



there was little evidence of a statistically significant variation between devolved nations. For this reason, this report does not seek to highlight such geographical differences, but acknowledges that the specific politics, geography and demographics of each nation may produce variations within the overall results.

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/297425/LIT_8443_200ddd.pdf

⁵ Managing climate risks to well-being and the economy: ASC progress report 2014

Audience

This report is designed to inform the ongoing policy debate around the UK's resilience to severe weather, both today and in the future. It addresses some of the long-standing gaps in our knowledge and provides empirical evidence which, added to existing data, can provide a sound basis on which to make long-term policy decisions. Of particular note, in this context, is the work of the Adaptation Sub Committee of the Committee on Climate Change, and the ongoing work to inform the UK Government's next Climate Change Risk Assessment⁶, due in 2017.

This report also provides the FSB with a better understanding of our own membership. It will allow us to design and implement a programme of engagement to help our small business members improve their own resilience as much as possible. We will be working in partnership with government agencies and industry experts to explore potential solutions.

⁶ <http://www.theccc.org.uk/tackling-climate-change/preparing-for-climate-change/climate-change-risk-assessment-2017/>

Effects of severe weather on small businesses

Areas of concern

The FSB research looked at both the '**experience**' and '**cost**' of severe weather.

Two thirds of small businesses say they have been negatively affected by severe weather in the last three years.

The financial cost of these combined severe weather events on affected businesses was, on average, just under £7,000.

Table 2 shows the type of weather impacts experienced by small businesses over the last three years, how widespread these effects were, and the average cost of each (as estimated by survey participants). Many businesses have been affected on more than one occasion in the last three years, and many highlight a combination of impacts related to severe weather events.

Table 2: Severe weather effects on small businesses in the last three years

Impact type	Experience	Cost (average)
People <i>(e.g. disruption for customers or staff)</i>	45%	£3,810
Logistics <i>(e.g. disruption to suppliers, utilities or transport arrangements)</i>	32%	£1,944
Processes <i>(e.g. impacts on production processes and service delivery)</i>	17%	£6,888
Premises <i>(e.g. impacts on maintenance, facilities management or building design and construction)</i>	15%	£5,410
Markets <i>(e.g. changing demand for goods and services)</i>	14%	£6,150
Other <i>(inc. Impacts on investment, productivity, insurance, reputation)</i>	9%	£3,035

The impact of extreme weather on small businesses manifests in a variety of different ways. Disruption to people (staff and customers) was the most frequently raised experience, highlighted by 45 per cent of impacted small businesses, and with an average cost of £3,810. This was followed by disruption to logistics (suppliers, deliveries and transport), experienced by 32 per cent, and with an average cost of £1,944.

Although reports of other weather-related impacts, like processes, premises and markets, are less frequent, the potential costs associated with these lower-frequency impacts are high, averaging £6,888, £5,410 and £6,150 respectively.

Table 2 highlights the areas where small business owners are most concerned. In reality, the individual impacts of severe weather do not occur in isolation and often overlap. For instance, disruption to staff could have implications for logistics, and damage to premises may well affect customer footfall.

Sector vulnerability

Table 3 shows which sectors are particularly vulnerable to the two key impacts of people and logistics.

Disruption to people (customers and staff) and logistics (suppliers, utilities and transport) are the most frequently occurring problems for small businesses during severe weather events.

73 per cent of those in health and social work, and 68 per cent of those in personal services, have experienced people-related disruption (e.g. customers and staff) as a result of severe weather in the last three years.

As one might expect, businesses in the transport sector are particularly vulnerable to logistics-related problems, with 59 per cent reporting disruption to suppliers, utilities and transport arrangements as a result of severe weather in the last three years.

Table 3: Percentage of businesses in different sectors that have experienced severe weather disruption to a) people and b) logistics in the last three years

a. People (e.g. disruption for customers or staff)

>50%

- Health and social work
- Hotels, restaurants, bars and catering
- Leisure, sports and entertainment
- Personal services
- Transport and activities related to transport
- Wholesale trade

40-50%

- Retailing
- Manufacturing
- Creative services
- Business services
- Education
- Sale, maintenance and repair of motor vehicles
- Construction and building related activities

30-40%

- Agriculture, forestry, fishing
- Real estate activities
- Financial services
- Computer and related activities

b. Logistics (e.g. disruption to suppliers, utilities or transport arrangements)

>50%

Transport and activities related to transport

40-50%

Wholesale trade
Manufacturing

Agriculture, forestry, fishing

30-40%

Hotels, restaurants, bars and catering
Retailing
Leisure, sports and entertainment

Construction and building related activities
Sale, maintenance and repair of motor vehicles

Table 4: Cost and prevalence of severe weather impacts across small business sectors

Sector	Experience in last 3 years (sample size)	Mean Cost* (sample size)	Types of impact experienced**
Leisure, sports and entertainment	85% (13)	-	People (54%), Premises (38%), Logistics (31%), Markets (31%), Process (31%)
Health and social work	81% (37)	-	People (73%), Premises (27%)
Personal services	77% (22)	-	People (68%) Process (32%), Logistics (23%), Premises (23%), Markets (27%)
Hotels, restaurants, bars and catering	76% (72)	£13,819 (19)	People (63%), Logistics (38%), Premises (26%)
Transport and activities related to transport	76% (49)	£10,700 (10)	Logistics (59%), People (57%)
Retailing	71% (128)	£10,522 (28)	People (49 %), Logistics (37%)
Wholesale trade	70% (37)	-	People (51%), Logistics (43%)
Sale, maintenance and repair of motor vehicles	70% (23)	-	People (43%), Logistics (35%)
Agriculture, forestry, fishing	68% (37)	£9,463 (11)	Logistics (43%), Process (43%), People (38%), Markets (35%)
Construction and building related activities	67% (111)	£7,933 (35)	People (40%), Logistics (37%), Process (24%)
Creative services	67% (48)	-	People (42%), Logistics (33%)
Real estate activities	64% (36)	-	People (36%)
Manufacturing	62% (106)	£3,610 (23)	People (44%), Logistics (40%)
Education	61% (36)	£3,605 (10)	People (44%)
Business services	54% (163)	£3,615 (21)	People (38%), Logistics (28%)
Financial services	49% (41)	-	People (37%)
Computer and related activities	45% (55)	£3,055 (11)	People (36%)

* Some sector information not published where data sets are very small.

** Only impacts reported by more than 20% of respondents listed here.

Table 4 shows how different sectors experience severe weather disruption. This table includes the percentage of businesses within each sector that have been disrupted, the key impacts which often combine to cause this disruption, and the associated average costs. All small business sectors are vulnerable to extreme weather, but some are clearly more vulnerable than others.

The results for 'Mean Cost' presented in Table 4 are indicative due to the small sample sizes for those that were able and willing to provide the information. We have not presented costs for those sectors with a sub-sample size smaller than ten. However, the results still provide a useful insight into the scale of potential costs faced by small businesses. There also looks to be a potential link between costs and frequency of experience, which warrants further investigation.

Towards the top of the list, the 'hotels, restaurants, bars and catering' sector could be seen as particularly vulnerable, with 76% having experienced severe weather disruption in the last three years at an average cost of £13,819.

At the bottom of the list, the 'computer and related activities' sector could be seen as less vulnerable than many other sectors, with only 45% having experienced severe weather disruption in the last three years at an average cost of £3,055.

There is clearly widespread variation in the potential cost and frequency of disruption to different sectors. It should also be noted that there may be variation within the overall sample data presented in Table 4. Further research should be carried out to investigate geographical variations across the country based on local human factors, like population and demography, as well as natural factors like geology, hydrology and topography.

While there is clear vulnerability across all small business sectors, those that combine both a high frequency of experience with high potential costs may be considered particularly vulnerable:

- Hotels, restaurants and bars
- Transport and activities related to transport
- Retailing
- Agriculture, forestry, fishing
- Construction and building related activities

Table 4 is not designed to be a definitive ranking of vulnerable sectors. However, it does help to identify some trends which warrant further investigation. For instance, businesses that are disrupted more frequently appear to also highlight a greater variety of key impacts than those that are less affected. This may indicate that these businesses rely on a greater number of day-to-day activities which have the potential to be disrupted.

Small business resilience

Resilience planning

In addition to asking about the experience and cost of severe weather disruption, FSB research looked at how prepared small businesses are for such events.

Only 25 per cent of microbusinesses (those with fewer than 10 employees) have a resilience plan in place that specifically includes severe weather.

This compares to a figure of 39 per cent for surveyed businesses with more than 10 employees. Overall, only 27 per cent of surveyed businesses (of all sizes) have a severe weather plan in place.

Table 5 shows that there are clear variations between different sectors. For instance, the 'health and social work', 'computer and related activities', and 'agriculture, forestry and fishing' sectors reported a much higher than average proportion of those with resilience plans in place.

It should be noted that, of the six particularly vulnerable sectors listed on page 11, only the 'agriculture, forestry and fishing' sector has gone further than most to plan ahead for severe weather. In fact, three of those vulnerable sectors appear to be particularly unprepared – 'retailing', 'hotels, restaurants, bars and catering' and 'construction and building related activities'. Fewer than 20 per cent of businesses in these sectors have an adequate plan in place.

FSB research indicates that, for businesses with experience of severe weather impacts in the last three years, the percentage of those who have produced a severe weather plan 'jumps' from 27 per cent to 46 per cent.

Small businesses with previous experience of severe weather are more motivated to prepare resilience plans.

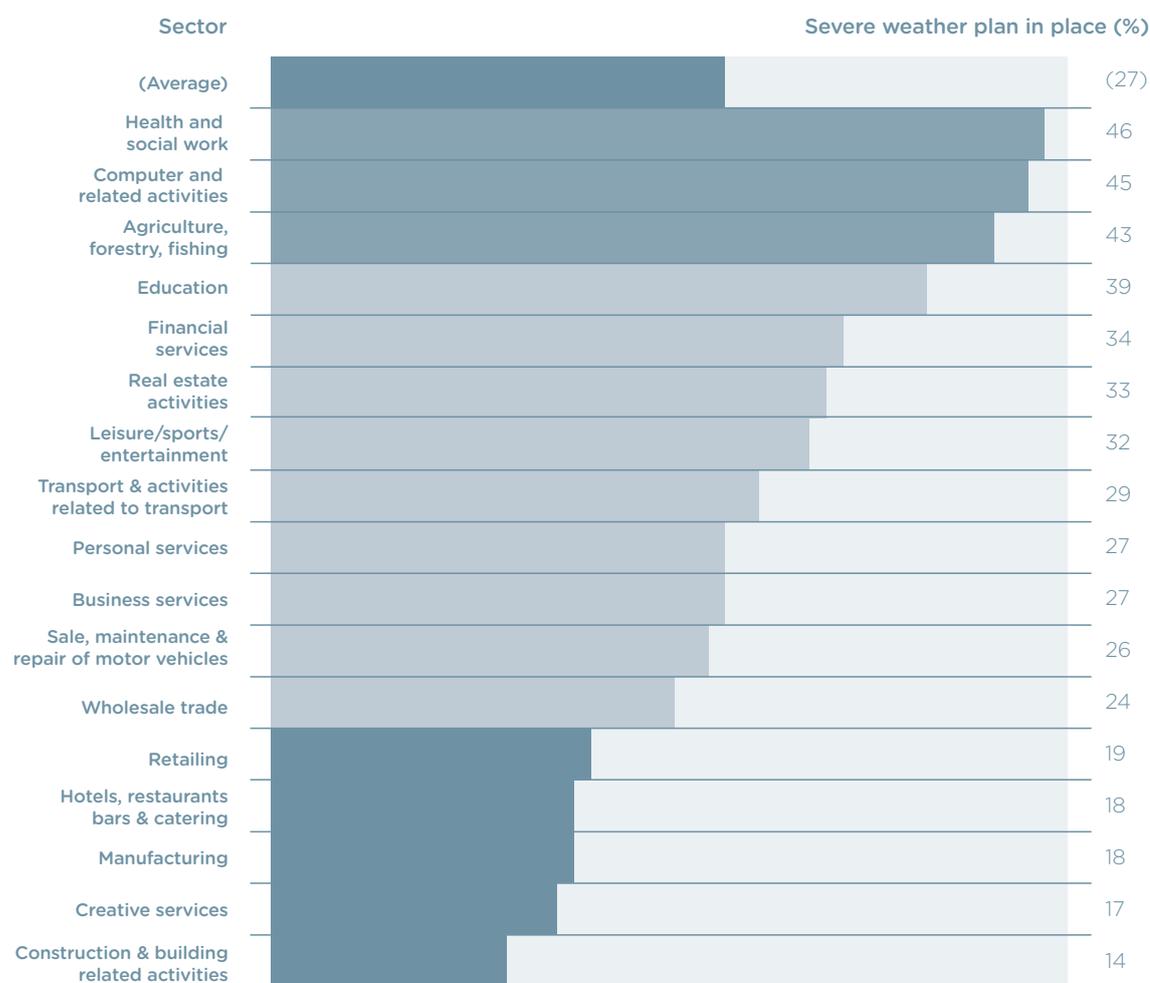
There are likely to be a number of reasons why small businesses may have failed to produce a severe weather resilience plan. A lack of time, expertise, information and finance are regular problems for small businesses, across a wide range of daily activities and requirements.

Some small business owners may take a fatalistic or philosophical outlook, feeling unmotivated or disempowered to manage such risks, especially if they are not visible or immediate. For example, we asked FSB members for their views on climate change, and whether or not they thought they needed, or felt empowered, to adapt to this long-term threat.

Businesses that said they do (or would) need to adapt to climate change are more likely to have planned for severe weather in the short term (32 per cent) than those who said they would not need to adapt to climate change (27 per cent of whom have a plan) or didn't feel empowered to adapt (only 20 per cent of whom have a plan).

The above correlations are not presumed to be causal, but may be symptoms of the same underlying cause. Outlook is dependent on experience, and vice versa.

Table 5: Proportion of small businesses with resilience plan in place that specifically covers severe weather (by sector)



It should be noted that Table 5 does not give an indication of the quality and extent of the severe weather plans that small businesses have put in place, only their proliferation amongst different sectors. Further research should be carried out in this area to determine how useful these plans are in practice.

Resilience action

Despite a lack of formal resilience planning by the majority of small businesses, it is clear that many of them do accept that severe weather poses a risk. It is also clear that many have started to think about and manage the risk to different parts of their business.

93 per cent of small businesses believe severe weather poses a risk to some part of their business.

64 per cent of small businesses have taken some action to manage the risk of severe weather to some part of their business.

Table 6 shows that this action is fairly evenly distributed across property, service/product delivery, staff and reputation. However, it is clear that many businesses are particularly failing to address potential impacts on their supply chains. Many may see this as out of their control.

Only 19 per cent of small businesses have taken action to manage the impact of severe weather on their supply chain.

Table 6: Proportion of small firms that have taken action to manage severe weather impacts across different business areas



As part of the FSB survey, participants were asked to describe some of the ways they do, or would, manage the impacts of severe weather. Their answers covered a wide variety of actions and behaviours, and offered an insight into how small businesses approach severe weather.

One of the major themes that emerged from around a third of FSB members was of simply taking a reactive approach, to “struggle on” whatever the weather. These businesses described the need to “be flexible” and to “just do whatever it takes to keep the business going”. Many highlighted the importance of communicating with their customers and managing their expectations.

Some businesses have sought protection against disruption through customer contract terms and conditions. Some simply rely on insurance to cover any losses.

Other businesses offered more pro-active solutions. Another theme that came out strongly amongst FSB members was the ability to work flexibly, either from alternative locations (including home) or in a way that isn’t restricted to normal office hours (e.g. weekends, late nights, avoiding rush hour etc.).

Many highlighted new technology and software that allowed staff and personnel to work wherever and whenever they needed.

Other themes that emerged often reflected the various priorities, pressures and ways of working of different businesses and sectors. Many highlighted a combination of stockpiling, resilient storage locations, and spreading delivery and supply risks through multiple suppliers. For others, it was about having the right equipment on site for clearing snow, preventing water from entering premises, or generating emergency power. Some had invested in resilient vehicles (4x4s and snow tyres). Many highlighted the importance of good maintenance of their premises. And a small number had gone further, investing in flood defence measures.

Understanding risk

Table 7 shows that small businesses get their information about severe weather resilience from a variety of sources. By far the most popular are the general media (31 per cent) and government organisations and agencies (26 per cent).

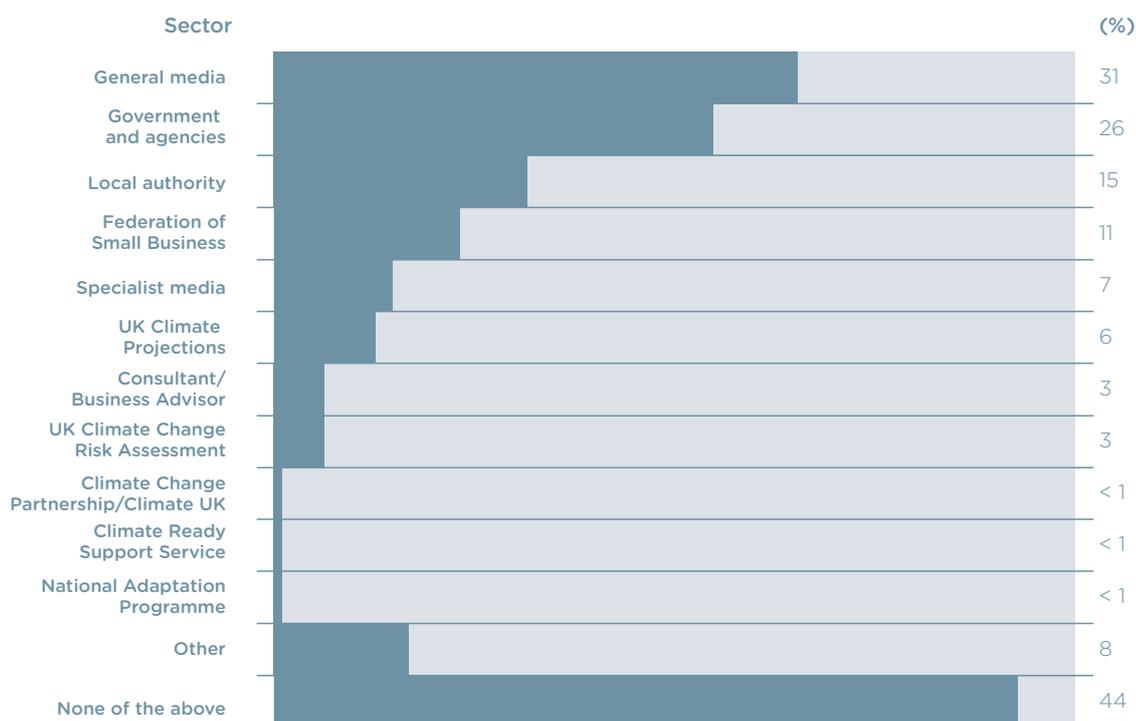
44 per cent of small businesses say they do not get information about severe weather resilience from any external source.

It is clear that a large percentage of small businesses either do not feel they need to, or do not feel empowered to, seek out this information.

However, awareness of flood risk (the biggest potential direct impact of severe weather) appears to be fairly high amongst small businesses, with around one in six acknowledging that they are at risk. This matches the existing UK Government estimate that one in six properties in England and Wales are at risk from flooding.

78 per cent of businesses in flood risk areas are aware of the Flood Warnings Service offered by the Environment Agency in England, or the devolved agencies of Scotland, Wales and Northern Ireland.

Table 7: Sources of information on severe weather resilience for small businesses



Encouraging greater resilience

Table 8 shows the vulnerability of different sectors to the impacts of severe weather. It highlights the relative costs and frequencies of these impacts, and also the relative level of planning and preparedness for each sector.

A particularly vulnerable business could be classified as one that experiences a combination of both high frequency and high cost weather disruption, while taking very little action to plan and prepare for such events.

Vulnerability clearly exists across all small business sectors. But there are some that fare worse than others. As highlighted previously, there are three sectors that appear to be particularly vulnerable in this regard:

- Hotels, restaurants and bars
- Transport and activities related to transport
- Retailing

Each of these sectors experience particularly high cost and high frequency weather impacts, compared to other sectors. They also demonstrate very little planning or preparedness, compared to other sectors.

A further three sectors could also be particularly vulnerable, although more accurate information is needed about their costs of impact:

- Personal services
- Wholesale trade
- Sale, maintenance and repair of motor vehicles

Table 8: Vulnerability of small business sectors to severe weather disruption

Sector	Cost of impact	Frequency of impact	Planning and preparedness
Leisure, sports and entertainment	-	HIGH	MODERATE
Health and social work	-	HIGH	GOOD
Personal services	-	HIGH	POOR
Hotels, restaurants, bars and catering	HIGH	HIGH	POOR
Transport and activities related to transport	HIGH	HIGH	POOR
Retailing	HIGH	HIGH	POOR
Wholesale trade	-	HIGH	POOR
Sale, maintenance and repair of motor vehicles	-	HIGH	POOR
Agriculture, forestry, fishing	HIGH	MODERATE	GOOD
Construction and building related activities	HIGH	MODERATE	POOR
Creative services	-	MODERATE	POOR
Real estate activities	-	MODERATE	MODERATE
Manufacturing	MODERATE	MODERATE	POOR
Education	MODERATE	MODERATE	MODERATE
Business services	MODERATE	MODERATE	POOR
Financial services	-	MODERATE	MODERATE
Computer and related activities	MODERATE	MODERATE	GOOD

Table 9 suggests there is little consensus from small businesses about the best ways to encourage resilience. This almost certainly reflects the diverse nature and size of small businesses, each with their own ways of working, relative pressures, and locations. However, improving understanding of their risks and options, increasing access to finance, and demonstrating links to wider benefits (e.g. insurance and business rates) could all play a part in the solution.

Table 9: Factors that would encourage small businesses (by proportion) to become more resilient to severe weather

Factor	%
Understanding the extent to which my business is at risk	20
Understanding what plans I can make to help my business adapt	20
Knowing what specific products are available to help increase my resilience	19
Financial support (e.g. loans, tax rebates, grants)	18
Guarantee of no resultant rise in my business rates due to property improvements	17
Guarantee of a lower premium from my insurance company	16
Clearer signposting to trusted advice and guidance	13
Easier access to insurance	7
Greater trust in those selling resilience products (e.g. accreditation)	5
Greater trust in the resilience products available (e.g. kite mark)	3
None of the above	36
Other (please tell us what)	8

Table 10 shows a similar pattern. There appears to be no silver bullet for encouraging small businesses to contribute towards community flood schemes. Again, this probably reflects the diverse nature of small businesses. However, compensatory reductions in insurance premiums, taxes or business rates could all have a part to play.

Table 10: Factors that would encourage small businesses (by proportion) to contribute financially towards a community level flood defence

Factor	%
Tax relief	23
Business rates discount	21
A guarantee of a lower premium from my insurance company	20
A guarantee that my risk will be reduced	19
Opportunity of good PR and publicity for my business	13
Understanding the extent to which my business is at risk	12
Other (please tell us what)	2
None of the above	17
This isn't relevant to my local community	40

The role of insurance

Levels of insurance cover

Almost a third of small businesses do not have insurance that either covers property flood damage or business interruption.

52 per cent of small businesses in a flood plain do not have property flood insurance.

54 per cent of small businesses do not have business continuity insurance.

This is clearly a concern, given that two thirds of small businesses say they have been negatively affected by severe weather in the last three years, with significant associated costs. Most of these costs come from indirect impacts, the majority of which are related to disruption to staff, customers and deliveries. So, for many, business continuity insurance may be more useful and appropriate than property flood insurance.

For those businesses that **are** at risk of direct flooding of their property, some may find it difficult to judge the cost-benefits of flood insurance against the long term risk. In a competitive and uncertain business environment, many may not feel they are in a position to plan more than a year ahead. In a more immediate timeframe, small businesses must balance a variety of competing pressures, risks and costs across a range of activities.

According to the Enterprise Research Centre⁷, a third of new businesses fail within three years. So even those at relatively high risk from the weather may, reasonably, not expect to suffer flood damage within such short timescales. After all, the Environment Agency considers any location with up to a one in 100 chance of flooding each year as high risk. In such locations, therefore, 99 out of a hundred years may not produce a flood. Of course, many businesses are located in areas at much higher risk than this. But wherever their location, small businesses make a judgement about whether or not the cost of insurance is worth the risk. Many will play the odds and, inevitably, every year, some will be unlucky.

There are plenty of other reasons why at-risk businesses may choose not to get flood cover, including operational factors, perceptions of risk, and the degree to which they believe this risk can be minimised. However, there are also many businesses, particularly those at very high risk, that *do* want flood insurance but find it difficult to find.

For those small businesses that *are* at risk of direct flooding to their premises and activities, it is clear flood insurance is a big problem, but for a small minority.

Nine per cent of small businesses at risk of flooding say they have difficulty finding flood insurance.

Three per cent of small businesses at risk of flooding say flood insurance cover is unaffordable.

Six per cent of small businesses at risk of flooding say they have been refused flood insurance cover.

⁷ <http://www.enterpriseresearch.ac.uk/wp-content/uploads/2014/06/ERC-Conference-LEP-Growth-Dashboard-final.pdf>

Flood Re

Small businesses have, until recently, been guaranteed flood insurance protection through an agreement between the Government and the insurance industry (the Statement of Principles). This agreement, despite guaranteeing availability, did not guarantee affordability. Flood Re is the new agreement, beginning in April 2016. It replaces the old Statement of Principles, guaranteeing both availability and affordability of flood insurance. However, Flood Re only covers the domestic market and small businesses have not been included within the terms of this new agreement. Instead, they are now at the mercy of the open market.

As Flood Re comes into effect, it is unclear how it will impact availability and affordability of flood insurance on offer to the most vulnerable small businesses.

FSB research shows that many businesses have previously experienced difficulties finding flood insurance, even within the apparent protection of the old Statement of Principles. FSB members in high risk areas have quoted a mixture of high premiums, high excesses, restrictive terms and conditions, and outright refusal of cover.

The market will change with the introduction of Flood Re, and the FSB will closely monitor the affect this has on affordability and availability. Many small businesses have expressed concern about the future, and they need a guarantee that insurance will be available and affordable when they come to renew their deals.

It is worth noting that the Association of British Insurers (ABI), when designing Flood Re, estimated that between 300,000 and 500,000 at-risk UK households would, without such a guarantee, struggle to obtain affordably priced flood insurance⁸. That estimate represents between seven and 11 per cent of the four million at-risk households across the country (one in six). This is a strikingly similar figure to the nine per cent of at-risk small businesses who also say they struggle to find flood insurance. So it is a major concern that these small businesses, though similarly vulnerable, have no such agreement in place to protect them.

⁸ <https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Flooding/Government-and-insurance-industry-flood-agreement/The-future-of-flood-insurance>

A positive future

Small businesses as part of the solution

Small businesses, by their very nature, are well placed to avoid the risks associated with severe weather. They are flexible and have a small footprint, compared to bigger industry. However, they are also less able to absorb the costs of disruption when it is unavoidable. So severe weather resilience plans are a critical tool for reducing the impact and likelihood of this kind of disruption.

Many small businesses see themselves as part of the solution when it comes to UK resilience to severe weather.

Almost 15 per cent of small businesses believe they can provide a positive contribution to specifically addressing the impacts of severe weather, through their products, services and innovation.

FSB members highlighted a number of areas of expertise, particularly around planning advice, flexible working, technology and engineering solutions, and communications.

One of the themes that emerged out of the 2014 winter storms was the importance of the support network within local communities. This is true for both domestic residents and small businesses alike. During a severe weather emergency, such as a major flood, it is critical that the right supplies and equipment are in place to help manage the risk and to keep the local economy moving. Small businesses, often at the heart of their communities, are well placed to offer this service. This could include providing flexible space for evacuated people and businesses; providing storage for grit, sand, sandbags or snow shovels; providing pumps to combat flood water; or providing power generators and satellite phones if wind and rain have damaged utility networks. FSB research shows that there is a considerable willingness from local small businesses to offer this kind of *'resilience hub' service*.

Over 40 per cent of small businesses would be happy to act as a community resilience hub for their local community (storing vital equipment in case of emergency).

A business that has suffered from severe weather in the past is much more likely to be willing to take on a community resilience role than a business that hasn't been affected.

Full recommendations

Small businesses should:

1. **Produce a resilience plan** that includes the potential impact of severe weather on different parts of their business, including their supply chain (imports and exports).
2. **Explore the potential benefits of flexible working** for their staff, especially when advertising for new roles.
3. **Clarify their flood risk** and, where available, sign up to the Flood Warnings Direct service.
4. **Explore the benefits of business continuity insurance** as well as property flood insurance.
5. **Investigate the business and community benefits of acting as a resilience hub** during severe weather events, providing vital equipment and services.

Government should:

1. **Produce a strategy for small business resilience** that takes account of both the direct and indirect economic impacts of severe weather, and pays particular attention to impacts on customers and staff.
2. **Explore ways to promote the benefits of remote and flexible working** to small businesses, provide necessary support and infrastructure (e.g. broadband), and ensure that key transport links and utility networks are protected (e.g. roads, rail, electricity).
3. **Actively manage public perceptions during major weather events.** In the past, businesses have suffered from a drop in custom due to misleading information, driven by politicians and the media, suggesting areas of the country are closed for business.
4. **Provide an online one-stop-shop for small businesses**, providing information and advice about resilience planning, signposting towards reliable, trusted products and funding sources, and providing a platform for small businesses to share best practice. This could sit as part of the Government's Great Business website, Growth Hubs (in England) or within the jurisdiction of a potential future Small Business Administration (SBA).
5. **Ensure continued availability of affordable and comprehensive flood insurance for small businesses**, potentially through a dedicated Flood Re style agreement.
6. **Continue long-term strategic investment in flood defence funding**, maintaining current levels of capital investment and protecting Environment Agency maintenance budget.
7. **Urgently review the cost benefit calculation for taking forward flood defence schemes**, which does not adequately take account of the potential economic impact on agricultural land and rural communities.
8. **Investigate the success and effectiveness of the short short-term support measures** introduced after the 2013/14 winter storms, especially the repair and renew grants, and consider the benefits of a similar package following future such events.
9. **Consider the potential for greater incentives to encourage small businesses to invest in property level and community level resilience measures**, including tax relief, access to finance, and reductions in insurance premiums.

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- 10. Continue to use the Small Business Research Initiative (SBRI)** to drive small business innovation on resilience.
 - 11. Promote small business investment in innovation and resilience products and services**, particularly through the work of Catapult centres.
 - 12. Work with small businesses and representative organisations** (via their relevant agencies where appropriate) to improve their level of resilience planning.
 - 13. Produce a long-term National Infrastructure Strategy**, which includes severe weather resilience.

Local authorities should:

- 1. Work with small businesses**, via Local Enterprise Partnerships (LEPs), to identify strategic resilience issues and plan investment accordingly.
- 2. Hold details of local businesses** who have volunteered to act as resilience hubs, providing workspace, storage, equipment, machinery and expertise.
- 3. Be proactive in offering hardship relief** to affected small businesses in the aftermath of a severe weather event.
- 4. Give small businesses a greater voice** in the strategic planning process, especially around sustainable development on or around the flood plain.

Large businesses should:

- 1. Work with small businesses in their supply chain** to identify areas of risk.
- 2. Provide flexibility to small business suppliers** during a severe weather event, ensuring that the potential for disruption is accounted for and the risk minimised.
- 3. Share knowledge** with their small business suppliers to improve resilience.

Those involved in the investment, planning, and maintenance of major utility infrastructure networks – e.g. water companies, distribution network operators, energy companies, local authorities and government agencies – should work together to:

- 1. Acknowledge and plan their responses** for businesses that are most vulnerable to extreme weather.
- 2. Establish and fund resilience hubs** in partnership with local businesses.
- 3. Explore opportunities for local emergency power generation**, which could reinforce the grid as required during severe weather events.
- 4. Work in partnership with the Federation of Small Businesses** and the insurance industry to develop a trusted resilience toolkit for small businesses.

ANNEX 1. Severe weather in small firms own words

People (e.g. disruption to customers or staff)

- “...customers could not get to shop as roads and car park were icy.”
- “One day we took £5.50 all day with three members of staff in.”
- “About half our customers could not get to us.”
- “...appointments were cancelled/postponed...”
- “...you still have to open, and staff and heat a building.”
- “...snowed in for three days at home and could not get to work.”
- “...staff do not come in and orders can’t be fulfilled on time.”
- “Staff struggled to get to work and used a holiday entitlement.”
- “...staff having to work antisocial hours to catch up.”
- “Staff are unable to get to clients homes...”
- “...they believe you haven’t made enough effort to get to them.”
- “...poor quality of snow clearance and gritting of minor roads.”
- “Loss of reputation with overseas customers who expect our usual efficient service...”
- “...once they take a break it can be hard to get them to return.”
- “Stress regarding inability to open premises...”
- Stress about whether one will be able to go home...”
- “Extra costs of transport when trains are cancelled and alternatives have to be funded.”
- “Lost deposit after venue cancellation.”

Logistics (e.g. disruption to suppliers, utilities or transport arrangements)

- “Because of slow/late delivery, customer confidence was eroded.”
- “Damage to my company’s reputation for always arriving on time...”
- “Unable to reach customers.”
- “...customers expecting the impossible...”
- “...problems with seller ratings on sales platforms such as eBay and Amazon as a result of suspension of courier collection service.”
- “Staff unable to get to work or not wanting to risk long journeys.”
- “...work had to be rescheduled to evenings and weekends to catch up with backlogs.”
- “Extra stress on service staff trying to catch up with work.”
- “The whole centre of the town had no power and therefore a let-down for any visitors.”
- “...work and cash flow delays.”

Process (e.g. impact on production processes and service delivery)

“...loss of repeat business.”

“Delayed projects leading to backlog affecting other planned work and delivery timescales.”

“Customers will start to look at other options when we are unable to deliver, even though it’s not our fault. We could lose business.”

“Loss of reputation in our ability to deliver the services we deliver.”

“I pride myself on next day delivery - during bad snow this is not possible.”

“...forecasts are permanently wrong.”

“...can’t work if snow on ground.”

Premises (e.g. impact on maintenance, facilities management or building design and construction)

“Wasted management and staff time clearing up disruption to business.”

“A lost day of work.” “...insurance would not cover damages.”

“As our warehouse continually flooded, the staff had to spend time dealing with the floods.”

“Time wasted carrying out repairs.”

“Roof leaked in server room causing damage and loss of working time.”

“Unable to gain access to building sites.”

“Excessive rain delayed bricklayers’ progress on a site.”

“Unable to open for business.”

Markets (e.g. changing demand for goods and services)

“...public perception, driven by the media, that flooding would affect our ability to supply our product.”

“Negative media reporting creates a perception that flooding impacts a large area for a long time...”

“Loss of reputation due to delays providing key services due to rescheduling issues...”

“...cancelled contracts...”

“...viability of the business which was ultimately closed.”

“...events cancelled due to severe weather reduces our presence in the community and further potential bookings.”

“...we could not get back to normal trading until five months later.”

Finance (e.g. implications for investment, insurance or business reputation)

“...a rise in insurance costs.”

“We have to pay additional insurance as we are deemed to be in a flood risk area despite never having had a flood.”



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