

Towards a Low Carbon Economy for Scotland

June 2010

Introduction

The Federation of Small Businesses (FSB) is Scotland's largest direct-member business organisation, representing over 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to prosper.

We welcome the opportunity to submit our comments to the consultation on the discussion paper: *Towards a Low Carbon Economy for Scotland*.

Scotland's small businesses have the potential to deliver significant economic growth, while contributing to the economy in an increasingly environmentally friendly way. However, to realise the potential for growth, revenue generation and carbon reduction, we need the long term policy drivers to encourage green innovation within our small businesses and also to allow them to reap the rewards of green energy.

Legislation, regulation and caps may be necessary to reduce carbon emissions in larger businesses, but they are not the right tools to encourage Scotland's small businesses to take part in this long term need to reduce carbon emissions. They require policies and incentives that give them the ability to grow and prosper in the new low carbon economy.

Background

It is often thought that small businesses do not take environmental responsibility seriously. However, a document published by the FSB entitled: *Social and Environmental Responsibility and the Small Business Owner*, disproved this myth.

It found that almost 40 per cent of members were engaged in energy efficiency measures; 30 per cent changed their core products and services to be more environmentally friendly and 83 per cent were actively engaged in waste minimisation and recycling.

In the same survey, the FSB found that 70 per cent of those that gave information on energy efficiency used low energy light bulbs; invested in low energy lighting; turned off PCs and lights in their premises; changed heating systems; minimised electrical usage and reduced temperatures in their premises.

In a more recent survey conducted in conjunction with ICM in 2009, we asked our members about environmental and low carbon issues. The data produced from the survey shows that FSB members in Scotland displayed mixed emotions on these issues. Currently the idea that energy efficiency can provide cost savings resonates much more strongly than the suggestion that there are commercial opportunities in increased environmental awareness. More than twice as many members (64 per cent vrs 20 per cent) agreed with the former statement as with the latter.

Resource Efficiency in Small Businesses

Pay as you save

In order to get small businesses to proactively embrace energy efficiency and reduce emissions, we need to make 'going green' more economically attractive. The most common obstacle to increasing energy efficiency for small businesses is the lack of upfront capital to invest in energy efficiency measures.

In Scotland, we have a zero per cent loan scheme operated by the *Energy Saving Trust*. This type of loan allows small businesses to 'pay as you save', with the loan being repaid over time, effectively through savings on energy costs. The expansion of this type of initiative would not only cut carbon emissions in the small business sector, but also improve the profitability of the businesses involved.

Extend the scope of the Carbon Trust loan scheme

The *Energy Saving Trust* loan scheme is a good example of how effective the use of 'pay as you save' initiatives can be. We appreciate that at this time of financial constraint, support for this type of scheme is difficult. However, we believe that a short term expansion of upfront capital for the scheme would not only be repaid in a relatively short period of time, but also allow the economy to benefit from huge savings via increased energy efficiency and profitability.

We would also argue that repaid loans should be recycled and re-loaned to a new group of small businesses. This would greatly increase the effect of an upfront stimulus and would ensure the demand for loans could be met in the future. This system of loan 'recycling' currently operates successfully through the Salix programme in Wales.

Double the maximum permitted payback time of loans

The *Carbon Trust* also offers a zero per cent loan to finance and invest in energy saving projects. However, at present, these loans must be repaid within four years, which largely rules out using it to fund anything which pays for itself over a period of five years or more. A ten, or even fifteen year payback period, would be much better value. Doubling the permitted payback period would allow the loans to be harnessed for a much wider range of measures, such as more energy efficient glazing or an installation of micro-renewable energy technologies.

By providing a short term increase in funding, allowing the 'recycling' of loans and doubling the payback period will dramatically increase the effectiveness of the scheme. This in turn would increase the profitability of the small business sector while at the same time reducing Scotland's carbon emissions.

Advice for small businesses

As we have already stated, the advice available to small businesses in Scotland is fragmented across several organisations, so the ability of small businesses to easily find the assistance they are looking for is restricted. There are some notable exceptions, such as the assistance offered by the *Energy and Environment SME Toolkit*, which was developed by the FSB and the previous Scottish Executive in conjunction with agencies such as *Envirowise* and the *Business Environment Partnership*. Such clear advice is vital for small businesses to understand how to implement the changes that will reduce their costs and comply with government targets.

Resource efficiency is a key way in which businesses can drive down costs. However, marketing this concept must focus on the benefits to the business if it is to be successful. We welcome the recent creation of *Zero Waste Scotland* as a means of bringing together a number of agencies involved in providing advice. However, we believe there is further to go on this issue; with agencies such as the *Energy Saving Trust* and *The Carbon Trust* still offering a wide range of environmental advice. The FSB has argued that by streamlining them into one recognisable organisation, we would increase the profile of the issues among smaller businesses and lessen confusion about who to approach for support. If the Scottish Government is to be successful in achieving its targets for reducing carbon emissions, getting the message out to small businesses and explaining clearly how they can play a part, will be vital.

Smart Metering

While recognising that metering and billing are the responsibility of the UK Government, we notice the issue raised within the consultation document. The forthcoming roll out of smart metering in Scotland presents an opportunity to further reduce carbon emissions while realising the real cost savings for our small businesses through increased energy efficiency.

Smart metering offers the consumer the ability to take control of their energy use by giving them access to real time information about their energy consumption. Further, this allows them to make informed decisions about how and when they use their energy.

The FSB is fully supportive of the introduction of smart meters and we have made some recommendations at a UK level that we hope can be achieved. We would encourage the Scottish Government to work with their UK counterparts to ensure a smooth and successful roll out of this project to small businesses in Scotland.

1. We would like to see a competitive smart meter market that ensures that consumers can benefit from competitiveness in the market. It is essential that small business customers should remain free to switch suppliers when they wish and not get locked into using one particular supplier.
2. Interoperability is generally considered crucial to the success of smart metering. Common standards are needed to ensure that customers with smart meters can switch supplier without having to change their meter. It also means that suppliers will not face technical barriers to interact with smart meters installed by their competitors. Interoperability can be brought about by voluntary agreements on standards or proposing supplier licence changes.

3. The most obvious deficiency in the current plans for the smart meter rollout is the lack of provision for training for small businesses to maximise the potential benefits for using smart meters. This is concerning given that the energy suppliers themselves are likely to benefit most from the rollout and it will be the consumer who bears the cost. The FSB would like to see the inclusion of free 'smart meter use' training or advice to compliment the rollout.

Feed-in Tariff

The issue of feed-in tariffs (FIT) is one that is also reserved to Westminster. However, they have the potential to revolutionise small scale renewable energy in Scotland and provide a significant contribution to meeting our renewable energy targets. Small businesses that generate their own clean energy will reduce their energy bills, increase their competitiveness and reduce their vulnerability to future fossil energy prices.

The FSB in Scotland is supportive of the loan scheme for small scale renewable technologies which is funded by the Scottish Government and run by the *Energy Savings Trust*. It allows small businesses to access upfront capital which is repaid once businesses start experiencing reduced energy costs.

Long term drivers for green growth

The expansion of 'pay as you save' initiatives, the effective roll out of smart meters and introduction of commercially viable feed-in tariffs can make going green economically feasible for Scotland's small businesses. However, the move to a low carbon economy not only offers reduced carbon emissions and energy costs but also the potential for our small businesses to reap the rewards of the growing demand for green goods and services.

Small businesses have a competitive advantage over larger businesses in the green industries because of their strength in distribution and diversity and their flexibility to respond quickly to emerging markets. It is essential that they are allowed to develop these competitive advantages by ensuring public support for green innovation is reflective of the needs of our small businesses.

We need the Scottish Government to create an innovative environment where small businesses are given the tools and incentives to meet the demands of the green economy and we believe that public support for research and development and public procurement are two potential drivers that can help small businesses lead the way to a low carbon economy.

Innovation, Research & Development

Scotland has some of the finest and most respected higher education institutions in the world. There is also a growing consensus that the low carbon sector will play a crucial role in the Scottish economy in the coming years. There is therefore a need to link research and development support with our carbon reduction targets. The FSB would like to see:

- The identification of opportunities for the creation of new low carbon enterprises.
- A focus on sector specific matching of small business innovation needs to relevant higher education institutions.

- Influencing all innovative start-ups to take on board sustainability considerations at the business inception stage.
- A focus on developing and disseminating tools and techniques which are appropriate to smaller businesses.
- Better monitoring of projects as a means of determining their ongoing effectiveness.

The FSB is also sponsoring an innovative student programme to help small businesses improve their resource efficiency. The *Environment Placement Programme*, run by the *Green Business Partnership*, matches businesses from all sectors with students who spend eight weeks working on innovative environmental projects. The FSB believes that this is exactly the sort of innovative programme which not only gives students work experience, but also helps businesses to meet their environmental obligations. Projects like this offer students the experience they will need to build the skills for future employment in this area.

New jobs in this area will only be created if the workforce is well trained and if businesses are given the opportunity to invite new technology and product development. Consumers are increasingly looking for low carbon products and services; so the reputation of businesses in this area is gradually becoming more important. Scotland's small businesses are adaptable and able to seek out new markets and opportunities.

The FSB is mindful of the fragile state of the economy at present, and so as well as creating new jobs, we would like to protect existing ones. It is important to recognise that the movement of goods and services by private vehicles is an essential part of economic activity, and the desire to reduce Scotland's carbon emissions should not be at the expense of the very activity which is required to deliver the social, environmental and economic benefits which Scotland needs.

Skills

In a recent report entitled, "*Mind the Gap: Skills for the Transition to a Low Carbon Economy*", published in November 2009, the Aldersgate Group recommended that in England, all major environmental policies and regulations should be accompanied with a corresponding skills strategy. In a recent parliamentary answer, the Energy Minister stated that the new skills strategy would build on the *Skills Framework for Action* under the Scottish Government's *Renewables Action Plan* and would be supplemented by the development of a *Low Carbon Strategy*, which would highlight the development of appropriate skills for the low carbon economy as a Scottish Government priority. While this move by the Scottish Government is welcome, the FSB would like to see any future skills strategy developed in line with environmental legislation. This would enable small businesses to plan for the future and assess what skills will be necessary.

Sustainable Procurement

Public Procurement is increasingly important in promoting sustainability in our economy. A greater emphasis on public bodies procuring locally can bring significant benefits to local economies. Procuring goods and services from locally based small businesses could lead to reduced greenhouse gas emissions, while also contributing to other economic and social aspects of sustainability. An example of this is procuring food locally. This has the

potential to cut down on 'food miles', thus lowering carbon emissions while also contributing to the sustainability of local economies.

As we have recently found in Scotland, the rush to achieve cost effectiveness by aggregating contracts has made it more difficult for small businesses to participate in the procurement process. In order to use public procurement as a driver for low carbon innovation, we need to make it easier for small businesses to participate in the process. The FSB has argued that public procurement should be applied through a 'whole life costing' basis where sustainability is given at least as much emphasis as cost efficiencies.

Business Waste

The FSB has campaigned for many years on the issue of business waste and its potential for recycling. At present, too much business waste goes to land fill because businesses are not able to use either the kerbside municipal recycling provision or the municipal recycling depots, except in some cases at a financial cost which acts as a considerable disincentive. We are aware of the recent publication of the *Zero Waste Plan* and we hope this will deliver a new approach to business waste; ensuring that its collection and disposal can be as environmentally friendly as possible, without incurring a significant financial burden on the business.

Conclusion

The potential for Scotland's 275,000 micro and small businesses to contribute to the fight against climate change and drive green economic growth is huge.

In this response, we have aimed to outline some of the key ways we believe that Scotland's micro and small businesses could be encouraged to change their ways of working to reduce their carbon emissions.

We have suggested longer term and recycled loans which would allow small businesses to plan for investment over a longer time period. We have encouraged the Scottish Government to work closely with Westminster ministers to ensure the smooth roll-out of the smart metering programme and any future feed-in tariff. We believe that the merging of the various agencies that offer advice on carbon reduction would make it easier for small businesses to know where seek such advice. Through our work with *Interface* and the *Green Business Partnership*, we are encouraging small businesses to think about product innovation and also helping students and graduates gain valuable experience with micro and small businesses. Finally, we will continue to press for reform of the current procurement system to make it easier for small local businesses to bid for contracts.

For further information on any of the points raised in this submission, please contact Martyn McIntyre, Policy Officer, on martyn.mcintyre@fsb.org.uk or 0141 221 0775.