

Proposals for a Heat in Buildings Bill: Consultation

The Federation of Small Businesses (FSB) is Scotland's leading business organisation and aims to help smaller businesses achieve their ambitions. These micro, small and medium businesses comprise almost all enterprises in Scotland (99%), employ 1.2 million people and contribute £110bn to the economy.¹

We welcome the opportunity to respond to the consultation on proposals for a Heat in Buildings Bill. We understand that the Scottish Government has set a target to reach 'net zero' on greenhouse gas emissions by 2045. We have taken this opportunity to assess how the proposals will impact small businesses and the feasibility of how the 2045 and interim targets will be met. We look forward to further engagement with the Scottish Government on this topic.

Engagement with small businesses

As part of our consultation process, we held a roundtable session with FSB members, all of whom live and operate their businesses in different areas of Scotland. None of the members had any awareness of the proposals for a Heat in Buildings Bill or of the changes expected of them in relation to removing a "polluting heating system" and installing a zero-emissions one.

According to our Big Small Business Survey¹, almost two fifths of Scottish SMEs have limited or no understanding of government targets related to net zero and how these will impact their business. While we do not expect the full responsibility of awareness of these changes to fall on the Scottish Government, there has been a concerning lack of engagement undertaken to date to understand where the barriers may lie for small businesses and whether the infrastructure, technology and skills are in place to support such changes. Unlike large companies, small businesses lack the resources and time to invest in researching and understanding new legislation and what will be expected of them.

The pilot Business Energy Advice Service (BEAS) offered 4,000 free energy assessments to small businesses in England. The pilot was rolled out across the West Midlands with businesses given the opportunity to apply for a grant of up to £100,000. The aim of the assessments was to facilitate reductions in energy usage, helping to reduce costs. After the assessment, there was an opportunity to apply for the grant. In the recent Spring Budget the UK Government announced that they are examining the findings of the pilot scheme to inform future policy in this area, including the potential to expand the scheme nationwide.

¹ [The-Big-Small-Business-Survey \(11\).pdf](#)

We are aware Business Energy Scotland provides a similar service, however support comes in the form of a loan. While these loans may be interest-free, we know there is a reluctance among small businesses to take on more debt, following that which they had to take on during the pandemic. This is an opportunity to look to the success of the Business Energy Advice Service model and consider whether Scotland could provide an equivalent for its small businesses.

It's also important to consider the capacity of Business Energy Scotland, and how this will be required to be scaled up to support small businesses in particular to make the necessary changes. Anecdotally, members have told us their experiences of waiting up to 10 weeks to speak to an advisor after making initial contact with Business Energy Scotland.

There is a significant lack of reference to business in the consultation. Upon checking, there are 39 mentions of 'business' throughout the 72-page consultation. The majority of these are only mentions in a very loose context and do not give an indication on what the expectation will be for small businesses. It is incredibly important that a 'one size fits all' blanket approach is not applied to business and that specific consideration is given to how the legislation will impact smaller businesses. It is for this reason that we are calling for a greater focus on assessing the impact of legislation on small businesses in particular in Business and Regulatory Impact Assessments (BRIAs), through our work as part of the New Deal for Business group.

While the consultation makes reference to the development of heat pumps and heat networks, there is little to suggest that any pilot schemes or case studies have been undertaken with small businesses ahead of development of the consultation. This should have formed a crucial part of the pre-consultation process as it would have allowed the Scottish Government to gain valuable insight into where the key challenges lay and would have formed the basis of a collaborative relationship between business and the Scottish Government. We strongly urge that prior to implementing legislation, the Scottish Government develops a clear delivery plan which includes running pilot schemes and case studies with small businesses, to allow them to fully understand the impact.

Readiness of technology and supply chain

We note that the consultation heavily focusses on the use of heat pumps, electric storage heaters and heat networks as the preferred alternative to 'polluting heating systems'. The consultation does state that this is not a complete list of the systems available and redirects to an article which explains the types of heating that are likely to be in line with the proposed new laws. Unfortunately, the link does not work. While some of the 'clean' heating suggestions will bring many benefits, we have serious concerns around whether

the technology has been sufficiently developed and tested over an adequate period of time to evidence its performance.

Small businesses are confused around which types of technology they should be considering when making upgrades/changes to their premises in the immediate future. One of the participants at our roundtable session commented that they had recently installed a new heating system but were unsure if it would be suitable under the Heat in Buildings proposals. They went on to explain how difficult it had been to recruit a suitable tradesperson for the work, which highlights that there are already growing difficulties around the availability of the correct skilled trades. Small businesses need clear direction on how to future proof their premises with reliable technology which will meet the Scottish Government's proposals.

To support the development and monitoring of the technology, significant private investment is required. This is a challenge due to the current lack of commercial confidence in the technology and the unproven rate of return over the long term. We conducted some research into the afore mentioned preferred alternatives to understand how they would work in practise.

Heat pumps

A Home Energy Scotland report found that 5,149 new heat pumps were installed in Scotland in 2022, however, 96% of these were installed in domestic properties². This highlights that businesses are not yet installing this type of technology. This is likely to be due to a number of reasons including difficulties around the placement of the heating pump systems, cost, disruption to business and the unknown risks involved (performance, maintenance, reliability). Further, as many small businesses rent their premises, it is therefore currently at the discretion of the landlord as to the installation of things like heating systems. Throughout the consultation there is reference only to 'private landlords'. It is unclear whether this applies to domestic only or includes commercial property landlords. We would like clarity on this term.

While the number of installed heat pumps in Scotland is estimated at around 18.072³, the UK (for its size) has the worst heat pump sales record and the second worst installation record in Europe⁴. Although there is evidence to suggest that heat pumps can produce more clean heat for a lower cost, there are a number of associated costs in order to fully utilise the system. In most

² [An introduction to heat pumps · Home Energy Scotland](#)

³ [An introduction to heat pumps · Home Energy Scotland](#)

⁴ [Briefing-heat-pumps-9Sept-4.pdf \(greenpeace.org.uk\)](#)

cases due to the lower heat temperature generated by a heat pump, larger radiators are required to be installed. To retain the heat in the building there needs to be a good level of insulation and double glazing. These all pose significant issues for non-domestic buildings.

Looking to other European countries who are further ahead in their net zero journey could be beneficial⁵. In 1999, A Finnish national heat pump association (SULPU) was established but remained hampered by a lack of training, quality standards and maintenance capacity. Via SULPU, training and standards improved throughout the 2000s, which led to an improvement in the reputation of the sector, leading to an increase in sales. In 2009, Finland was accepted into the European Heat Pump Association's quality control committee, resulting in them setting up their own national quality control committee. SULPU has reported year-on-year increases in sales by collecting data. This demonstrates that the route to 'clean' heating systems is not something that can happen quickly. Tried and tested systems combined with data collection and quality committees are essential to monitor the growth of technology.

Electric storage heaters

While at first glance electric storage heaters can seem like a good option, the running costs and practicalities of installing heaters in a small business are challenging. Businesses continue to be significantly impacted by the cost of living/doing business crisis, which has put incredible pressure on them. FSB's Big Small Business Survey⁶ found that over 61% of businesses that reported a decrease turnover in the last year attributed it to the cost-of-living crisis.

Installing heaters in a business premises is problematic both from a health and safety, and logistics perspective. This, coupled with concerns that the national grid may not be able to cope with the demand of the transition to net zero, means this may simply not be an option for many small businesses.

Heat Networks

We note there are suggestions that heat networks may be a suitable option where they are available and could provide non-domestic buildings with a route to a 'clean' heating system. From the options available, this seems to be the most feasible.

⁵ [The jump to pumps: how Finland found an answer to heating homes - resilience](#)

⁶ [The-Big-Small-Business-Survey \(10\).pdf](#)

However, we still have concerns around delivery, disruption, cost, investment and expectation on small businesses to provide reporting on their energy usage. Heat networks will be critical in providing a pathway to net zero and attracting investment through evidencing commercial return and confidence. To do this it is essential that government policy and the support of public sector finance is in place to build business confidence.

We would also like to see extensive engagement carried out with small businesses to enable them to fully understand their options and support provided to enable them to transition with as minimal cost and upheaval as is possible.

Inverclyde Council recently published their Local Heat and Energy Efficiency Strategy⁷ which highlighted that while the majority of non-domestic properties count their main fuel type as electricity, the majority of heat demand actually comes from gas. The strategy also highlights that as “non-domestic buildings represent a large variety of buildings; it is also challenging to understand the applicability of energy efficiency measures and heat decarbonisation options”. This illustrates that there is limited data in relation to non-domestic buildings and that options open to them are limited in comparison to domestic buildings.

In relation to the consultation questions:

Q14. We would only support powers to be given to local authorities and Ministers to require buildings within a heat network to end their use of polluting heating systems by a given date where extensive engagement and support has been undertaken with small businesses to fully support and understand the implications and challenges they face.

Q16. We would not support the proposal to require occupiers of non-domestic properties to provide information about unused heat on their premises as this is another administrative burden placed on small businesses who already struggle to allocate sufficient time to reporting requirements. Our Big Small Business Survey found that over a tenth of small businesses already spend more than eight hours (a full working day) on regulatory compliance each week.

Skills

A key component in the journey to 2045 is that we have a framework in place which supports the skills that are and will be needed. As it stands, the consultation does not yet provide enough detail on the options for ‘clean’ heating

⁷ [Inverclyde LHEE Strategy V1.0 \(draft for public consultation\) \(2\).pdf](#)

systems, which makes it incredibly difficult to understand what skills will be required. We would like to understand in further detail what the Scottish Government's delivery plan in relation to skills and upskilling will look like and how the analysis has been conducted to design these roles.

Skills and upskilling form a significant component of the net zero journey and it is critical that the Scottish Government has fully understood what will be required both now and in the 20-year period to 2045. One of our members reported that they are a member of a Skillsforce group and advised that due to much of the technology not being tried and tested that it is virtually impossible to understand which skills will be required. Skills Development Scotland's CESAP Pathfinder⁸ report found that the Energy and Waste Treatment sector alone "is expected to face significant demand for new skills over the short to medium term".

The CESAP report also found that:

- More than 12,000 people will be needed to be fill jobs emerging because of replacement demand as existing skilled workers retire from the workforce.
- A significant reskilling requirement to support the transition of workers from high carbon intensive to low carbon intensive forms of energy production.
- Growth in demand for new skills as new and emerging technologies such as Hydrogen production and Carbon Capture and Storage come to fruition.
- A significant requirement to upgrade grid and transmission infrastructure to accommodate new technologies.

Worryingly, the report also found that the retention of talent and skills in Scotland is a key area of focus, with over 40% of university graduates who are going into a CESAP sector as their first destination, are choosing to do so out with Scotland. Skills underpin the basis of the move towards net zero and much of the evidence suggests that this critical pillar has not yet been developed.

Funding and exemptions

The Scottish Government has positioned Business Energy Scotland as a key funding source available to small businesses with regards to net zero. While there has been some positive feedback from members who have used the scheme, others have expressed disappointment in how long it takes to get a response after making an initial inquiry. Additionally, FSB's Big Small Business Survey found that four fifths of Scottish SMEs have not engaged with any

⁸ [cesap-pathfinder-wp1-report.pdf \(skillsdevelopmentscotland.co.uk\)](https://www.skillsdevelopmentscotland.co.uk/cesap-pathfinder-wp1-report.pdf)

government support initiatives with regards to the transition of net zero. This highlights that small businesses are either unaware of the scheme or do not feel that this type of support is suitable for their business.

A key issue is that a majority of support is only available in the form of a loan. As noted above, many small businesses are hesitant to acquire more debt after their financial struggles through Covid, with one of our roundtable members commenting that accessing grant funding was their only option as they simply do not have the capital available to invest in new systems. We would like to understand more around what the Scottish Government's plans are to introduce additional funding streams that provide terms that are accessible to all small businesses and encourage collaborative working with FSB and its members to consider this.

We note that the consultation makes reference to 'exemptions' throughout the document. We believe the definition and criteria of this term will be critical to small businesses and would welcome the opportunity to engage with the Scottish Government on their development of this. Small businesses face complex challenges when considering how to replace their heating systems and require certainty that 'clean' heating systems will be reliable, easy to maintain and less expensive to run. They also face additional challenges around securing funding to install these systems and disruption to their business while they undertake the works.

Conclusion

It is important to recognise that unlike domestic buildings, business premises use a number of different ways to heat their properties. It is imperative that the Scottish Government understands that a blanket approach will not be suitable for business premises and that additional flexibility should be applied when considering the criteria around options for 'clean' heating systems.

- Prior to introducing legislation, we urge the Scottish Government to undertake pilot schemes on small businesses to fully understand the impact and journey they must undertake when removing 'polluting heating systems'.
- Extensive engagement with businesses and further education bodies in relation to skills should underpin the rationale of the legislation.
- A clear delivery map is essential to support small businesses to understand what will be expected of them, with signposting to the appropriate resources.
- Other models of funding should be considered, including a grant for small businesses who would struggle to meet the terms of a loan.
- Flexibility and additional time to make changes should be considered for small businesses.

- Small businesses should be considered under the definition of 'exemptions'.

Further Information

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