

**Energy Bill Relief Scheme review**  
**Federation of Small Businesses survey (November 2022)**

1. The Federation of Small Businesses (FSB) is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.
2. In November 2022, FSB surveyed its members on the impact of the energy price crisis, to feed into the Government's review of the Energy Bill Relief Scheme (EBRS). This paper summarises the 1,054 responses that we received to that survey.
3. We are aware that BEIS also surveyed businesses on the impact of the scheme, but we wanted to ensure that FSB supplemented this research with our own evidence to ensure that the voices of small and micro-businesses were communicated strongly. Given that the 5.5 million businesses in the UK are made up of 4.1 million self-employed, another 1.2 million micro-businesses (1-9 staff), and a further 217,000 small businesses (10-49 staff), the FSB survey results can ensure that the evidence from small businesses is fully taken into account when decisions are taken about the future of the scheme.

**Summary**

4. The UK Government should not let support for the smallest businesses end with a cliff-edge on 1 April 2023, when the current phase of EBRS comes to an end. Twenty-four per cent of small businesses anticipate that they would need to close, downsize or radically restructure if that were to happen.
5. The size of firm should be included when determining which businesses are vulnerable, and therefore entitled to further support. We understand the fiscal constraints that the Government is operating under, and the high bar set for further support. However, to allow well-run businesses to go under would be a false economy as we enter a recession. Coming out of the last recession, nine out of ten people moving out of employment did so through a small firm or self-employment. Small businesses also employ disabled people and those with a health condition at a higher rate than medium and large businesses, and so are crucial for reversing the current rise in health-related non-participation in the labour market.
6. A range of different delivery mechanisms could be used to support businesses after April. However, given the time that has already been invested in the current EBRS which goes through energy suppliers, it might be wise to build on this delivery mechanism instead of setting up something completely new. One of the advantages of EBRS, from a fiscal perspective, is that there is no deadweight because firms on cheaper tariffs do not receive support. Due to

their lower levels of energy usage, small firms can be supported at relatively low cost to the Exchequer.

7. It will be important for the EBRs review to maximise planning certainty over the long-term, and there is precedent for this in other European jurisdictions. Germany have put in place an electricity price cap which is due to run until April 2024, giving small businesses in Germany a degree of certainty for a longer period. In France, they have announced an electricity shock absorber for small businesses which are not protected by other price caps, and this is due to run for the duration of 2023.
8. Energy efficiency is a key part of the solution, but it is important that achievement of certain energy efficiency standards is not set as a pre-condition of receiving further support. Positive incentives are needed to overcome the barriers that hold small businesses back from investing in energy efficiency.

### **Vulnerability**

9. The EBRs review is intended to identify the most vulnerable non-domestic customers, who should therefore qualify for support after March 2023. There are a number of reasons why the UK's smallest businesses are inherently more vulnerable than their larger counterparts.
  - There is a significant imbalance of power and asymmetry of information between a small business and an energy supplier. A small business does not have an energy manager, nor are they likely to have any particular expertise when it comes to choosing energy contracts, which is a task that is likely to fall to the business owner in addition to all their other responsibilities.
  - Micro-businesses are much more similar to a domestic consumer than a corporate business when it comes to energy use. Ofgem's micro-business strategic review acknowledges this imbalance and contains several proposals to protect micro-businesses better, reflecting their vulnerable position when dealing with energy suppliers.
  - Small businesses cannot be expected to hedge their energy costs; therefore, they are much more exposed to price shocks than larger businesses which can hedge and consequently mitigate their exposure.
  - The small business community has far lower cash reserves than larger businesses, and therefore, is less able to absorb substantial energy price increases. For example, ONS data<sup>1</sup> reveals that 42.4 per cent of the micro-business population has less than three months of cash

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<sup>1</sup> ONS, Business insights and impact on the UK economy, November 2022, <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

reserves, which compares to 17.2 per cent of businesses with over 250 staff. 13.2 per cent of micro-businesses have no cash reserves at all, compared to 2.3 per cent of businesses with over 250 staff.

- As our survey shows that nearly a quarter (24%) of small businesses would have to downsize, close or radically change their business model if the energy support package runs out in March, while energy prices are forecasted to remain high.

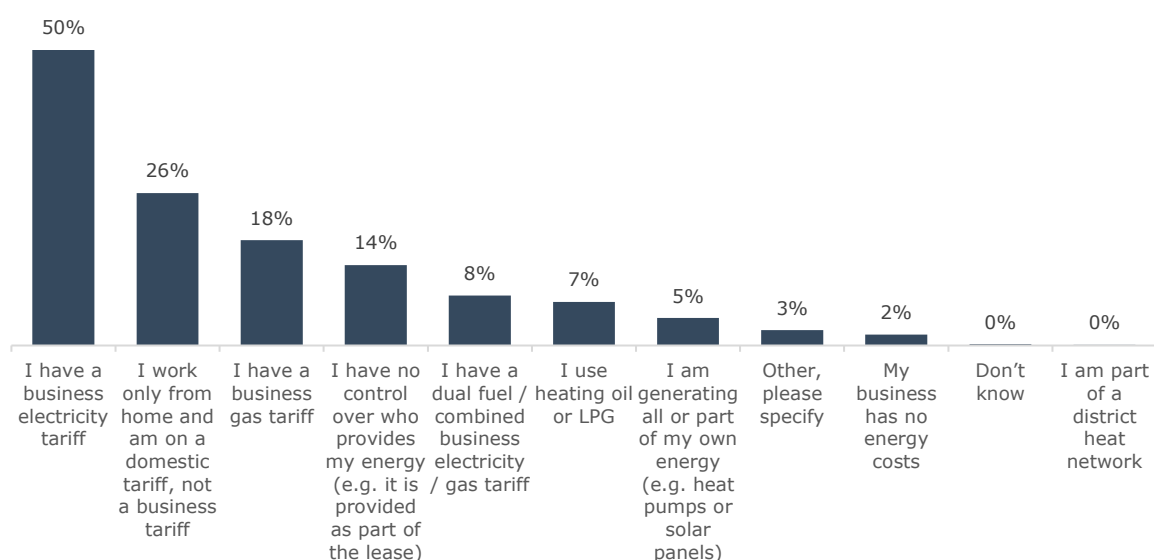
10. Business size must therefore be taken into account as a relevant factor in the Government's decision-making over which non-domestic consumers are most vulnerable. It cannot be a purely sector-based decision, as every sector will have some firms who do need help and some who won't, meaning that a purely sector-based approach would likely lead to deadweight and unfairness. Due to their lower levels of energy use, small businesses can be covered by a future scheme much more cost-effectively than larger businesses.

### Type of Tariff

11. We asked small businesses what type of tariff they are on for their business energy supply.

**Figure 1:** Types of energy tariff of all UK small businesses

**Source:** FSB, Energy Survey, November 2022



12. The majority of small business (76%) are on a business tariff for electricity, gas, or a dual fuel business tariff, and therefore may fall into scope of the EBRS.

13. Around a quarter (26%) work from home and find themselves on a domestic tariff as a result – for this group, the future of the Energy Bills Support

Scheme (EBSS) and Energy Price Guarantee (EPG) will be crucial but they are not affected by the non-domestic scheme. For sole traders, i.e. those without any members of staff, over half (56%) are on a domestic tariff.

14. Seven per cent of small businesses say that they use LPG or heating oil, which increases to 17 per cent for small firms in rural areas. This emphasises the crucial importance of the Government introducing a comparable level of support for businesses using heating oil. When the EBRS was announced the Government committed to introducing a comparable scheme for those business using heating oil, and it would be unacceptable if this commitment is not followed through on.

### **Increase in energy bills over the past year**

15. We asked small businesses to what extent their energy bills have increased in the past twelve months. This updates the analysis<sup>2</sup> that FSB conducted earlier in the year on the energy price crisis.

**Figure 2:** Level of energy price increases for all UK small businesses

**Source:** FSB, Energy Survey, November 2022

<b>Energy costs increase compared to last year</b>	<b>Percentage</b>
My energy costs have doubled	25%
My energy costs have not increased in the last 12 months because I agreed a fixed tariff over 12 months ago, and that contract has not ended yet	23%
My energy costs have increased by less than double	19%
My energy costs have tripled	11%
My energy costs have more than tripled	8%
Other, please specify	4%
My energy costs have not increased because my landlord pays the bills, and my rent has not increased	4%
Don't know	3%
My energy costs have not increased because my landlord pays the bills, but my rent has increased	2%
My energy costs have not increased because I generate some of or all my own energy	1%

16. Only 23 per cent of small businesses continue to be protected from recent energy price shocks, because they agreed a fixed tariff contract over twelve months ago. However, this number will continue to diminish as contracts expire and more businesses either roll on to a variable tariff or agree a new fixed tariff at a higher rate.

<sup>2</sup> FSB, Out in the Cold: Helping small businesses through the energy crisis, September 2022

17. Nineteen per cent of small businesses have seen their energy prices increase by less than double. Forty-four per cent of small firms say their energy costs have increased by double, triple or higher in the last year. Twenty-five per cent say that their energy costs have doubled, with a further 19 per cent saying their bills have tripled or increased by even more. Those who have seen themselves roll off a fixed contract over the course of the past year will be at a substantial disadvantage compared to competitors who can hedge or remain on a tariff agreed over 12 months ago.

### **Engineering Business, Hampshire**

*Prior to the introduction of the Energy Bill Relief Scheme, this business, with a full order book and 40 employees, has seen energy bills rise from £10,000 per month to £60,000 per month. Energy prices increased from 13p per kwh in Jan to 87p per kwh in Oct.*

*The business is trying to compete with other businesses offering similar products/services elsewhere in the UK who are on lower energy rates which makes them uncompetitive. As a result, the business owner is seriously considering closure, which will impact 40 families in the town of Gosport.*

18. Less than one per cent of respondents say that their energy bills have not increased because they generate some or all of their own energy. FSB's 2021 research on net zero<sup>3</sup> revealed that 18 per cent of small businesses have invested in some form of microgeneration, with the most common investment being solar panels. This evidence demonstrates there is scope to go much further in protecting small businesses from energy price rises through installation of microgeneration. FSB has proposed a Help to Green voucher scheme, building on the model of BEIS's Help to Grow Digital programme, to help small businesses overcome the financial and expertise barriers that prevent them from installing microgeneration or from becoming more energy efficient.
19. While the details remain to be announced, the Welsh Government's Minister for Economy has announced a new loan initiative aimed at energy efficiency, which is to be delivered by the Development Bank of Wales. The first phase will operate from January, and it could provide useful lessons to be learned as the scheme is rolled out.

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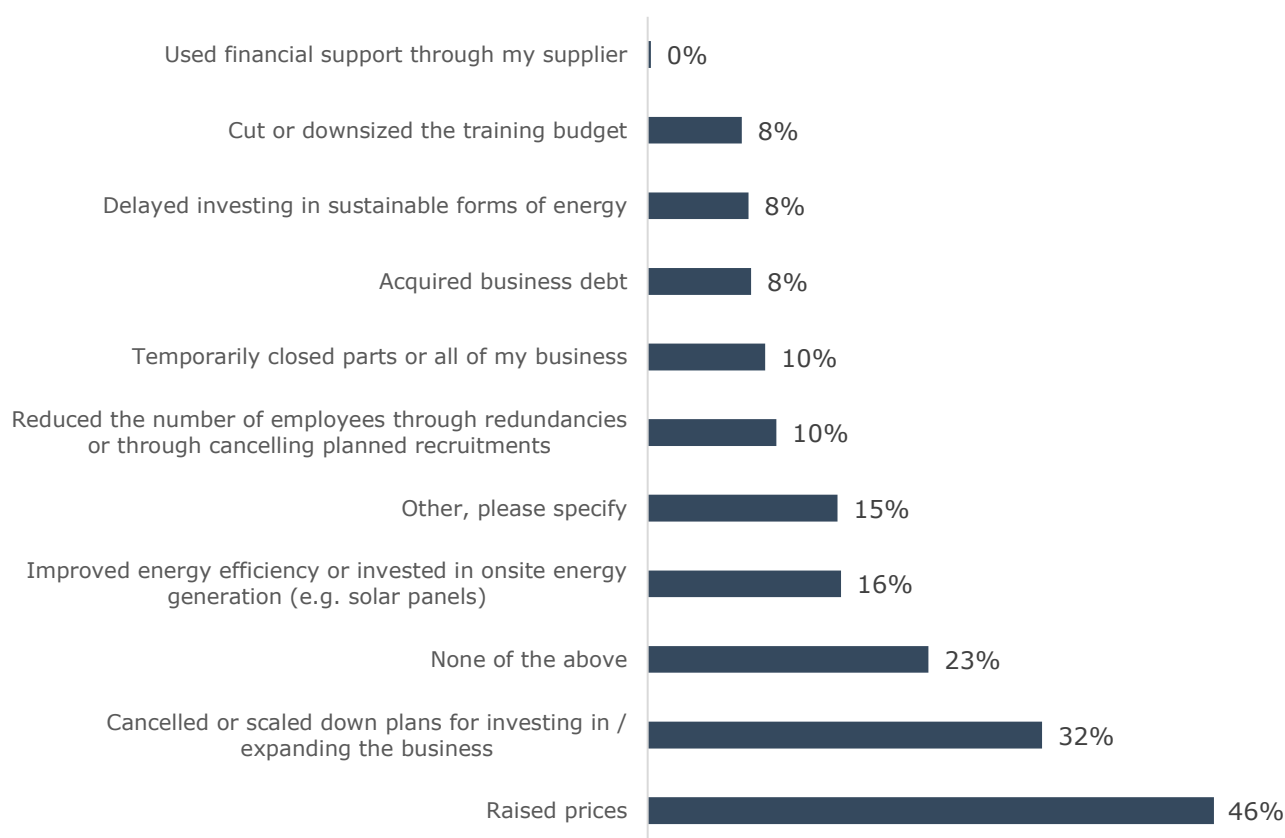
<sup>3</sup> FSB, Accelerating Progress: Empowering small businesses on the journey to net zero, November 2021

## How have businesses adapted to increased energy bills so far?

20. Small businesses who have seen their prices increase within the last twelve months were asked how they had reacted to those price increases. Figure 3 shows the actions they have taken, and it is important to note that a single business could select multiple options, if they were applicable.

**Figure 3:** Steps all UK small businesses have taken to mitigate the impact of rising business energy costs<sup>4</sup>

**Source:** FSB, Energy Survey, November 2022



21. The most common response of small business owners was to raise prices, an option which was selected by 46 per cent of respondents. This demonstrates the link between business costs, in this case energy bills, and the high levels of consumer inflation that we see at the moment.

22. Anecdotally we know that while businesses have been able to raise prices, many have not been able to raise them sufficiently to pass on the energy price increases in full. One restaurateur told us that if they had fully passed on the price increases to their customers they would be forced to charge

<sup>4</sup> The response "use financial support through my supplier" is not intended to cover the Government support, automatically applied through suppliers.

customers £25 per pizza, which was simply not a price that customers would be able or willing to pay.

23. The following example of a launderette demonstrates how price increases have been passed on to some extent, but not fully. As consumers see their spending power further restricted due to increasing mortgage costs, and with inflation outstripping wage increases, the ability of businesses to pass on further cost increases is likely to get worse.

#### **Launderette, West Sussex**

*This launderette saw their gas price increase from 2.66p/kWh to 8.97p/kWh with an addition of a 31p/day standing charge. Their electricity price increased from 13.55p/kWh to 34.52p/kWh.*

*In order to fully recover these cost increases the price of the largest machine in the launderette should have increased from £7 per wash to £17 per wash. However, the business owner has only increased prices to £9 per wash because they know customers cannot afford to pay more.*

*They used to charge £1 for twelve minutes of using a drier but have effectively increased the cost by charging £1 for ten minutes. However, to fully recover their increased energy costs, they should be charging £2.50 for ten minutes.*

*The business owner is having to consider closing the business when the lease ends because these price increases are not affordable.*

24. Thirty-two per cent of small businesses have cancelled or scaled down investments that they had planned in the business, as a result of increased energy prices. While this is a sensible measure to try and ride-out the period of increased prices, it will be hard to boost productivity and return to growth if small businesses remain unable to afford to invest.
25. Energy efficiency or installation of micro-generation has been part of the solution for some small businesses. Sixteen per cent of small businesses have taken this step to cope with increased prices, which is a positive development. However, eight per cent say that they had to delay investing in sustainable forms of energy as a direct result of the energy price increases, which again demonstrates the potential value of Government putting in place a smart investment incentive for small businesses to make sustainable investments.

26. Eight per cent have acquired further business debt to pay energy bills, which is a strong indication that they are unable to operate profitably without the assistance of the Government's Energy Bill Relief Scheme. This figure goes up to 19 per cent for small businesses based in Scotland.

### Coverage of the Energy Bill Relief Scheme

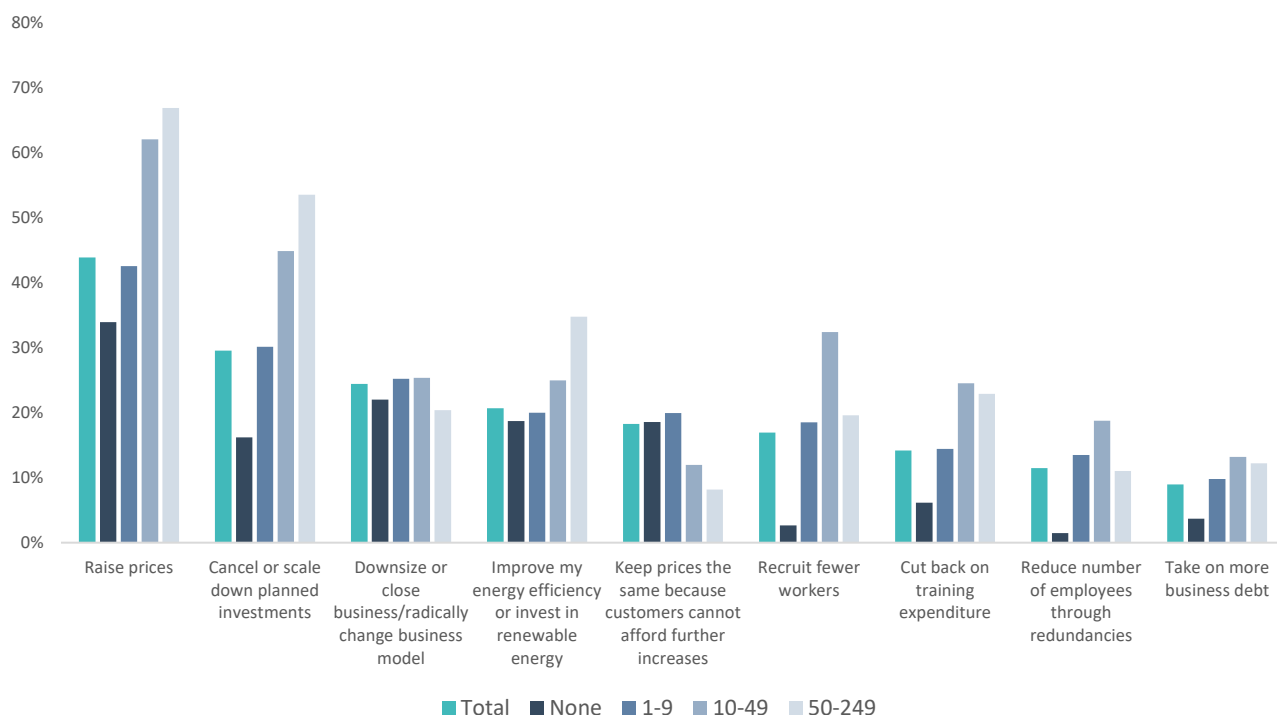
27. We asked small businesses a question to determine whether they would fall into scope, or out of scope, of EBRs. In response, 24 per cent say they are covered by a fixed tariff agreed after 1 December 2021, and 20 per cent say they are on a variable or deemed tariff. These businesses should therefore fall into scope of the EBRs. Conversely, 27 per cent say they are on a fixed tariff agreed prior to 1 December 2021, so they will fall outside the scope of the scheme.

### How will businesses react if the scheme comes to an end in March 2023

28. FSB members were asked how they would respond if the EBRs were to stop at the end of March 2023, on the assumption that energy prices would remain high or were to rise further. The breakdown of results is as follows.

**Figure 4:** Steps all small businesses expect to take if Government support ends in March 2023 by business size

**Source:** FSB, Energy Survey, November 2022





### Price rises

29. With 44 per cent planning to (further) raise prices, the impacts of energy price rises will continue to be felt by customers. Although it is worth noting that it has been impossible for many businesses to pass on energy bill increases in full to customers thus far (see examples above).
30. Eighteen per cent of small businesses told us they would need to *"keep prices the same because customers cannot afford further increases."* Nearly one-in-five small businesses feel they have no option to pass cost increases on to customers. This is a red flag about the profitability of these businesses if EBRS was to end, and they were not included in a successor scheme.

### Employee impacts

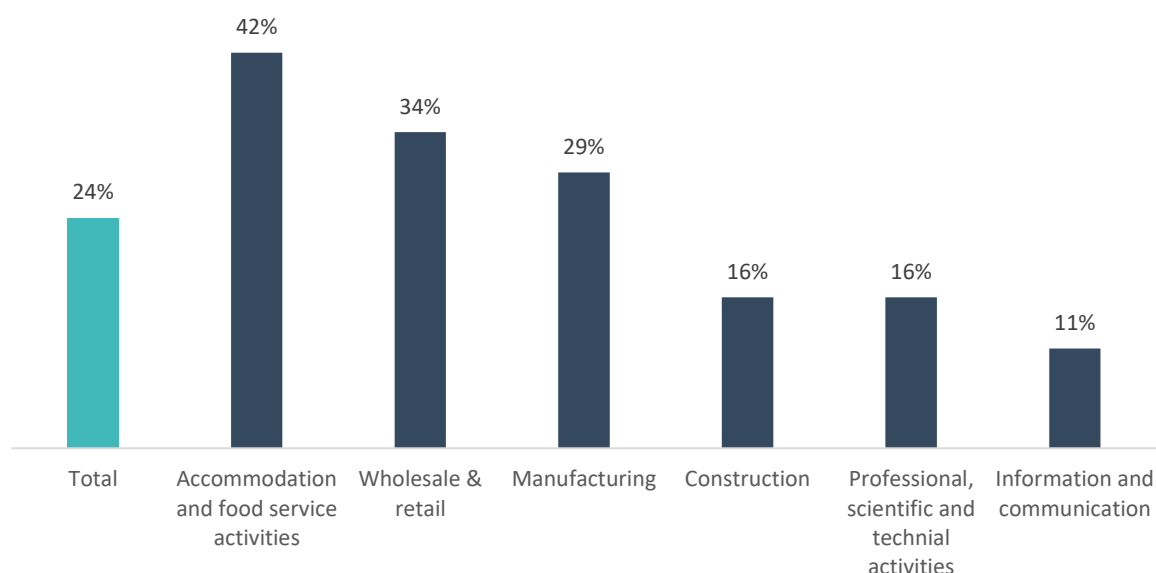
31. Various of the steps that firms say they would take will impact on employees. Seventeen per cent say that they would recruit fewer workers, with eleven per cent going further and saying that they would reduce the number of employees through redundancies.
32. Fourteen per cent say that they would cut back on training expenditure if the EBRS comes to an end and energy prices remain high.

### Downsize, close or radically change business model

33. Most strikingly, 24 per cent of respondents say that they would need to *"downsize, close the business, or radically change business model."* The proportion responding on this basis is almost identical for businesses with 1-9 employees (25%) and for businesses with 10-49 employees (25%). Regionally, the East of England (31%) and the West Midlands (30%) are the most likely regions of England to select this option.
34. Looking at different nations of the UK, England had the lowest percentage of respondents selecting this option, but 23 per cent is still highly worrying. 33 per cent of small businesses in Scotland selected this option.

**Figure 5:** Proportion of all small businesses that expect to downsize or close business/radically change business model if Government support ends in March 2023 by sector

**Source:** FSB, Energy Survey, November 2022



35. There is a significant divergence in terms of how different sectors would respond to these price increases. Forty-two per cent of small businesses in the Accommodation and Food Services sector selected this option, which shows the impact of the EBRs ending on this sector would be particularly severe. For the Wholesale and Retail sector, 34 per cent selected this option, which indicates the impact would be disproportionately severe on this sector, and for the Manufacturing sector it is 29 per cent.

36. The sectors with below-average numbers saying they would need to downsize, close or radically change model include Information and Communications at 11 per cent, Construction at 16 per cent, and Professional and Scientific at 16 per cent. It would not be appropriate to draw conclusions on sectors that we have not referenced above, as the fact that we haven't mentioned them specifically is probably because we don't have a sufficient sample of respondents from that sector.