

## **Federation of Small Businesses (FSB) in Scotland response to Scottish Government consultation on Draft Energy Strategy and Just Transition Plan – delivering a fair and secure zero carbon energy system for Scotland**

### **Introduction**

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.<sup>1</sup>

We welcome the emphasis placed on the importance of including business as a key stakeholder throughout the strategy and plan, as well as the vision set out with the aim of achieving our net zero targets.

### **The role of small business**

As noted above, SMEs make up almost all of Scotland’s economy. Small (0 to 49 employees) businesses alone account for 98.3% of all private sector businesses<sup>2</sup>. However, it is crucial not to view business as homogenous, particularly within the context of net zero/just transition. Different sectors and sizes will require different types of support and be at different stages with regards to their net zero journey.

It is for this reason we would have liked to see a more fully realised delivery plan accompany the vision set out in the draft strategy/plan. We are aware a public engagement strategy<sup>3</sup> was published in 2021 which sets out the Scottish Government’s framework for how it will engage with the general public in terms of net zero; we would recommend a similar framework is published with regards to business engagement.

This should also reflect the difference between the needs and resources of large and small businesses – again, not approaching business as a homogenous group. The energy crisis of the last year has demonstrated that when it comes to energy, small businesses have a bargaining power akin to that of the domestic consumer, therefore it is only ‘just’ that support allocated to business is reflective of size.

We would also like to see not only more detail about the support to be dedicated to business support and engagement, but additional support to be provided to small businesses overall. While we welcome the announcement of further resource to be provided to initiatives such as Business Energy Scotland, we know this is not enough to

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<sup>1</sup> <https://www.gov.scot/publications/businesses-in-scotland-2022/pages/headline-results/>

<sup>3</sup> <https://www.gov.scot/publications/net-zero-nation-public-engagement-strategy-climate-change/>

have the intended impact at pace. Members have told us of experiencing significant delays in accessing support from Business Energy Scotland, due to a lack of capacity on their side.

We also know that awareness is low with regards to existing support services for business. In our recent Big Small Business Survey<sup>4</sup>, we asked members a series of questions with regards to net zero and energy efficiency. The survey attracted over 600 responses and found that:

- Almost two fifths (38%) of Scottish SMEs have limited/no understanding of how their business will be impacted by net zero
- Over two fifths (44%) have yet to make any changes to their business with regards to net zero
- Less than one fifth (19%) have engaged with any government support initiatives with regards to the transition to net zero
- Almost two thirds (61%) do not feel enough support is available to them with regards to the impact the transition to net zero will have on their business

Comments received on the survey revealed some of the key challenges facing small businesses with regards to net zero. These included difficulty engaging with landlords for those who rent properties, negative experiences with government support initiatives, and lack of grant support available.

The first issue identified further supports the need for a business engagement strategy, similar to the existing public engagement strategy. The second underlines the need to tailor support according to business size, as those who described a negative engagement experience highlighted being excluded from support due to being too small, or being required to make significant investment themselves in order to access match funding.

The last three years have been extremely challenging for small businesses, as they weathered the pandemic only to emerge into a cost of doing business crisis. And unlike, larger businesses, the smallest do not have significant reserves to fall back on. Therefore, it is crucial that more grant funding is brought forward to support small businesses to make the transition to net zero. We are aware loans are available and agree they have their place in the funding mix, however as the last few years have required small businesses to take on considerable, unexpected debt just in order to survive, there is a reticence for them to take on yet more.

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<sup>4</sup> <https://www.fsb.org.uk/resources-page/big-small-business-survey.html>

It is also key to include the voice of small business with regards to the design of just transition plans for specific local authority areas. Giving evidence to the Economy and Fair Work Committee<sup>5</sup> as part of its inquiry into a just transition in Grangemouth, we noted the difficulty small businesses have had in terms of engaging with plans here. Given the obvious alignment with Scottish Government ambitions around Community Wealth Building at this time, it is important that this approach is applied across the board with regards to policy that will impact on whole communities, including small business owners.

In our submission to the UK Budget in March 2023<sup>6</sup>, FSB led calls from business organisations for government support to help small businesses invest in energy efficiency by accepting our recommendation for a 'Help to Green' scheme. First proposed by FSB as part of our net zero campaign for COP26 in 2021, the voucher scheme would grant up to £5,000 per business that could be used to invest in green improvements to their premises, such as a heat pump, better insulation, solar panels or digital tools that help businesses to cut emissions, lower their energy bills, and be more innovative in energy saving.

The scheme should not be limited by size thresholds or other restrictions that would see the smallest firms, who need this the most, excluded. It is also important to ensure that vendors of all sizes can apply to offer their products and services through the scheme.

The scheme was adopted by former Energy Minister Chris Skidmore in his government-commissioned Net Zero Review<sup>7</sup>, in which he suggests the launch of a 'Help to Grow Green' campaign, offering information, resources, and vouchers for SMEs to plan and invest in the net zero transition by 2024. We continue to call on the UK Government to implement the scheme as part of its recent 'green day' announcements.

## **Working with the UK Government**

We greatly welcome and support the Scottish Government's asks of the UK Government, around electricity market reform in particular.

The recent energy crisis has demonstrated clearly that the current market is not working for domestic and non-domestic consumers alike. While it is right that support is prioritised for the most vulnerable, rising energy bills is currently the biggest threat to

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<sup>5</sup> [https://twitter.com/SP\\_Economy/status/1628436217619529728](https://twitter.com/SP_Economy/status/1628436217619529728)

<sup>6</sup> <https://www.fsb.org.uk/resources-page/fsb-spearheads-business-groups-call-to-help-small-firms-invest-in-energy-efficiency-in-spring-budget.html>

<sup>7</sup> <https://www.gov.uk/government/publications/review-of-net-zero>

the sustainability of small businesses in the UK. FSB's most recent research<sup>8</sup> found that 93,000 small firms now say they could be forced to close, downsize or radically restructure their businesses.

This is a result of the significant reduction in support for increasing bills offered to business by the UK Government. The initial Energy Bill Relief Scheme (EBRS), which was a lifeline for small businesses at the time of its introduction, was significantly reduced from April and replaced by the Energy Bills Discount Scheme (EBDS).

By way of illustration of the significant difference between the two support schemes:

A pub has an electricity consumption level of 48,000 kWh per year and a gas consumption level of 192,000 kWh per year.

If the pub placed a new contract for electricity on 22/08/2022 at 76.15 p/kWh (at the Market Reference Price set by the Government) paying now £36,552 per year for electricity (this is without any Government support).

On the same day, the pub placed a new contract for gas at 25.14p/kWh (at the Market Reference Price set by the Government) paying now £48,268 per year for gas.

For both electricity and gas, the pub now pays **£84,820**.

EBRS (which ran from 1 October 2022 to 31 March 2023) delivered savings to that business of over £26,424 a year for electricity, resulting in an annual electricity bill of £10,128. EBRS also delivered savings of over £33,868 a year for gas, resulting in an annual gas bill of £14,400.

The total discount for both gas and electricity amounted to £60,292 per year. The total bill is £24,528 per year.

Under EBDS the annual discount will be reduced to £941 for electricity and £1,338 for gas, or £2,279 for both gas and electricity. The business's bill for electricity will go back up to £35,610 a year and £46,929 for gas. £82,539 per year for both gas and electricity.

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<sup>8</sup> <https://www.fsb.org.uk/resources-page/urgent-call-to-energy-suppliers-renegotiate-fixed-contracts-for-small-businesses-on-market-peak-tariffs.html>

The reduction in support is devastating for those who entered into fixed contracts last summer, and who are now trapped in contracts that mean their latest bills are at last summer's peak market rate for energy - even though wholesale prices have fallen since last winter. FSB is urging energy suppliers to allow small firms locked into fixed tariffs from last year to renegotiate contracts to better reflect the significantly lower wholesale energy prices we see today.

The downscaled government support means small firms that signed up to fixed tariffs in 2022 will see their bills revert back to last year's peak levels. This could be three or four times what they were paying when the more generous government support scheme was in place.

FSB's latest research shows:

- More than one in ten (13%) small firms fixed their energy bills between 1 July and 31 December 2022, during which businesses were quoted up to £1 per kWh for electricity. Of this group, 13% say they could be forced to either close, downsize, or radically restructure their businesses, equating to 93,000 small firms across the UK.
- A significant proportion of small firms stuck in fixed contracts are from the accommodation and food sector (28%), and the wholesale and retail sector (20%).
- Four in ten (42%) small firms that fixed energy contracts in the second half of last year say it has been impossible for them to pass on costs to consumers who had to tighten spending and can't afford further price increases amid the cost of living crisis.

FSB is calling on energy suppliers to allow these small firms to extend their fixed contracts but at a blended and lower rate – between their original fixed rate and the current, lower wholesale rate.

The option to renegotiate fixed contracts should be made automatically available to businesses which:

- negotiated the new energy contract between July 1 and December 31 2022
- can confirm the level of wholesale price on the contract is above the EBRs wholesale price cap
- can confirm the end date of the contract to demonstrate the length of exposure to higher prices from April 2023 onwards

While the impact of this is felt across the whole of Scotland, we are aware that businesses in rural and remote areas are more likely to be impacted as a result of the

energy sources and tariffs available to them. Official data<sup>9</sup> shows that 19% of areas in Scotland are off the gas grid, compared to 15% in the UK overall. In individual areas, up to 100% of homes (e.g. on the Shetland and Orkney Islands) are impacted. Across the Highlands and Islands overall, 66% of homes (136,000) are not connected to the gas grid.

Consumer facing businesses will also be affected by reduced customer spend as a result of the higher levels of fuel and extreme fuel poverty in these areas. As noted by Energy Action Scotland<sup>10</sup>, these households have not qualified for support from the UK Government in the same way as those connected to the gas grid, receiving only £200 from the Alternative Fuel Payment. Given that a significant amount of small businesses operate from their home address, it is not just through the lens of the domestic consumer that this disadvantage is being felt.

We appreciate the Scottish Government is aware of these challenges, as evidenced through their inclusion of the small business voice in the Energy Summit hosted by the former First Minister last year. We will continue to support calls for reform by the UK Government as the energy strategy is implemented.

## **Regulation**

The Scottish Government employs a Business Regulatory Impact Assessment (BRIA) when consulting on policy and it is encouraging to see a (partial) BRIA published alongside the draft strategy/plan. We are aware of comments made by the new First Minister with regards to the need for specific small business impact assessment during the leadership campaign, and this is a position we would endorse, whether it be a separate assessment or carried out as part of the overarching BRIA.

Business attempts to recover from the pandemic and cost of doing business crisis can be impeded by the introduction of additional regulatory obligations. While we are not arguing for the removal of all business regulation, it is crucial that any additional measures brought forward have been rigorously assessed in terms of their proportionality and timing. Understandably, the transition to net zero comes with binding, statutory targets which will require additional regulatory measures. However, we need only look at the example of the Deposit Return Scheme to see what can happen when the impact on business, and particularly on small businesses, is not considered from the very beginning of the policy design process.

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<sup>9</sup> <https://www.gov.uk/government/statistics/sub-national-estimates-of-households-not-connected-to-the-gas-network>

<sup>10</sup> <https://www.dailyrecord.co.uk/news/politics/insufficient-support-gas-grid-areas-29126544>

## **Conclusion**

FSB Scotland welcomes the ambition and vision set out in the draft energy strategy and just transition plan – however, what is lacking is a clear delivery plan, complete with details of support that will be made available for business, and small businesses in particular.

Our survey results show a lack of engagement with small business so far – yet we know there is a willingness on the part of these businesses to engage, and receive support to do their part with regards to the transition to net zero. FSB Scotland welcomes recent efforts by the Scottish Government to increase engagement levels with our members and we look forward to continuing to work together on this, including on calls for reform to the UK Government.