

# OUT IN THE COLD

Helping Small Businesses  
Through the Energy Crisis

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## **WHO WE ARE**

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.

As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in Government. FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed.

Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and England policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with Governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.

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## **KEY FINDINGS**

### **Concerns about rising energy costs**

- 96 per cent of all small businesses say they are concerned about rising energy costs.
  - 38 per cent say they are extremely concerned.
- Small firms in accommodation and food (68%), wholesale and retail (45%) and manufacturing (43%) report high levels of extreme concern.

### **Increased energy costs**

- 63 per cent of all small firms say their energy costs have increased compared to last year.
  - 39 per cent of small businesses say their energy costs have increased by double, triple or higher in the last year.
  - 77 per cent of small businesses in the accommodation and food services sector have seen energy costs increase.
  - 72 per cent of small firms in Scotland report an increase in their energy prices in the last year.
- Only 16 per cent of small businesses say their costs have not increased because they renewed their contract before August 2021.
- 4 per cent of small businesses say their provider ceased trading from August 2021 to May 2022.
  - Of those that say their provider ceased trading between August 2021 and May 2022, 73 per cent say that their energy costs have increased by double, triple or higher (compared to 39 per cent of all small businesses).

### **Small business response to rising energy prices**

- 45 per cent of small firms have raised their prices to mitigate the impact of rising energy costs for their business.
- 40 per cent say they have reduced their energy consumption.
- 24 per cent have cancelled or scaled down plans for investing in or expanding their business.
- 6 per cent of small firms have acquired business debt to cover rising costs, with small firms in food and beverage service activities (15%) and retail (12%) reporting the highest rates of debt acquisition.

### **SME retail energy market**

- The majority of small businesses (51%) are on a fixed energy tariff for their business.
- Almost 1 in 5 small businesses (18%) have no control over who provides their energy.

## FOREWORD

Small businesses face eye-watering energy price hikes with the cost of gas and electricity skyrocketing since 2021.

While the UK Government has rightly taken action to help households with rising costs, microbusinesses and small businesses have been excluded from any support. Unlike domestic contracts, the energy price cap does not protect those on business contracts. Therefore, significant increases in energy prices have left small businesses exposed and placed many already indebted small firms under further pressure.

The price of power has become a top concern for the small business community. The continued high level of energy prices significantly impacts the cost of doing business, especially for firms operating in sectors that require considerable amounts of energy, such as manufacturing and food services. Smaller businesses, particularly microbusinesses, face inherent barriers to identifying the best energy tariff with limited resources and time. They face an imbalance of power when dealing with suppliers and navigating the complexities of the retail energy market. Smaller businesses and the self-employed should be treated similarly to domestic consumers.

In addition to energy prices, the UK domestic economy is currently subject to a surge in price pressures. Inflation reached 10.1 per cent in August 2022 and is expected to rise further until the end of the year.<sup>1</sup> As the Covid-19 pandemic begins to fade, small businesses now find themselves in a period of uncertainty and a lack of business confidence, while carrying additional debt from the pandemic.

While the UK Government cannot influence the global energy market, it can take steps to steer the country's small businesses away from the grip of rising costs. The pandemic resulted in the loss of nearly 400,000 businesses in the first year.<sup>2</sup> The Government needs to act swiftly; otherwise, we face losing more valuable small businesses and risk seeing prices continue to rise.

How the UK generates, distributes, and uses energy is expected to change drastically. To deliver this change, the UK Government must balance security, affordability, and sustainability. As a country, we must now make difficult decisions about how and where to invest in our energy infrastructure while ensuring we support small businesses through this energy crisis.



**Martyn Young**  
FSB Energy Policy Champion

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<sup>1</sup> Bank of England, "When will inflation start to come down", 17 August 2022, <https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising>

<sup>2</sup> Department for Business, Energy and Industrial Strategy (BEIS), "National statistics Business population estimates for the UK and regions 2021: statistical release", 7 October 2021, <https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html>

## RECOMMENDATIONS

### Rising energy costs for small businesses

There are several options to provide support, ranging from capping the maximum amount that a small business has to pay for a unit of energy, through to offsetting some of the increased energy costs through broader tax reductions. **A mixed policy package of fiscal support and regulatory measures is likely to be the best policy solution, as it would help cater for the largest variety of small firms.**

#### This package could include:

**Governments across the UK should provide direct fiscal support to small businesses with their energy bills.** Without Government support, small and microbusinesses will do what they can to pass on higher costs through price increases and cut back investment. However, for many small businesses, these measures will be insufficient and the situation is fast proving unmanageable.

**The UK Government should reduce Business Rates in order to help small firms cope with energy price increases.** Reducing business rates would help reduce the impact of price rises, especially as these are typically paid monthly. Due to many small firms in receipt of the retail rates discount or Small Business Rates Relief (SBRR), and the scale of price rises, this measure would need to be accompanied by other measures to provide support to those firms. The NI Executive should match the scheme with an equivalent rate rebate for small businesses struggling to pay their energy bills.

**Governments across the UK should provide direct cash support to small and microbusinesses to help with energy bills.** During the Covid-pandemic, the UK Government recognised that many small businesses pay little or no business rates because of Small Business Rate Relief. To support those businesses during the pandemic, the Government provided £3,000 vouchers to around 700,000 businesses who were eligible for Small Business Rate Relief or Rural Rate Relief in England. We propose a similar intervention here, which would be focused mainly on helping small firms who received Small Business Rates Relief or otherwise do not benefit – or benefit sufficiently – from tax reduction mechanisms.

**The UK Government should create a discretionary Business Energy Relief Fund to give businesses and their customers relief from rising energy costs, distributed by English local authorities and devolved administrations.** These funds can be used to provide direct financial support to small businesses who are ineligible for the support measures above, or which can demonstrate that energy bill increases have disproportionately impacted them (i.e. because they have high energy use and low margins). It can be funded, in part, by repurposing unspent Covid Relief Funds.

**The UK Government should temporarily reduce taxes on energy for one year initially, with the possibility of extending the measure if global prices remain high.** For example, the Government could implement a temporary VAT reduction on business energy and/or fuel bills, either by lowering the 20 per cent and 5 per cent rates, or by increasing the energy usage threshold at which the lower 5 per cent VAT rate applies. A VAT reduction would deliver cashflow benefits to those businesses which

can reclaim VAT costs, reduce costs for firms which are not VAT-registered, and lower bills for domestic consumers. The UK Government should clarify whether this reduction could apply to NI businesses under obligations of the Northern Ireland Protocol. If this is not possible, a similar saving should be designed for NI businesses. Another option would be for Governments to suspend the green levy element of business energy bills while ensuring that the programmes delivering the transition to net zero remain funded and on track.

**HMRC should publicly clarify that VAT-registered businesses can reclaim VAT on energy costs.** HMRC has confirmed that VAT-registered businesses can reclaim the VAT they pay on energy bills. However, numerous (non-government) online guidance state the opposite position. Given the importance of doing everything we can to manage energy costs, this position needs to be urgently and publicly clarified.

**The UK Government should introduce other tax changes to support the cashflow position in small businesses.** These include reducing the rates of National Insurance, and not increasing Corporation Tax to free up money to invest in energy efficiency and pay bills.

**Consumers should shop locally and support their local businesses.** Small businesses are at the heart of communities, offering employment opportunities and valuable services. However, the burden of rising energy costs and competition from larger companies, are putting small businesses across the country under immense pressure. FSB is calling on consumers to continue to shop locally and do all they can to support local businesses.

**We are calling on large companies to pay their small suppliers promptly.** More than ever, it is vital that small businesses are paid on time. However, FSB research from Q2 2022 found that half of small firms reported late payments and that one in five saw a worsening in payment terms. This is creating a significant cashflow issue for businesses that are facing unprecedented levels of energy costs. We urge more businesses to sign up to the Prompt Payment Code, and to follow the example set by companies such as Morrisons during the Covid-19 pandemic by paying suppliers immediately.

## **Regulatory measures**

**The UK Government should expand Ofgem's Default Tariff (Price) Cap, which currently only protects domestic customers, to include sole traders and microbusinesses (0-9 employees) and small businesses (10-49 employees).** Microbusinesses and small businesses need consumer protection in the same way as individuals do. They are more akin to domestic customers when deciding on their energy provider, ranging from lack of expertise in purchasing energy to poor bargaining power. Including small firms in the price cap will provide increased certainty for the smallest businesses.

**Energy suppliers should commit to not disconnecting businesses from energy supply that are currently unable to pay for their energy bills this winter.** Energy suppliers should work with individual small business customers and offer bespoke finance plans and hardship funds for this winter that will enable firms to continue trading.

**Energy suppliers should not require disproportionate up-front payments from small firms when taking on new customers.** This practice is piling further cashflow pressure on businesses in sectors like hospitality which are seeing bills increase and which are unable to pass the price rises on in full. If needed, the UK Government should provide a limited guarantee to suppliers so large deposits are not needed.

**The UK Government should introduce regulation that would ensure that credit balances for microbusinesses are protected in the same way as they are for domestic consumers in case of a energy supplier failure.** This would ensure that business customers would have their credit balance protected when moved to the new supplier.

**Ofgem should expand access to the Energy Ombudsman by raising the threshold from ten to 50 employees and increasing the usage threshold by a multiple of five.** Small businesses do not have the time, expertise or specialist members of staff to manage issues with energy suppliers and it would save money which is spent on dispute resolution if the Ombudsman service was more widely available.

**Ofgem should implement all recommendations from the Microbusiness Strategic Review.** With the Microbusiness Strategic Review, Ofgem has taken a significant step towards more non-domestic consumer protection by recognising that microbusinesses are akin to domestic customers when navigating the retail energy market. However, the measures that will take effect from October do not yet include the recommendations of extending the cooling-off period to business customers. Microbusinesses should have more rights to cancel a contract if they change their mind and should have access to a 14-day cooling-off period for all switches, like domestic customers. In the Microbusiness Strategic Review decision, Ofgem delayed the decision to implement a cooling-off period until after Faster Switching had gone live, which has now been completed. Therefore, we want to see the cooling-off period implemented as soon as possible.

**The NI Utility Regulator should carry out a Microbusiness Strategic Review in Northern Ireland, modelled on the review carried out by Ofgem, to best examine how to improve the market access and treatments of microbusinesses in Northern Ireland.**

**The UK Government should finally close a significant regulatory gap by introducing Third Party Intermediaries (TPIs) regulation, eliminating unethical practices in the sector.** TPIs have a vital role in helping small businesses navigate the complexities of the energy market and can play a critical role in helping small firms secure the best possible energy deals. However, many small business owners will not use a TPI because of a lack of trust or confidence in the industry. While FSB supported Ofgem in developing a draft code of practice for non-domestic TPIs, including elements such as professional and honest behaviour, information transparency and effective monitoring, we believe that enshrining those in regulation will remove gaps and loopholes currently disadvantaging small businesses. Regulation should furthermore apply to any business that places or negotiates an energy contract as a third party between a supplier and a customer – including cost reduction companies.

## Energy security

**The UK Government should issue £5,000 vouchers for businesses to spend on qualifying energy saving-products and services under a 'Help to Green' initiative.** This would be similar to vouchers issued via the 'Help to Grow Digital' scheme. The voucher could, for example, be used to fund an audit to measure a firm's energy consumption with relevant advice on how to reduce energy consumption or to enable firms to replace equipment and materials to become more energy efficient. The Institute of Directors (IoD) recently endorsed the need for 'Help to Green', highlighting that "additional direct help is needed to facilitate energy efficiency."

**The UK Government and Ofgem should establish a taskforce of suppliers, small business landlords and business groups to agree on how to cut energy use in rented premises.** The split of incentives between landlords and tenants is a longstanding barrier to low carbon improvements. This taskforce can learn from examples where landlords and tenants have cooperated to green their premises and consider further interventions to allow small businesses to take ownership of their energy use.

**The UK Government should review the law on commercial tenancies to prevent commercial leases from blocking low-carbon improvements.** Where a tenant is the sole occupier of a commercial property, they should have the primary decision-making power with regards to the choice of energy supply and installation of smart meters. Landlord and tenant law should be updated to preclude overly restrictive lease clauses which allow commercial landlords to unreasonably stop a tenant switching energy supplies, installing smart meters, or other reasonable energy efficiency improvements.

**Regional and local authorities and bodies in England should ensure effective small business engagement and support programmes for a range of energy issues.** These issues could include addressing rising energy costs and barriers to low carbon improvements and learning from local examples where landlords and tenants have cooperated to green their premises and consider further interventions to allow small businesses to take ownership of their energy use.

**The NI Department for the Economy should establish an Energy Stakeholder Group to ensure effective engagement with small businesses.** This stakeholder group would allow for better engagement along a range of energy issues. For example, it could ensure that no schemes are developed that exclude small and microbusinesses, or that small businesses in rented premises do not face barriers to low carbon improvements.

**The NI Executive should urgently work to ensure incentives are in place for the small and microbusiness community to 'pool' together in order to benefit from economies of scale when producing, storing and sharing energy.**

**Small businesses should continue to take steps to reduce energy consumption and increase energy efficiency, which will be critical in the coming months.** FSB is helping small firms access resources, including services such as Zero Carbon Business, to help understand and take the necessary steps to become more energy efficient, ranging from insulation to energy efficiency appliances.

## INTRODUCTION

The retail energy market has faced unprecedented surges in wholesale energy prices, leading to thirty-one gas and electricity suppliers exiting the market. By the end of August 2022, the wholesale price for gas was ten times higher compared to last summer and was trading at 850 pence a therm.<sup>3</sup>

This is an unprecedented and extraordinary rise in prices and can be attributed to the UK's overreliance on the international gas market, the structure of the UK retail energy market and the slow rollout of renewable energy generation.

The energy crisis occurs alongside mounting inflationary pressures and a fall in small business confidence. FSB's most recent quarterly *Small Business Index* (SBI) shows that confidence in the second quarter of 2022 plummeted to -24.7, the lowest recorded outside lockdowns during the Covid pandemic.<sup>4</sup>

Some small businesses are more susceptible to rising gas and electricity prices due to high energy-consuming production processes or the need for raw materials produced in such processes. Historically, electricity prices for industries such as manufacturing, automotive, food and drinks and chemicals have been higher in the UK compared to European countries.<sup>5</sup> However, the scale of the price rises that we have seen for gas and electricity have meant that the impacts of this crisis are being felt acutely by small businesses of all types, not just those which consume substantial amounts of energy.

While the energy price cap widely protects domestic consumers from the volatility of the energy markets, small business consumers have not been afforded the same protection. The Government needs to implement short-, medium- and long-term solutions. In the short term, small businesses need immediate support with their energy bills. In the medium and long term, FSB wants to see a new energy market that acknowledges a diverse customer base and enables smaller businesses to make well-informed decisions.

Small business customers should be able to choose what services they pay for and be able to source energy-saving deals easily. Energy efficiency and microgeneration have the potential to play a significant role in counter-acting rising costs while simultaneously reducing emissions.

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<sup>3</sup> ICE exchange, Forecast and close prices of UK NPB gas seasons, 2 September 2022, <https://www.theice.com/products/910/UK-Natural-Gas-Futures>

<sup>4</sup> FSB, Small Business Index, Quarter 2, 2022

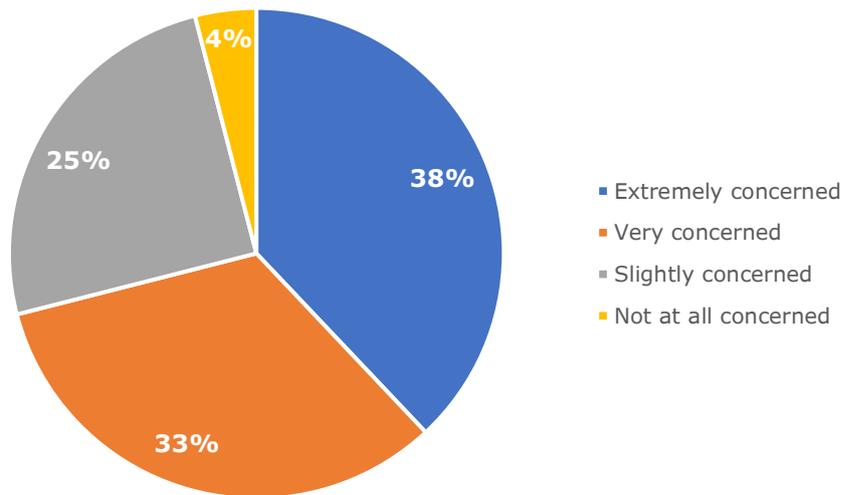
<sup>5</sup> Dominic Carver et al, Research briefing: Energy intensive industries (House of Commons Library), November 2021, <https://commonslibrary.parliament.uk/research-briefings/cdp-2021-0195/>

## SMALL BUSINESS CONCERN AROUND RISING ENERGY PRICES

Since August 2021, energy prices have been rising and are expected to remain high for the foreseeable future. FSB's evidence shows that 96 per cent of small businesses in the UK are concerned about rising energy costs (Figure 1).

**Figure 1:** Level of concern about the rising energy costs among all UK small businesses

**Source:** FSB, Energy and National Living Wage Survey, 2022



Our evidence shows that rising energy prices have led to exceptionally high levels of concern from small firms. Small firms in accommodation and food (68%), wholesale and retail (45%), and manufacturing (43%) report higher levels of extreme concern compared to all small businesses (38%).

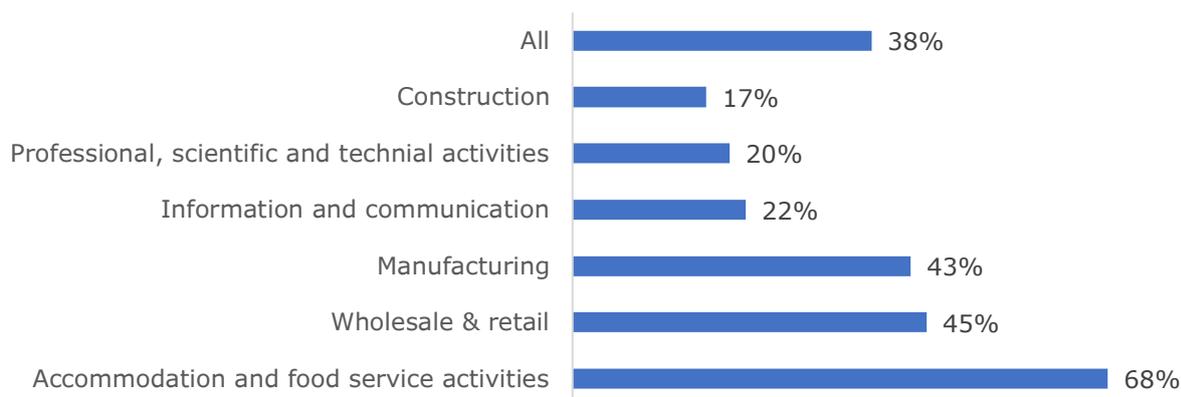
Many of these businesses find themselves vulnerable to increasing energy prices as a result of the pandemic. FSB's report, *A Menu for Recovery*, highlighted the impact the pandemic had on businesses in accommodation and food and found that '56 per cent of small firms in the sector have taken on new or existing debt because of the pandemic, higher than any other sector'.<sup>6</sup>

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<sup>6</sup> FSB, *A Menu for Recovery: Supporting and growing small hospitality and tourism businesses after the pandemic*, June 2021

**Figure 2:** Proportion of all UK small businesses that are extremely concerned about rising energy costs by sector

**Source:** FSB, Energy and National Living Wage Survey, 2022



*"We're a pub and operate on two variable tariffs, one for gas and one for electricity. Our energy costs have increased from £4,000 to £10,000 for our energy bills over the last few months. We've had to raise prices, but we are trying to reduce consumption and increase efficiencies, including installing double glazing windows and switching to LED lights."*

Aaron Whan, The Bell Inn, Gloucestershire

Businesses in the manufacturing sector are affected by increasing raw material costs, such as steel and aluminium, which are also rising due to high energy costs.

By contrast, small businesses in the information and communication sector and the professional and scientific industries are less likely to be extremely concerned.

*"We run a food manufacturing business making premium raw dog food products which are processed, stored and despatched in a frozen form. The overall charge to run our freezers have doubled. Our monthly electricity charge is nearly £1,500. We are due to renew the third electricity contract this autumn and we are quite concerned about the cost at the renewal. In addition, to our higher energy costs, costs for all of our ingredients, especially chicken, have also increased. We've had to pass on these costs to our customers."*

Brian Glendinning, Utterly Rawsome, Hampshire

While the levels of concern spread across the whole of the UK, 49 per cent of small firms in Scotland and 40 per cent in Wales stated they are extremely concerned about rising business energy costs, compared to 38 per cent of all small businesses.

There are also regional variations within England, with small businesses in the East Midlands (42%) and the South West (40%) reporting higher than average levels of extreme concern, compared to all small businesses across the UK (38%). Small firms in the South East report the lowest levels of extreme concern, with 29 per cent of small firms stating they are extremely concerned.

**Figure 3:** Proportion of small businesses that say they are extremely concerned about rising energy costs by England region

**Source:** FSB, Energy and National Living Wage Survey, 2022



Policies such as the energy price cap were designed to limit cost increases and volatility; however, this only applies to domestic tariffs and does not cover business energy tariffs. Similarly, policies to increase the energy efficiency of properties are also largely devolved, and in England, primarily only targeting the domestic sector.

While concern about rising energy prices is consistently high across all small businesses, there is a clear distinction in the level of extreme concern depending on employment size. Small businesses employing between ten and forty-nine people are more likely to be extremely concerned (49%) than those employing between one and nine people (39%) or those that are self-employed (29%).

### Rising costs

Nearly two-thirds of small businesses have seen their energy costs increase compared to last year. Thirty-nine per cent of small businesses report that their energy costs have increased by double, triple or higher in the last year, which is striking because not all small businesses will have seen their contracts come to an end. Only 16 per cent of small businesses say their costs have not increased because they renewed their contract before August 2021.

*"I've had to settle for a tariff that would more than double my energy bills. I've had to reduce my business hours while working to ensure that the business can stay afloat. However, with this new energy tariff, I was forced to sell a machine for £17,000 to buy a cheaper running machine for £15,000. I paid £28,000 three years ago. It was either that or to close my business. I had just rebuilt the business after a devastating fire in 2019, and then the pandemic hit."*

Elizabeth Stone, Mark Michaels Valet Services, Kent

Although some small firms have avoided price increases thus far, there remains significant concern about rising energy costs even among those businesses. Thirty-two per cent of those that state they have not seen a rise in costs because they renewed their energy contract before August 2021 say they are extremely concerned about rising energy costs. This could be due to the short-term nature of the contract, a one-year contract which may have already expired, or because they anticipate a hike in future costs.

**Figure 4:** Level of energy price increase for all UK small businesses  
**Source:** FSB, Energy and National Living Wage Survey, 2022

Energy costs increase compared to last year	Percentage
Energy costs have increased by less than double	24%
Energy costs have doubled	28%
My energy costs have tripled	8%
My energy costs have more than tripled	3%
Costs have not increased because I renewed my contract (before August 2021)	16%
Costs have not increased because I generate some or all my own energy	1%
My costs have not increased because I have shifted my energy use to a cheaper time of the day	0%
Other	12%
Don't know, I am due to renew my contract this year	8%

Supplier failures also affected the price of energy contracts. Between August 2021 and May 2022, thirty-one energy suppliers ceased trading. Overall, four per cent of small businesses say their provider ceased trading between August 2021 and May 2022. Of those that say their provider shut down, 73 per cent say that their energy costs have increased by double, triple or higher.

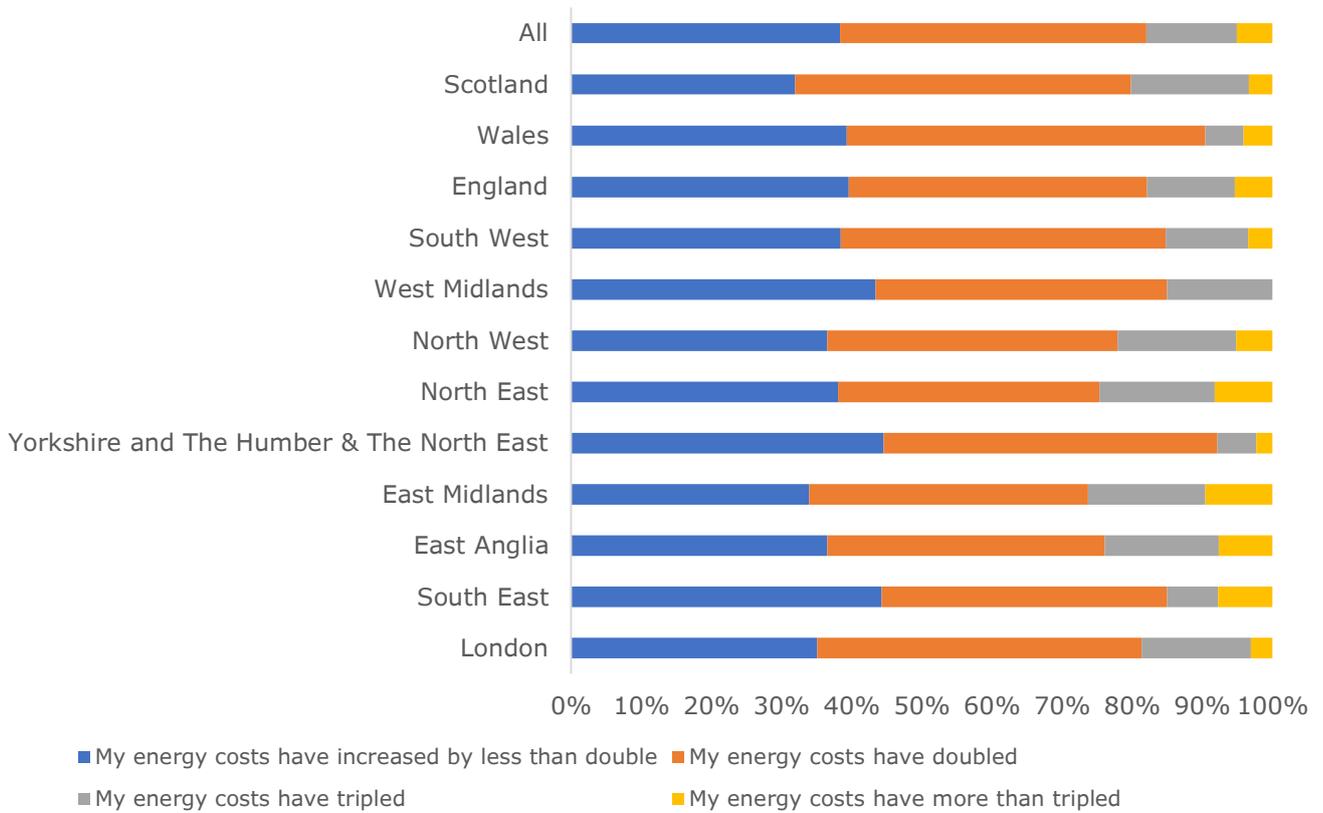
Seventy-two per cent of small firms in Scotland reported a price increase over the past year, which is higher than the UK average. In addition, almost half (49%) of small businesses have seen their energy costs increase by double or more. Meanwhile, 65 per cent of small businesses in Wales report price increases in the last year, with two in five companies (40%) having seen their energy costs double or more.

Previous FSB research on the retail energy market reviewed the most important considerations for microbusinesses when choosing a new energy tariff. In 2019, over two-thirds of microbusinesses (75%) valued 'price stability' as the top priority, followed by 'cheapest possible cost' (65%) and 'minimal effort or time invested' (47%) in choosing a tariff.<sup>7</sup> These key considerations were not easily achievable before the current prices rises, and with widespread supplier failures and no realistic means of keeping costs down once a fixed contract expires, they are unachievable now.

<sup>7</sup> FSB, Time and Energy: An FSB review of the microbusiness retail energy market, May 2020

**Figure 5:** Level of energy cost increase seen by small business in Great Britain

**Source:** FSB, Energy and National Living Wage Survey, 2022



FSB’s latest SBI found that a record-high 89 per cent of small businesses face rising costs.<sup>8</sup> Nearly two-thirds (64%) of those surveyed flagged utilities costs as a critical driver of higher outgoings.<sup>9</sup> In addition to utility costs, an increase in fuel costs (64%), input costs (48%), and labour costs (43%) are adding to the economic burden small businesses are currently shouldering.<sup>10</sup>

Small companies are also still struggling to cope with the debt accrued during the COVID-pandemic. According to the Bank of England, the average SME now has 25 per cent more debt (as of March 2022) than they did in January 2020.<sup>11</sup>

<sup>8</sup> FSB, Small Business Index, Quarter 2, 2022

<sup>9</sup> *ibid*

<sup>10</sup> *ibid*

<sup>11</sup> Bank of England, Money and Credit - April 2022, May 2022, <https://www.bankofengland.co.uk/statistics/money-and-credit/2022/april-2022>

## RESPONSE FROM SMALL BUSINESSES TO RISING ENERGY PRICES

Small businesses are responding in different ways to mitigate rising energy costs. Many of these actions, such as increasing prices and delaying investments, are counter-productive to boosting productivity or negative for consumers.

**Figure 6:** Steps all UK small businesses have taken or are thinking of taking to mitigate the impact of rising business energy costs

**Source:** FSB, Energy and National Living Wage Survey, 2022

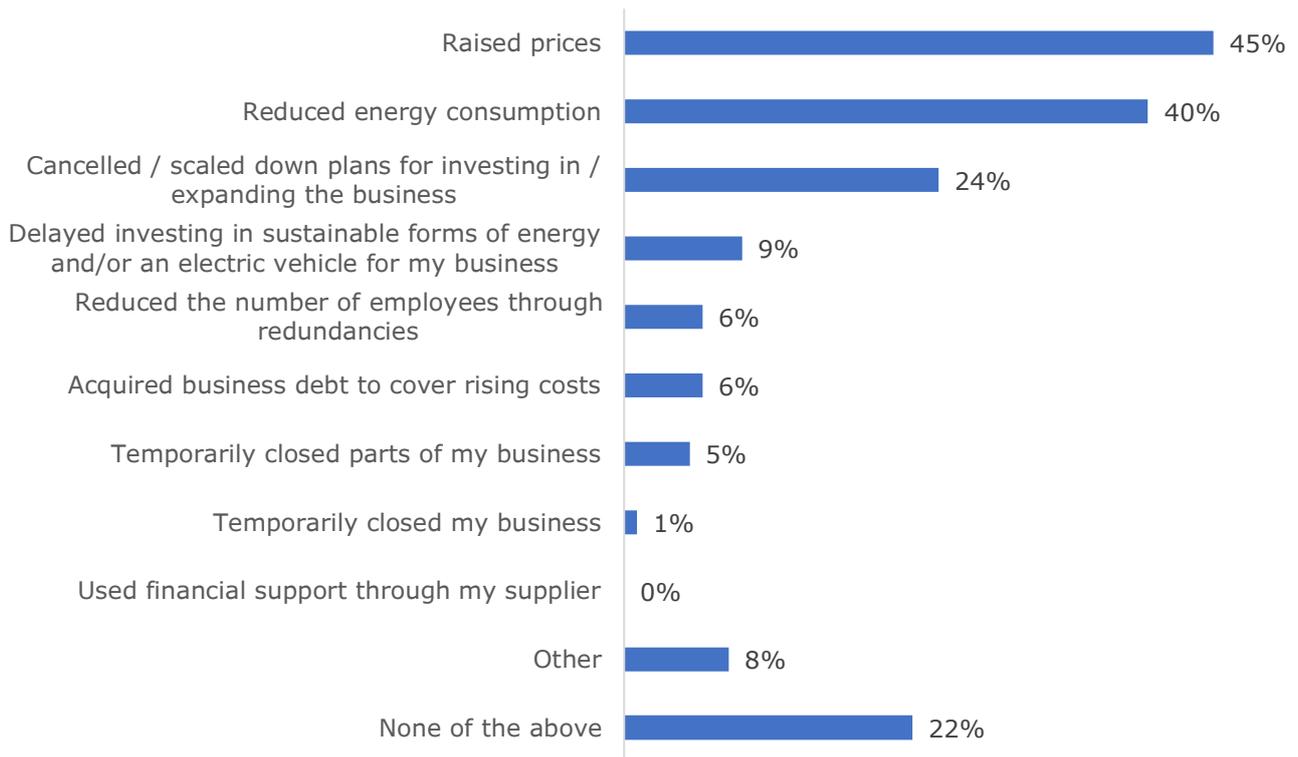


Figure 6 shows that most small businesses were left with no choice but to raise prices (45%) in response to the crisis, which is an upward driver of inflation.

Many firms are primarily involved in business-to-business transactions. In addition to their energy cost increases and inflated markups, small businesses operating in supply chains often pay higher input costs due to other businesses increasing their prices. In May, the Office for National Statistics (ONS) measured input inflation at 22.1 per cent in the year to May 2022, the highest rate since records began.<sup>12</sup>

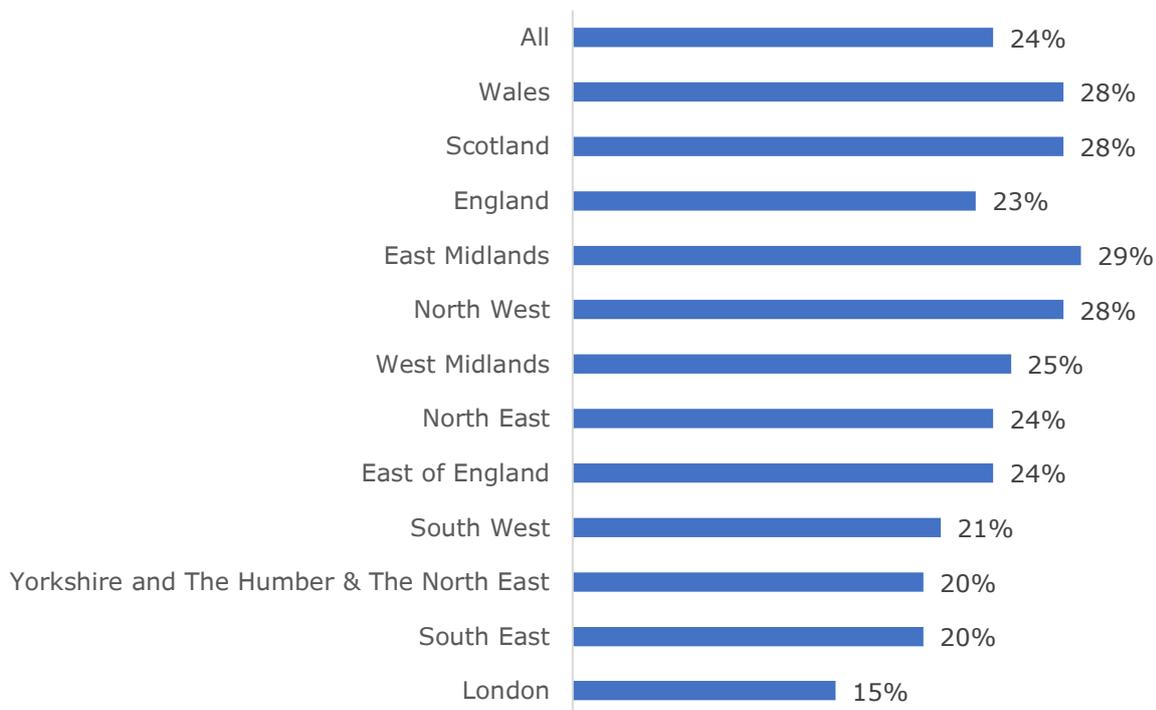
In addition to increasing the price of goods and services, small businesses are taking a number of other steps to reduce their energy consumption; however, there are limitations to solutions available to them. Most concerning for long-term economic progress in the UK are the decisions of businesses to cancel or scale down plans for either investing in their business or expanding their business (24%). Either of these decisions harms the long-term productivity of small businesses, delays the recovery from the Covid-pandemic, and should be of extreme concern to policymakers.

<sup>12</sup> Office for National Statistics, Producer price inflation, UK: May 2022, <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/may2022>

Concerningly, 29 per cent of firms in the East Midlands and 28 per cent in the North West, Scotland and Wales say they plan to cancel or scale down plans for investment in their business due to rising energy costs.

**Figure 7:** Proportion of small businesses in Great Britain that have cancelled or scaled down plans for investing in or expanding their businesses

**Source:** FSB, Energy and National Living Wage Survey, 2022



The implications are critical to the Government’s levelling-up plan, which seeks to address regional imbalances across England and the whole of the UK. However, this will not be possible if the areas targeted by the levelling-up strategy are those most severely hit by the rise in energy costs, leading to reductions in investment.

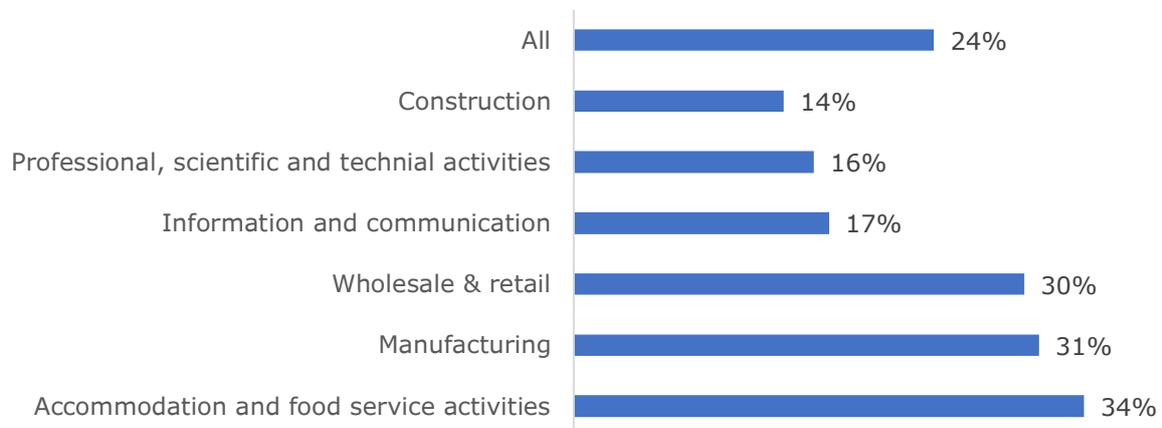
Without targeted support, fewer businesses will be left in these key areas to help the Government’s ‘levelling up’ efforts. Unsurprisingly, manufacturing, accommodation, food, and retail businesses have made the most considerable reductions in investment. Across these sectors, around one-third of businesses are scaling back or cancelling investments altogether.

*“Due to these unprecedented increases, we are delaying new investments in our business. We wanted to get a new shop front, replace our current car with an EV, install solar panels and replace our current packaging with more sustainable packaging. All these plans are now on hold for the foreseeable future.”*

FSB member, takeaway business, Northern Ireland

**Figure 8:** Proportion of all UK small businesses that have cancelled or scaled down plans for investing in or expanding their businesses as a result of energy price increases, by sector

**Source:** FSB, Energy and National Living Wage Survey, 2022



Although regional differences in investment reduction are clear, there is a strong case here for additional UK Government intervention for small businesses in these critical sectors.

Direct financial support is a measure of last resort that governments use to address economic hardship. During the Covid-pandemic, governments across the UK have acted boldly in response to an unprecedented challenge by providing levels of support for businesses and jobs that would never normally have been considered. This decisive policy response offered a critical lifeline for many firms. Unfortunately, the scale of the challenge that firms are facing as a result of mounting energy costs requires a similarly decisive response.

The energy price crisis started to unfold when businesses began to emerge from a long period of national lockdowns. A year on, the price of power has reached unparalleled levels, leaving firms without an opportunity to build up resilience following the pandemic and instead putting more at risk of closure.

Direct financial support for small businesses, similar to the support made available to domestic customers, will become critical in the coming months as more businesses are due to renew their energy contracts. The following recommendations would deliver a degree of support and ensure that the impact of the energy price crisis is not being borne disproportionately by small businesses.

## Recommendations

There are several options to provide support, ranging from capping the maximum amount that a small business has to pay for a unit of energy, through to offsetting some of the increased energy costs through broader tax reductions. **A mixed policy package of fiscal support and regulatory measures** is likely to be the best policy solution, as it would help cater for the largest variety of small firms.

### **This package could include:**

**Governments across the UK should provide direct fiscal support to small businesses with their energy bills.** Without Government support, small and microbusinesses will do what they can to pass on higher costs through price increases and cut back investment. However, for many small businesses, these measures will be insufficient and the situation is fast proving unmanageable.

**The UK Government should reduce business rates in order to help small firms cope with energy price increases.** Reducing business rates would help reduce the impact of price rises, especially as these are typically paid monthly. Due to many small firms in receipt of the retail rates discount or Small Business Rates Relief (SBRR), and the scale of price rises, this measure would need to be accompanied by other measures to provide support to those firms. The NI Executive should match the scheme with an equivalent rate rebate for small businesses struggling to pay their energy bills.

**Governments across the UK should provide direct cash support to small and microbusinesses to help with energy bills.** During the Covid-pandemic, the UK Government recognised that many small businesses pay little or no business rates because of Small Business Rate Relief. To support those businesses during the pandemic, the Government provided £3,000 vouchers to around 700,000 businesses who were eligible for Small Business Rate Relief or Rural Rate Relief in England. We propose a similar intervention here, which would be focused mainly on helping small firms who received Small Business Rates Relief or otherwise do not benefit – or do not benefit sufficiently – from tax reduction mechanisms.

**The UK Government should create a discretionary Business Energy Relief Fund to give businesses and their customers relief from rising energy costs, distributed by English local authorities and devolved administrations.** These funds can be used to provide direct financial support to small businesses who are ineligible for the support measures above, or which can demonstrate that energy bill increases have disproportionately impacted them (i.e. because they have high energy use and low margins). It can be funded, in part, by repurposing unspent Covid Relief Funds.

**The UK Government should temporarily reduce taxes on energy for one year initially, with the possibility of extending the measure if global prices remain high.** For example, the Government could implement a temporary VAT reduction on business energy and/or fuel bills, either by lowering the 20 per cent and 5 per cent rates, or by increasing the energy usage threshold at which the lower 5 per cent VAT rate applies. A VAT reduction would deliver cashflow benefits to those businesses which can reclaim VAT costs, reduce costs for firms which are not VAT-registered, and lower bills for domestic consumers. The UK Government should clarify whether this reduction

could apply to NI businesses under obligations of the Northern Ireland Protocol. If this is not possible, a similar saving should be designed for NI businesses. Another option would be for Governments to suspend the green levy element of business energy bills while ensuring that the programmes delivering the transition to net zero remain funded and on track.

**HMRC should publicly clarify that VAT-registered businesses can reclaim VAT on energy costs.** HMRC has confirmed that VAT-registered businesses can reclaim the VAT they pay on energy bills. However, numerous (non-government) online guidance state the opposite position. Given the importance of doing everything we can to manage energy costs, this position needs to be urgently and publicly clarified.

**The UK Government should introduce other tax changes to support the cashflow position in small businesses.** These include reducing the rates of National Insurance, and not increasing Corporation Tax to free up money to invest in energy efficiency and pay bills.

**Consumers should shop locally and support their local businesses.** Small businesses are at the heart of communities, offering employment opportunities and valuable services. However, the burden of rising energy costs and competition from larger companies, are putting small businesses across the country under immense pressure. FSB is calling on consumers to continue to shop locally and do all they can to support local businesses.

**We are calling on large companies to pay their small suppliers promptly.** More than ever, it is vital that small businesses are paid on time. However, FSB research from Q2 2022 found that half of small firms reported late payments and that one in five saw a worsening in payment terms. This is creating a significant cashflow issue for businesses that are facing unprecedented levels of energy costs. We urge more businesses to sign up to the Prompt Payment Code, and to follow the example set by companies such as Morrisons during the Covid-19 pandemic by paying suppliers immediately.

## THE SME RETAIL ENERGY MARKET

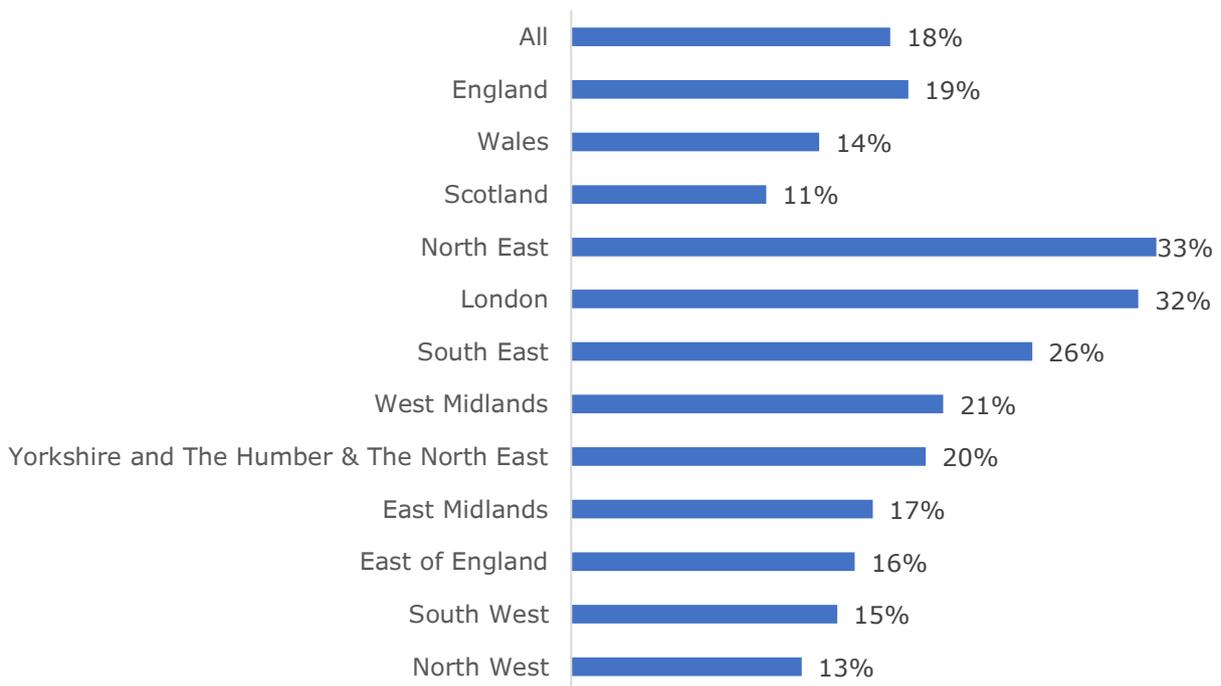
Small businesses looking for a new supplier or tariff in the energy market often lack the time, expertise, and bargaining power, to secure a competitive rate. Many small businesses and microbusinesses act in a manner akin to domestic customers when deciding on their energy provider.

The degree to which a small business owner can secure a good energy contract depends very much on the time they spend comparing deals, their ability to navigate a complex market, or their energy broker. Furthermore, some businesses have no control over their energy tariff. This may be due to several reasons; however, it is most likely a contractual term signed as part of a lease or a shared space.

Almost one in five small businesses (18%) have no control over who provides their energy. This figure rises to nearly a third for small businesses in the North East of England (33%), London (32%) and just over a quarter of small businesses in the South East (26%).

**Figure 9:** Proportion of all small businesses that have no control over who provides their energy in Great Britain

**Source:** FSB, Energy and National Living Wage Survey, 2022



While small businesses with an energy tariff tied to their lease may not need to negotiate their energy tariff, they also face a level of uncertainty as a new tariff negotiated by the landlord may result in a rent increase. This can be especially concerning as upwards-only rent reviews are commonly found in rental contracts. As a result, it is all too easy for landlords to rapidly increase rents and pass this cost (among others) onto their tenants.

There is also a critical lack of transparency, as tenants may be told that a rise is due to increased energy costs; however, there is no obligation to prove this. Many tenants in this position may never see the negotiated rate during a rent review.

A comprehensive reform of the landlord-tenant relationship is overdue. Government must look to introduce legislation to address the imbalance of power and information between landlords and their commercial tenants. This includes banning upwards-only rent reviews.

Fixed tariffs provide small firms with certainty and make them less exposed to price volatility of the spot price market. However, fixed contracts negotiated since autumn 2021 have locked many businesses into long-term contracts with significantly higher costs. Energy prices are expected to remain high for the foreseeable future. While some businesses may be shielded in the short-term due to their fixed contract, costs for contracts renewed in the future are expected to be higher.

The energy crisis has significantly impacted the retail energy market for domestic and non-domestic customers. In addition to unprecedented price increases, 31 suppliers have ceased trading. The shape of the energy market has completely changed, with suppliers unable or unwilling to take on new customers or to offer competitive energy tariffs. With little competition, small businesses often have no choice but to accept the rates offered by the few suppliers still operating in the market.

An energy broker can help a business negotiate a renewal or new contract – especially in cases where the supplier ceased trading. This also includes advice on debt repayment and ensuring that standing charges – which increased in April 2022 – are correctly calculated by the supplier.

Previous FSB research found that 30 per cent of small firms used a Third-Party Intermediary (TPI) to identify their current tariff - demonstrating the importance of TPIs for small businesses.<sup>13</sup> However, as there are no minimum standards that a TPI must adhere to, small businesses continue to have mixed experiences with TPIs. Some companies, especially smaller ones, do not trust brokers as there may be confusion around whether TPIs always act in their customer's best interest or that of the energy companies.

While Ofgem's Microbusiness Strategic Review guarantees that all suppliers must only work with TPIs registered to the Alternative Dispute Resolution (ADR) scheme, the market still lacks adequate regulation.<sup>14</sup> In light of the changing energy market, powered by the transition to net zero, the role of TPIs will further evolve, and it will be vital that small businesses are finally given the regulatory reassurance that TPIs are providing the best service.

Some businesses may not choose to seek the support of an energy broker. Nevertheless, these firms should be guaranteed adequate consumer protection. Microbusinesses have access to the Energy Ombudsman, which offers independent

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<sup>13</sup> FSB, The Price of Power: Energising small businesses in the next UK Carbon Plan, 2017

<sup>14</sup> Ofgem, Decision: Microbusiness Strategic Review, March 2022, <https://www.ofgem.gov.uk/sites/default/files/2022-03/Decision%20Microbusiness%20Strategic%20Review.pdf>

dispute resolution support. However, businesses with more than ten employees have to spend money on dispute resolution if they wish to challenge a supplier.

While most businesses can have a fixed tariff, for example, for electricity, they may also use another energy source, such as oil or liquefied petroleum gas (LPG). Small businesses that are not connected to the national grid may use LPG or oil as a heating source. Those businesses are often overlooked but also directly affected by wholesale market price fluctuations.

Small businesses in rural areas are more likely to use heating oil (18%), as are small firms in manufacturing (14%) compared to only eight per cent of all small firms. Our data also highlights a geographical distinction with twelve per cent of small firms in the East of England stating they use heating fuel.

## Recommendations

**The UK Government should expand Ofgem's Default Tariff (Price) Cap, which currently only protects domestic customers, to include sole traders and microbusinesses (0-9 employees) and small businesses (10-49 employees).**

Microbusinesses and small businesses need consumer protection in the same way as individuals do. They are more akin to domestic customers when deciding on their energy provider, ranging from lack of expertise in purchasing energy to poor bargaining power. Including small firms in the price cap will provide increased certainty for the smallest businesses.

**Energy suppliers should commit to not disconnecting businesses from energy supply that are currently unable to pay for their energy bills this winter.**

Energy suppliers should work with individual small business customers and offer bespoke finance plans and hardship funds for this winter that will enable firms to continue trading.

**Energy suppliers should not require disproportionate up-front payments from small firms when taking on new customers.** This practice is piling further cashflow pressure on businesses in sectors like hospitality which are seeing bills increase and which are unable to pass the price rises on in full. If needed, the UK Government should provide a limited guarantee to suppliers so large deposits are not needed.

**The UK Government should introduce regulation that would ensure that credit balances for microbusinesses are protected in the same way as they are for domestic consumers in case of an energy supplier failure.** This would ensure that business customers would have their credit balance protected when moved to the new supplier.

**Ofgem should expand access to the Energy Ombudsman by raising the threshold from ten to 50 employees and increasing the usage threshold by a multiple of five.** Small businesses do not have the time, expertise or specialist members of staff to manage issues with energy suppliers and it would save money which is spent on dispute resolution if the Ombudsman service was more widely available.

**Ofgem should implement all recommendations from the Microbusiness**

**Strategic Review.** With the Microbusiness Strategic Review, Ofgem has taken a significant step towards more non-domestic consumer protection by recognising that microbusinesses are akin to domestic customers when navigating the retail energy market. However, the measures that will take effect from October do not yet include the recommendations of extending the cooling-off period to business customers. Microbusinesses should have more rights to cancel a contract if they change their mind and should have access to a 14-day cooling-off period for all switches, like domestic customers. In the Microbusiness Strategic Review decision, Ofgem delayed the decision to implement a cooling-off period until after Faster Switching had gone live, which has now been completed. Therefore, we want to see the cooling-off period implemented as soon as possible.

**The NI Utility Regulator should carry out a Microbusiness Strategic Review in Northern Ireland, modelled on the review carried out by Ofgem, to best examine how to improve the market access and treatments of microbusinesses in Northern Ireland.**

**The UK Government should finally close a significant regulatory gap by introducing Third Party Intermediaries (TPIs) regulation, eliminating unethical practices in the sector.** TPIs have a vital role in helping small businesses navigate the complexities of the energy market and can play a critical role in helping small firms secure the best possible energy deals. However, many small business owners will not use a TPI because of a lack of trust or confidence in the industry. While FSB supported Ofgem in developing a draft code of practice for non-domestic TPIs, including elements such as professional and honest behaviour, information transparency and effective monitoring, we believe that enshrining those in regulation will remove gaps and loopholes currently disadvantaging small businesses. Regulation should furthermore apply to any business that places or negotiates an energy contract as a third party between a supplier and the customers – including cost reduction companies.

## ENERGY SECURITY

The energy price crisis has affected small businesses to varying degrees – depending on the sector, type of premise and whether they have been able to renew their contract before August 2021. The UK Government has missed several opportunities to provide relief for small businesses severely affected by this crisis, leaving many companies with eye-watering energy bills.

While not a panacea to the energy price crisis, greater energy efficiency helps reduce demand and therefore cost pressures on businesses. From a small business perspective, the Energy Security Strategy was a missed opportunity to support small businesses to cut their energy consumption faster. With the right support, small businesses can also be energy generators – not just energy consumers – ultimately becoming more energy independent.

With energy prices expected to remain high in the next few years, it is paramount that promoting energy efficiency and microgeneration among small businesses becomes a long-term goal of the UK Government and the respective Governments in the devolved nations, with policies to match the intention. Not only will this protect businesses and consumers from the volatility of the global energy market, but it will also reduce the UK's dependency on fossil fuels and help reach the UK Government's net zero commitment.

In November 2021, FSB published *Accelerating Progress: Empowering small businesses on the journey to net zero*, which found that a clear majority of small firms (56%) believe that the planet is facing a climate crisis – but only 18 per cent of small businesses have invested in microgeneration.<sup>15</sup>

*“We are a family-run holiday park in the Lake District. Since last year, our energy bills have tripled. In addition to our electricity tariff, we use off-grid LPG (liquified petroleum gas) because we have no access to the main gas grid. We also use a biomass wood pellets and energy generated from solar panels and heat pumps because we cannot afford to install battery storage. We cannot reap all the benefits from solar panels. In addition to rising energy costs, we have also noticed a fall in weekly take-up. Unfortunately, we have had to raise prices to cover the costs.”*

John Stayner, Wallace Lane Farm, Cumbria

FSB's net zero research highlighted several reasons small business owners cannot introduce energy-efficient solutions. Some of these included a return on investment that takes too long (24%), a lack of capital (savings) for energy-efficient investment (22%) and an inability to access affordable finance (8%). FSB suggested that the Government should introduce a £5,000 Help to Green voucher that would help small firms overcome the financial barrier and to incentivise this urgent investment.

As a response to the energy price crisis, the need for a bespoke policy for small businesses has only increased. Nine per cent of small businesses have decided to delay

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<sup>15</sup> FSB, *Accelerating Progress: Empowering small businesses on the journey to net zero*, November 2021

investing in sustainable forms of energy or an electric vehicle, because of the price increases. The figure rises to twelve per cent for retailers.

Without adequate support and incentives, small businesses will be deprived of the opportunity to accelerate net zero efforts because they are paying premium prices on energy. Policies, like Help to Green, are needed to address the lack of capital that businesses have for green investments, and also to incentivise small businesses to take their next steps towards net zero as soon as possible.

## Recommendations

**The UK Government should issue £5,000 vouchers for businesses to spend on qualifying energy saving-products and services under a 'Help to Green' initiative.** This would be similar to vouchers issued via the 'Help to Grow Digital' scheme. The voucher could, for example, be used to fund an audit to measure a firm's energy consumption with relevant advice on how to reduce energy consumption or to enable firms to replace equipment and materials to become more energy efficient. The Institute of Directors (IoD) recently endorsed the need for 'Help to Green,' highlighting that "additional direct help is needed to facilitate energy efficiency."

**The UK Government and Ofgem should establish a taskforce of suppliers, small business landlords and business groups to agree on how to cut energy use in rented premises.** The split of incentives between landlords and tenants is a longstanding barrier to low carbon improvements. This taskforce can learn from examples where landlords and tenants have cooperated to green their premises and consider further interventions to allow small businesses to take ownership of their energy use.

**The UK Government should review the law on commercial tenancies to prevent commercial leases from blocking low-carbon improvements.** Where a tenant is the sole occupier of a commercial property, they should have the primary decision-making power with regards to the choice of energy supply and installation of smart meters. Landlord and tenant law should be updated to preclude overly restrictive lease clauses which allow commercial landlords to unreasonably stop a tenant switching energy supplies, installing smart meters, or other reasonable energy efficiency improvements.

**Regional and local authorities and bodies in England should ensure effective small business engagement and support programmes for a range of energy issues.** These issues could include addressing rising energy costs and barriers to low carbon improvements and learning from local examples where landlords and tenants have cooperated to green their premises and consider further interventions to allow small businesses to take ownership of their energy use.

**The NI Department for the Economy should establish an Energy Stakeholder Group to ensure effective engagement with small businesses.** This stakeholder group would allow for better engagement along a range of energy issues. For example, it could ensure that no schemes are developed that exclude small and microbusinesses, or that small businesses in rented premises do not face barriers to low carbon improvements.

**The NI Executive should urgently work to ensure incentives are in place for the small and microbusiness community to 'pool' together in order to benefit from economies of scale when producing, storing and sharing energy.**

**Small businesses should continue to take steps to reduce energy consumption and increase energy efficiency, which will be critical in the coming months.**

FSB is helping small firms access resources, including services such as Zero Carbon Business, to help understand and take the necessary steps to become more energy efficient, ranging from insulation to energy efficiency appliances.

## ENERGY IN THE DEVOLVED NATIONS

Each of the devolved nations has its specific energy challenges. The regulatory environment overseeing energy policy is complex, with constitutional arrangements placing jurisdiction for different policy aspects in the hands of different levels of government.

### Scotland

The Scottish Government published its strategy for tackling fuel poverty in 2021, which focuses on the individual and does not explore the impacts on the self-employed or microbusinesses.<sup>16</sup> Scotland has many rural and remote areas where people – and businesses – have historically paid more in energy costs due to being off gas supply and having very limited (if any) access to competitive tariffs.

*“Like many rural-based businesses, we depend on oil for heating in addition to electricity for our general energy needs. The price we pay for oil has doubled since the beginning of the war in Ukraine, from 55p a litre at the start of the year, to over a £1 now (mid-June).*

*We were on a long-fixed electricity tariff and our overall costs during the first two years of the pandemic were much lower. We recently managed to secure a fixed one-year tariff when the old contract came to an end. Our consumption charge has been tripled by the energy company and our standing charge has increased by almost three and half times. We are now trying as much as we can to reduce our energy consumption, something we have always been mindful of. We already made big strides to do this a few years ago by installing new insulation in the ceilings and by switching to LED lights. We are now cutting back on our operational costs. We stopped running the second dishwasher and have reduced the length of times our ovens are on.*

*The big thing for us is that there aren’t any obvious ways we can control these costs. We rely on oil, and were advised by an energy consultant, this is the most reliable way of heating our building. Consultants from the Energy Savings Trust are hard to get hold of at the moment because of the high demand for their services.*

*We are already thinking about how we will navigate through winter because of our high energy costs. From a business point of view, it is not easy to plan ahead, and it will affect our profits.”*

Paul O’Keefe, Thomas Tosh, Scotland

Support has been offered to individuals who are struggling with fuel costs throughout the pandemic by the Scottish Government, including three rounds of a £2 million fund distributed to social housing tenants and the introduction of the Low Income Winter Heating Assistance benefit. However, outside of the advice and loan offer provided by

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<sup>16</sup> Scottish Government, Tackling fuel poverty in Scotland: a strategic approach, 23 December 2021, <https://www.gov.scot/publications/tackling-fuel-poverty-scotland-strategic-approach/>

Business Energy Scotland's predecessor, Energy Efficiency Business Support, no additional grant support has been provided to small businesses whose energy bills have also been impacted by the current crisis.

While the UK Government retains overall powers, for example for the electricity market, the Scottish Government has published its own Local Energy Policy Statement and an update to its 2017 Energy Strategy, which is expected later this year. As in Wales, the Scottish Government is keen to capitalise on the significant potential for renewable energy generation in Scotland and has set a target to generate 50 per cent or more of Scotland's overall energy consumption from renewable sources.

The Scottish Government has set accelerated targets with regards to net zero, with its Heat in Buildings Strategy setting out how it intends to achieve the decarbonisation of heat in homes and buildings in Scotland by 2045. This strategy sets out that support for SMEs will be delivered through Business Energy Scotland from April 2022 through advice and loans. While the success of this service remains to be seen, with the scale of the net zero challenge expected to run into the many billions, it is clear this support will need to be scaled up significantly if small businesses are to be able to face this challenge alongside the other circumstances in which they are currently operating.

On 23 August 2022, the First Minister of Scotland hosted a summit with the main energy suppliers, energy advice, fuel poverty charities and FSB. Energy companies agreed to work with the Scottish government in the short term to agree a package of measures to support consumers who are in difficulty. Meanwhile, the Scottish Government will consider, as part of its emergency budget review, further support for households and businesses. It will also undertake a public information campaign to promote energy efficiency measures. With regards to specific support for SMEs, the First Minister agreed that the Scottish Government would call for protection for businesses not covered by the price cap. It would also support the call for VAT reduction and consider what additional support can be provided for business in its emergency budget review.

## **Wales**

Small businesses in Wales aren't protected against heightened tariffs like domestic households. The Welsh Government has developed a package of additional support for low-income households, including a £200 payment through its Fuel Support Scheme, to help shield individuals from soaring energy prices. To date, no equivalent support has been developed for small businesses.

Support to businesses through the Welsh Government's Business Wales service has been focused on energy efficiency tips and pointers to transition to more sustainable practices over the longer term. The Welsh Government's Green Growth Pledge offers practical steps that businesses could take, including using energy wisely, to improve their sustainability. However, more practical financial support interventions – that recognise the urgency and scale of the challenge facing SMEs – have not yet been used. Decision makers at all levels – including local authorities, the Welsh Government, and the UK Government – must work constructively together to help combat the cost-of-doing-business crisis.

## Northern Ireland

Northern Ireland is unique in the UK for its dependence on heating oil as a primary energy source. Around 68 per cent of Northern Ireland's homes are reliant on heating oil,<sup>17</sup> compared with ten per cent in Wales,<sup>18</sup> five per cent in Scotland<sup>19</sup> and three per cent in England.<sup>20</sup> Northern Ireland also has the lowest rate of installed renewable capacity out of all UK nations at less than four per cent of the UK's overall capacity, with Wales at 7.5 per cent, Scotland at 25 per cent, and England at around 63 per cent.<sup>21</sup>

Around 73 per cent of the Northern Ireland renewable capacity comes from onshore wind, compared with 29 per cent in the UK.<sup>22</sup> Northern Ireland also has no offshore wind capacity, and 18 per cent of Northern Ireland's renewable capacity is generated from solar, compared to 28 per cent in the UK.<sup>23</sup>

The Northern Ireland Renewables Obligation was the main subsidy mechanism for encouraging increased renewable electricity generation in Northern Ireland. The NIRO closed to new onshore wind projects in 2016, and all other projects in 2017, leaving Northern Ireland as the only part of the UK without a support mechanism for renewables. To understate the likely importance of such a mechanism, between 2016 and 2018 there was 456-megawatt electric of onshore wind capacity added in Northern Ireland, but from 2018 to 2020 this figure sat at only nine megawatt electric.<sup>24</sup>

The Northern Ireland electricity market is separate from Great Britain's and is not regulated by Ofgem. The Single Electricity Market (SEM) is a wholesale electricity market where electricity is traded across the whole island of Ireland (Northern Ireland and the Republic of Ireland). This enables electricity to be sold by power generators which is purchased by suppliers, who then sell the electricity to consumers. The Utility Regulator (UREGNI) is responsible for regulating Northern Ireland's largest electricity supplier, Power NI. Other suppliers then, in effect, compete on the price with Power NI as the benchmark. By way of gas, two providers in Northern Ireland are limited to profit margins of around two per cent.

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<sup>17</sup> The Consumer Council, "Domestic Heating Oil and Fuel Poverty", [http://www.niassembly.gov.uk/globalassets/documents/social-dev/fuel-poverty/heatingoil\\_fuel-poverty.pdf](http://www.niassembly.gov.uk/globalassets/documents/social-dev/fuel-poverty/heatingoil_fuel-poverty.pdf)

<sup>18</sup> The Welsh Government, "Welsh Housing Conditions Survey 2017-18: Energy Efficiency of Dwellings", October 2019, <https://gov.wales/sites/default/files/statistics-and-research/2019-10/welsh-housing-conditions-survey-energy-efficiency-dwellings-april-2017-march-2018-795.pdf>

<sup>19</sup> The Scottish Government, "Scottish house condition survey: 2019 key findings", December 2020, <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/4/#:~:text=Overwhelmingly%20the%20most%20common%20heating,these%20are%20similar%20to%202018>

<sup>20</sup> Ministry of Housing, Communities & Local Government, English Housing Survey, Energy report, 2019-2020, July 2021, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1055629/Energy\\_Report\\_2019-20.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1055629/Energy_Report_2019-20.pdf)

<sup>21</sup> Department for Business, Energy and Industrial Strategy (BEIS), "Energy Trends: Renewable electricity - installed capacity by region 2003 - 2020", September 2020, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1021777/Regional\\_spreadsheets\\_\\_2003-2020\\_-\\_installed\\_capacity\\_\\_MW\\_.xls](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1021777/Regional_spreadsheets__2003-2020_-_installed_capacity__MW_.xls)

<sup>22</sup> *ibid*

<sup>23</sup> *ibid*

<sup>24</sup> *ibid*

When initiating a price increase, energy companies in Northern Ireland must provide UREGNI with 21 days' notice at any time during the year. Households and businesses, therefore, had less time to adjust to the impacts of the energy crisis.

*"Our energy costs have already tripled since last year. The cost of energy is not our only concern. We are also battling with other business costs – particularly rising food prices. In the past few months, we've seen price increases for everything we use in our business ranging from chicken and fish to potatoes. We know that we cannot pass on the costs to our consumers, who are also struggling with higher living costs."*

FSB member, takeaway business, Northern Ireland

## **METHODOLOGY**

This report is based on FSB members' experiences and of their concerns and responses to the energy crisis in 2022. FSB undertook a mixed method approach for the research consisting of quantitative online survey and a number of UK wide semi-structured interviews. The survey was nationwide in its reach and members were invited to participate in the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 5 May to 19 May 2022. The survey questionnaire was completed by a total of 1,284 small businesses.

The semi-structured interviews were primarily conducted over the phone and included members from every devolved nation and purposefully drew from a variety of regions and sectors. These interviews were used to construct the detailed case studies that are included throughout the report. In a couple of cases, the in-depth interviews allowed for detailed accounts that address multiple sections of the report. These case studies were specifically selected for the breadth of coverage. The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent.

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