

A photograph of two women in a workshop setting. The woman on the left has dark hair in braids and is wearing a blue and white striped shirt. The woman on the right has red hair and is wearing a grey shirt and a black apron. They are both looking at a tablet held by the woman on the right. The background shows a workshop with various items hanging on the wall and a potted plant.

# ACCELERATING PROGRESS

EMPOWERING SMALL BUSINESSES ON THE JOURNEY TO NET ZERO

Published: November 2021

 @fsb\_policy

[fsb.org.uk](https://fsb.org.uk)

**fsb**<sup>08</sup>  
Experts in Business

# ACKNOWLEDGEMENTS

---

This report was authored by Friederike Andres, Policy Advisor, and Daniel Bellis, Senior Policy Manager, with contributions from Emelia Quist and Daryn Park. Special thanks to FSB's policy, public affairs and media teams, in particular, the project team responsible for delivering the report: Fil Pollara, Jo Tacon and Matt Dickinson, and colleagues in the devolved nations: Neil Hutcheson, Llyr ap Gareth and Barry McCulloch.

The quantitative research was carried out by Verve – the market research agency responsible for administering the survey. The report was designed by Cactus Design Limited – a small business based in Wales. This project would not have been possible without all the FSB members who participated in this research, generously taking the time out of running their small businesses.

# WHO WE ARE

---

FSB is a non-profit making, grassroots and non-party political business organisation that represents 160,000 members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.6 million small businesses, micro businesses and the self-employed.

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.

# ACCELERATING PROGRESS

## EMPOWERING SMALL BUSINESSES ON THE JOURNEY TO NET ZERO

# 56%

**believe** the planet is facing a **climate crisis** but...



...only **36%**

of small businesses have a plan to **combat climate change**

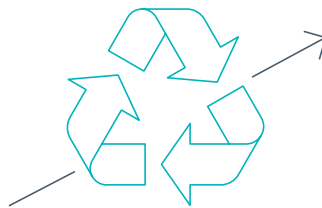


### Small firms striving to make a difference



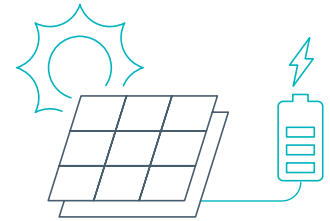
# 67%

have taken steps to **address energy usage**



# 64%

have **increased recycling**



# 18%

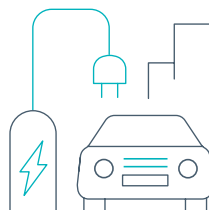
have invested in **microgeneration**

### Shaping the way forward



# 54%

say **grants** or **low interest loans** would encourage them to become more **energy efficient**



# 9%

will switch some or all of their fleet to **zero emission vehicles** by 2030



# 28%

say a **business rates discount** would encourage them to **improve energy efficiency**

# CONTENTS

---

Foreword . . . . .	.5
Executive summary. . . . .	.6
Key findings . . . . .	.7
Recommendations . . . . .	.8
Introduction . . . . .	10
Net zero and small businesses . . . . .	.11
Energy. . . . .	18
Waste and recycling . . . . .	25
Transport . . . . .	29
Taxation and finance. . . . .	34
Methodology . . . . .	41

# FOREWORD

---

Setting up and running a small business requires entrepreneurs to think outside the box, take on new challenges, and face issues that had not been apparent when scoping out the original business plan. Whilst small businesses have been asked to tackle a number of such challenges over the decades, none are more threatening than the impact of climate change. However, in the face of many competing priorities, taking action on sustainability has been a ‘nice to do’ challenge for small businesses, who often find themselves cash-, resource- and most importantly time-poor. Now, however, with increased levels of environmental awareness and the pressing need to reduce our impact on the environment before it’s too late, this is no longer a ‘nice to do’, but a ‘need to do’.

The consequences of not acting on climate change are well-documented, and meeting this challenge will require the efforts of every part of society, including small businesses. Governments across the UK have set the key target of achieving net zero by 2050, or 2045 in Scotland, as well as a number of milestones along the way, such as gas boiler and diesel vehicles bans in coming years.

Recognising their role in combating climate change, small businesses themselves are already taking action to mitigate their impact on the environment. From the installation of basic measures such as LED lighting, through to becoming fully self-sufficient microgenerators, small businesses are as varied and as creative as ever in their drive to reach net zero.

If the UK is to reach its net zero targets, then we must establish a net zero economy. However, to create a net zero economy across the UK, small businesses once again will have to go further and do more. Yet they will only be able to do this if they have adequate support from governments across the UK, and their local authorities. Too often, mixed and poorly-targeted messaging in an already confusing landscape has undermined both the environmental and economic benefits of some of these changes to small businesses. A “one size fits all” approach to messaging, or policy, will no longer suffice.

The policy framework must provide the necessary incentives, and overcome the barriers that small businesses face. We can no longer afford to be taxing businesses for making environmental improvements such as installing solar panels on their building though increased business rates, and we must enable them to invest in the environmental and economic improvements that most suit their business. Zero emission vehicles (ZEVs) and changing transport habits are also undoubtedly critical to achieving net zero, and while the uptake of these options is encouraging, upfront cost and infrastructure are still significant barriers to most day-to-day businesses.

Government must also face up to the reality that a total switch to ZEVs without changes to our taxation system will leave a huge hole in our public finances, and it must be honest with businesses and those switching as to how that will be met. Whilst we must do all we can to encourage businesses to switch to ZEVs by 2030, we must also have a frank conversation about the future of vehicle taxation and replacing the lost revenue from Fuel and Vehicle Excise Duty.

There are many steps that governments across the UK can take and barriers that must be removed. Our report looks at the great strides business have already made in the net zero journey, and importantly identifies where policy makers must do their part to enable small business to reach net zero.



**Martin McTague,**  
Chairman,  
Policy and Advocacy

# EXECUTIVE SUMMARY

---

The race to net zero is arguably the biggest strategic challenge that business will face, and one which must be tackled across the small business community. Inaction will have devastating consequences, and while the costs of reaching net zero are high, the costs of not meeting this target are higher. Small businesses are keenly aware of the need to act on climate change; however, many are resource-poor in terms of time, expertise, and finances.

This report aims to understand the progress already made by small businesses to use energy more efficiently, reduce waste, change transport habits, and have a smaller impact on the environment. The report also looks at some of the key barriers faced by small businesses, and makes a series of recommendations as to how these barriers can be overcome, and how governments and local authorities across the UK can better support small businesses to reach net zero.

Although the report largely focuses on primary data (more information on which can be found in the methodology), there are also a number of case studies, adding real life examples and experiences of businesses which have started making the transition to net zero, or those who are facing significant barriers to doing so.

The report itself is set out into five main sections, with the first focusing on the role of small businesses and their recognition of the challenge ahead. Small businesses understand the need to act on environmental issues and view the topic very emotively, with the majority of small businesses (56%) feeling that the planet is facing a climate crisis.

We also discuss the impact of energy, including energy efficiency, tariffs, smart meters, and microgeneration. This is one area that has potential for businesses to make quick gains towards net zero and reduce overheads in their business. There are simple measures such as improving insulation, installing LED lighting, and switching to a renewable energy tariff that businesses can take, although uptake of these differs greatly across regions and sectors, as different businesses face different barriers.

Waste reduction and resourcefulness (recycling) play a prominent role in minimising any environmental impact, as more and more businesses seek to recycle and reuse, as well as to minimise the use of single use plastics in their products and services.

Fourthly the report looks at the transportation habits of small business, how this can be reduced, and how much progress has been made in the switch towards zero emission vehicles (ZEVs). Although upfront investment and charge anxiety remain key issues, the upcoming ban on diesel and petrol cars risks creating a two-tier society, where those that can afford the switch do so, while those that cannot afford the switch find themselves unable to avoid paying the penalties. This is why it is critical to use the coming years to encourage and support businesses to make the switch.

Finally, the report considers some key taxation considerations that must be packaged together as we change into a net zero economy, such as road charging and business rates. Current taxes such as business rates place penalties on businesses who choose to install improvements such as solar panels or other microgeneration technologies. The next few years provide the opportunity to consider how ZEVs will be taxed, as the revenue received by HMT from Vehicle Exercise Duty diminishes.

# KEY FINDINGS

---

## Climate change and small businesses

- 56 per cent of small businesses believe our planet is facing a climate crisis
- 28 per cent of small businesses said it will be extremely difficult to transition to a net zero economy
- 36 per cent of small businesses have a plan to combat climate change, but only 30 per cent have made changes to their business as a result of that plan.
- 69 per cent of small businesses don't know how to measure how much carbon emissions their business produces.

## Energy

- 67 per cent of small businesses have taken steps to address their energy usage, some of which include:
  - Installing a smart meter (22%)
  - Installing energy efficient appliances (37%)
  - Switching to a renewable energy provider/tariff (26%)
- 18 per cent of small businesses have invested in microgeneration.
  - 14 per cent have installed solar panels
  - 4 per cent have installed a heat pump
- Of those that have not yet taken steps to address their energy usage, 29 per cent of small businesses say energy is not a significant cost, 24 per cent say that the return on investment takes too long or is too uncertain, and 22 per cent highlight the lack of capital (savings) as a reason why they are unable to invest.

## Actions to reduce waste and increase recycling

- Small businesses have taken a number of steps to increase recycling and to reduce waste, including:
  - 64 per cent have increased recycling in their business
  - 50 per cent have taken steps to eliminate waste wherever possible
  - 47 per cent are avoiding plastic products if an alternative is available

## Changing small business transport habits

- 36 per cent of small businesses in accommodation and food services state they have switched or plan to switch all or some of their fleet to zero emission vehicles
- 29 per cent of small businesses in the construction sector state they have installed a workplace charging point for electric vehicles
- Of those small businesses which have not yet taken steps on their transport habits, some of the key barriers are:
  - Inefficient or unavailable public transport due to location (45%)
  - Zero emission vehicles are currently too expensive (57%)
  - Lack of infrastructure to support electric vehicles (43%)

# RECOMMENDATIONS

---

## Supporting businesses to make a plan

**LEPs and Combined Authorities in England should be required to set out net zero engagement plans by the end of 2022, and plan a sector-specific messaging campaign until 2025.** LEPs and Combined Authorities could pool resources when designing and delivering these plans, but the LEPs must act as important signposting stations and as hubs of relevant communication for their local businesses. This would also include circulating key pieces of information on deadlines and changes in Government policies (page 16).

**The UK Government should issue £5,000 vouchers for businesses to spend on qualifying environmental products and services under a Help To Green initiative.** This would be in a similar vein 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 carbon footprint with relevant advice on how to reduce greenhouse gas emissions, or to enable firms to replace equipment and materials to become more energy-efficient (page 16).

**In England, the UK Government should expand the scope of the lifetime skills guarantee to support green skills.** Currently the guarantee is only available to those who do not have a Level 3 qualification. Allowing those who do have a Level 3 qualification to retrain in new, green skills will help improve employment as well as environmental outcomes. Skills boot camps could also be used to retrain people in green skills, if they are rolled out widely enough across the country (page 16).

**The Northern Ireland Assembly should ensure Climate Change Legislation is passed within the current electoral mandate to avoid further delay and uncertainty.** This legislation should include a statutory duty on officials to engage with small business by carrying out a Small and Micro Business Impact Test (SAMBIT) when developing future environmental policy across Northern Ireland (page 16).

**In Northern Ireland, the Department of Agriculture, Environment and Rural Affairs should establish a Climate Change Stakeholder Group.** This group would help Northern Ireland business representatives to maximise dialogue and joint working and help to address the limiting patchwork effect of current Northern Ireland environment policy (page 16).

## Energy

**UK Government and Ofgem should establish a taskforce of suppliers, small business landlords and business groups to agree 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 own energy use (page 23).

**UK Government should review the law on commercial tenancies to prevent commercial leases from blocking low-carbon improvements.** Tenants in commercial properties should have the primary decision-making power with regards to 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 installing other reasonable energy efficiency improvements (page 23).

**UK Government should utilise its new powers, having left the EU, and alter (lower) the capital requirements banks must adhere to when lending to businesses for green improvements.** Currently, the capital requirements set out under Basel III and implemented under EU Regulation 575/2013, on prudential requirements for credit institutions and investment firms, act as a brake on banks releasing funds in the form of loans to small businesses looking to invest in green technologies and improvements. Current margins can be too low, and risk profiles too high. Reviewing these requirements is not something that would have been possible as a member of the EU; however, the impact of lowering these requirements in respect of green investments should be considered now that the UK has left the EU (page 23).

## Waste

**Local authorities (in England, Wales and Northern Ireland) should incorporate small business waste collection services into their domestic collection services with the costs for these waste collection services included in business rate charges.** This would only apply to businesses currently under the Small



Business Multiplier, so as not to be used by larger businesses which generate far more waste and could not be incorporated into the domestic schedule (page 27).

**Small businesses should have access to reuse and recycling centres operated by councils – building on a permit system that operates for tradespeople in some local authorities.** Currently, these facilities are only available to individual residents, but by expanding access to small businesses and sole traders, it would boost the incentive to recycle (page 27).

## Transport

**Governments across the UK should ensure that businesses operating in and around Clean Air Zones or Low Emission Zones receive their charges back in form of grants for the purchase of a zero emission vehicle.** The drive to zero emission vehicles may result in a two-tier society, with those that have made the switch exempt from clean air charges, while those who cannot afford the switch still paying penalties. Funds generated by Clean Air Zones should be packaged into grants available for businesses operating in and around Clean Air Zones towards the purchase of zero emission vehicles (page 32).

**Governments across the UK must publish a coherent set of target-based infrastructure strategies to deliver the necessary charging and rapid charging infrastructure by 2030.** The number of ZEVs being purchased is outstripping the number of charging and rapid charging points on motorways and highways across the UK. Encouraging more businesses to switch to ZEVs by 2030 will require a redoubling of infrastructure efforts to ensure that businesses do not suffer from ‘charge anxiety’. In addition, the UK Government should liaise with the executives in Wales, Scotland and Northern Ireland to ensure the system is coherent for motorists who travel across borders (page 32)

**The Plug-in Car Grant should be extended and funded beyond March 2023, to give small businesses confidence in planning their transition to zero emission vehicles until 2030.** The adequacy of the grants for small vans (currently £3,000) and large vans (currently £6,000) should be kept under review (page 32).

**UK Government should introduce a scrappage scheme where diesel commercial vehicles can be recycled in exchange for grants towards cleaner hybrids and zero emission vehicles.** This would pay businesses £2,000 which could then only be used to purchase a zero emission vehicle for the business (page 32).

## Tax and finance

**The UK Government should establish a commission of industry experts to begin consultation on a future road charging system.** The rollout of zero emission vehicles and the phasing out of diesel and petrol vehicles will have far-reaching implications for the UK Government’s revenue generated from Vehicle Excise Duty and fuel tax. The backbone of any future road charging system for zero emission vehicles could be based on mileage; however, an allowance (for example, 5,000 miles) should be given to small businesses using zero emission vehicles (page 38).

**The UK Government should exempt green investments and improvements in premises, such as installing ventilation or solar panels, from inclusion in a business rates assessment. This will incentivise greater investment in improving premises in line with the Government’s net zero and Covid strategy.** Under the current system, any and all improvements are counted towards a business rateable value. This can include the installation of air conditioning, CCTV, fire safety equipment, solar panels, and even printers. The introduction of an exempt list of items which businesses could introduce without fear of increasing their business rates valuation would unlock investment which would otherwise not take place, as well as making workplaces safer, greener, and healthier (page 38).

**The UK Government should encourage investment and R&D by allowing businesses to write off losses at a similar rate at which gains are taxed.** Small businesses would be more likely to engage in investment and R&D if they knew they could write off losses at a similar rate at which gains are taxed, producing a more symmetrical and equal system. The ability to write off losses means that investments that do not yield expected results may not be as devastating to a business as they may otherwise be (page 39).

# INTRODUCTION

---

Combating climate change is one of the greatest challenges facing society, which will require changes in almost every aspect of our day-to-day lives, including for the millions of small and medium enterprises (SMEs) contributing to the UK economy. Rising levels of greenhouse gases – including carbon dioxide, methane and nitrous oxide – have long been recognised by scientists as fuelling global warming, with dramatic consequences for the planet, ranging from rising sea levels to melting polar ice caps, extreme weather events and changes to existing weather patterns, and wildfires. The consequences of not acting will be catastrophic; it is therefore good to see that many UK SMEs are already implementing new methods and adapting their ways of working in the drive to go green.

In June 2019, the UK Parliament passed legislation requiring the UK Government to reduce the UK's net emissions of greenhouse gases by 100 per cent relative to 1990 levels by 2050.<sup>1</sup> The UK was the first large economy to make such a commitment, and in November 2021, Glasgow is hosting the 26th UN Climate Change Conference (COP26).

Reaching net zero will demand significant changes and innovation, including from small businesses. We are already seeing a number of policies being put in place, with the introduction of the deposit return scheme in Scotland from next year, the introduction of clean air zones in England and Wales, and the ban on new diesel and petrol cars at the end of this decade. Northern Ireland is also in the process of passing major legislation on climate change, which will include a statutory duty for officials to engage with small business by carrying out a Small and Micro Business Impact Test (SAMBIT) when developing future environmental policy across Northern Ireland.

Policy solutions need to take account of the range and diversity of small businesses, and understand that different firms are at different stages of the race. Some small businesses are leaders in terms of sustainability, and some small firms are yet to understand their role in the transition to a net zero economy. Net zero is an opportunity for small businesses. A key part of communities, small businesses can and should be at the forefront of making our economy and society more sustainable. They will be at the forefront of retrofitting buildings, installing microgeneration, building new transport hubs, and providing innovative solutions to packaging and manufacturing. Policymakers across the UK should focus on how to enable and unlock the vast potential of SMEs in the drive towards net zero.

Recognising the urgency in reaching net zero, the UK Government and devolved nations have put forward several plans to tackle climate change – ranging from the Prime Minister's 10 Point Plan<sup>2</sup> to the Department for Transport's decarbonisation plan.<sup>3</sup> However, the ambition to reach net zero cannot be realised without an empowered and supportive small business community. Making up 99.9 per cent of the UK's businesses, small businesses will be playing a vital role in achieving this goal.<sup>4</sup>

---

1 10 Downing Street, PM Theresa May: We will end UK contribution to climate change by 2050, June 2019, <https://www.gov.uk/government/news/pm-theresa-may-we-will-end-uk-contribution-to-climate-change-by-2050>

2 10 Downing Street, PM outlines his Ten Point Plan for a Green Industrial Revolution for 250,000 jobs, November 2020, <https://www.gov.uk/government/news/pm-outlines-his-ten-point-plan-for-a-green-industrial-revolution-for-250000-jobs>

3 Department for Transport, Transport decarbonisation plan, July 2021, <https://www.gov.uk/government/publications/transport-decarbonisation-plan>

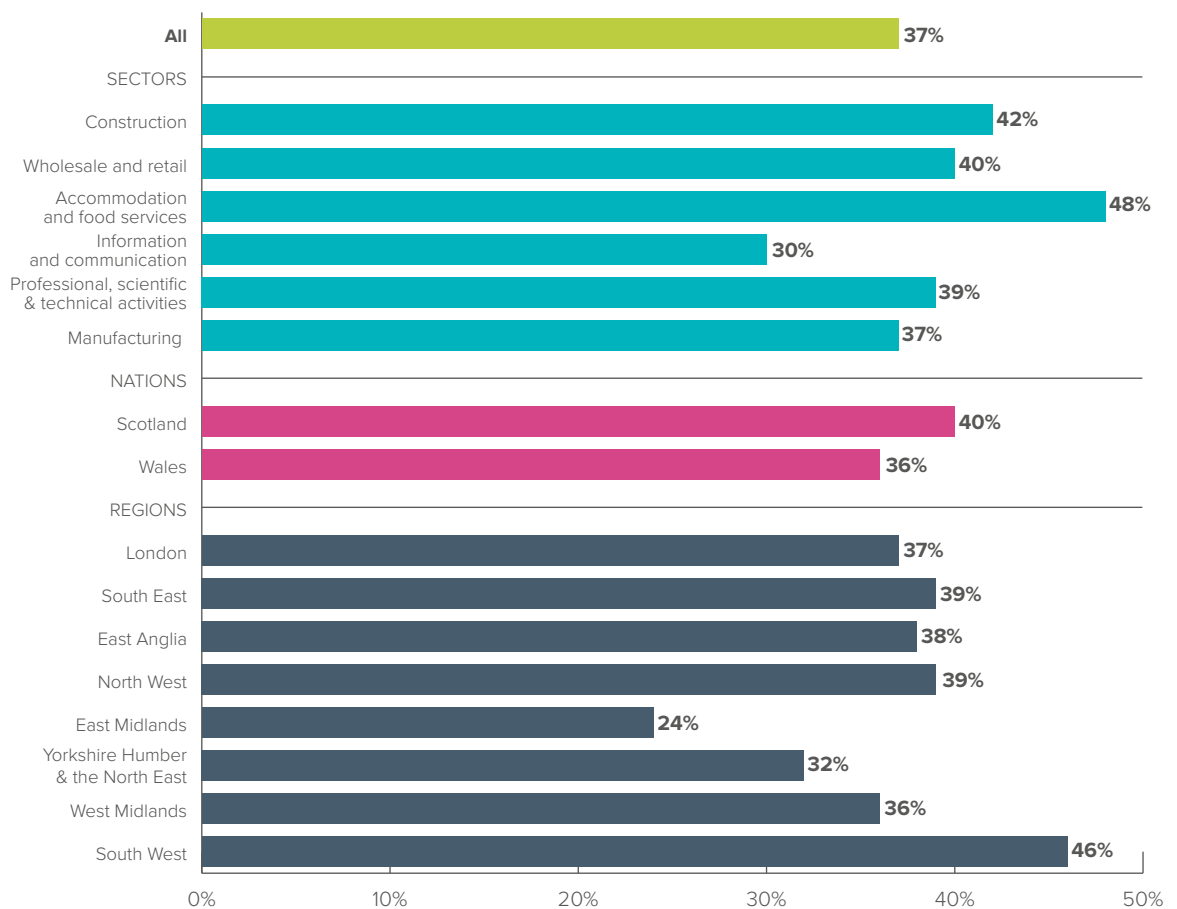
4 National Statistics: Business population estimates for the UK and regions 2021, October 2021, <https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html>

# NET ZERO AND SMALL BUSINESSES

Small businesses want to play their part in the transition to net zero, and with SMEs accounting for three-fifths of UK employment (16.3 million workers) and almost half of turnover in the UK private sector (£2.3 trillion)<sup>5</sup>, their role cannot be ignored. 56 per cent of small businesses across the UK believe that the planet is facing a climate crisis. 37 per cent of small businesses say they want to do more to achieve net zero and sustainability for their business, which highlights the enthusiasm and interest among the small business community, but also reflects that there is a sizeable proportion of small businesses who are not yet aware that they will need to go further to decarbonise.

**Figure 1: Proportion of small businesses that say they want to do more to achieve net zero and sustainability for their business by sector, nation (excl NI) and region**

Source: FSB, Tax survey, 2021



As Figure 1 shows, there is a clear and growing appetite among small businesses to do more, with almost half of businesses in the accommodation and food services sector keen to do more than they have already to achieve net zero.

Nearly three in ten (29%) all small businesses say they have already taken steps towards net zero carbon emissions. Small firms in Wales (40%), the North West (37%), London (35%), and the East Midlands (30%) are more likely to say they have taken steps towards net zero emissions, in comparison to small businesses in the South East (25%) and the West Midlands (25%).

<sup>5</sup> National Statistics: Business population estimates for the UK and regions 2021, October 2021, <https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html>

### CASE STUDY

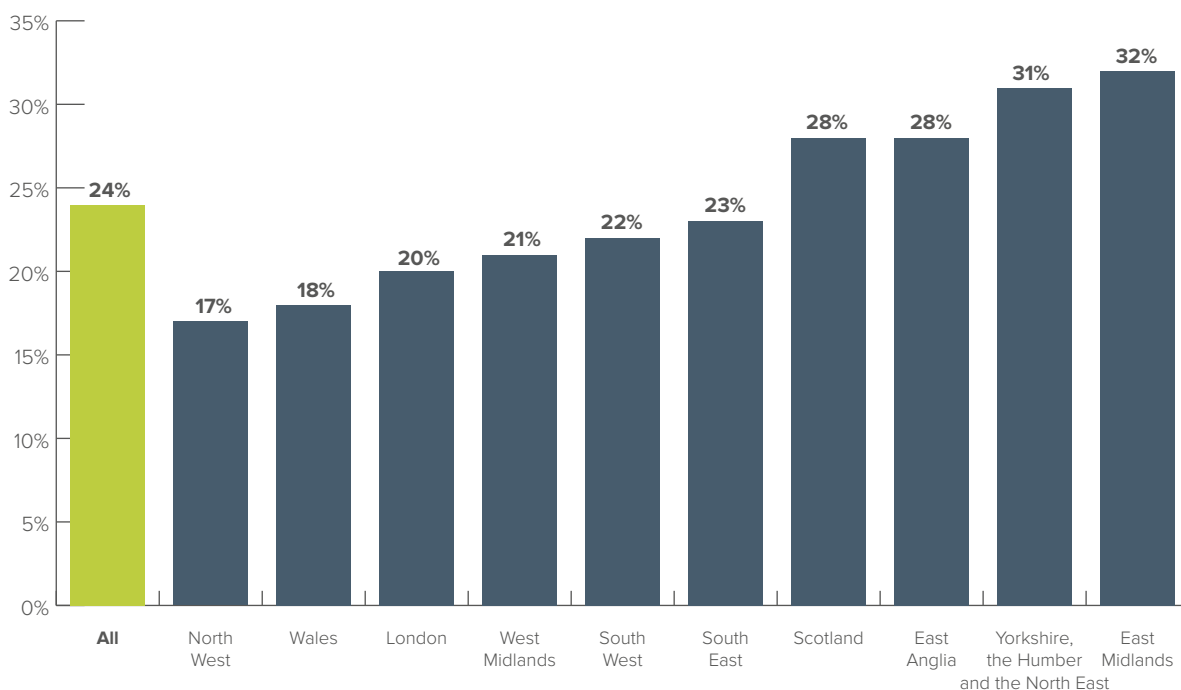
*“We are an eco-friendly, carbon-neutral B&B powered by renewable energy at the foot of the Moelwyn mountains in Wales, running totally on renewable energy since 2013. Building a sustainable business can be done and to a large extent we have done it. Very early on, we installed solar panels, solar thermal, solar electricity, and computer integration of a biomass system. But the most important issue for us is ‘insulation, insulation, insulation’ – especially with an old home like ours.”*

John Whitehead, Bryn Eltyd Eco House Self Catering, Wales

Communication to small businesses about the benefits, both environmental and economic, of reducing their impact on the environment will be critical, and this must be tailored to the specific needs of each sector. Overall, almost 1 in 4 small businesses say that more support from their local council or their Local Enterprise Partnership (LEP) would encourage them to become more energy efficient.

**Figure 2:** Proportion of small businesses that say more information from their local authority or LEP would encourage their business to be more energy efficient – by nation (excl NI) and region

**Source:** FSB Climate Change Survey, 2021



It is not necessarily an equal picture across the UK, or across English regions, as some local authorities do more than others to communicate the benefits and possible methods of becoming more energy efficient. As Figure 2 above shows, small businesses in the East Midlands or Yorkshire, the Humber and the North of England most often said they would be helped by receiving more information from their local authority or LEP, followed closely by businesses in Scotland and East Anglia.

## Planning for the future

In order to reach the 2050 net zero target in England and Wales, and the 2045 target in Scotland, the various UK administrations have introduced a number of short-term and medium-term targets.

For example, the Wellbeing of Future Generations Act 2015 sets out a broad framework for how the Welsh Government and the broader public sector in Wales intends to deliver its functions in a sustainable way. The Act sets out a number of goals relating to issues such as a prosperous Wales, a globally responsible Wales, a resilient Wales and a Wales of cohesive communities, and seeks to knit these goals together under the banner of sustainable development. Whilst its remit is far broader than environmental issues alone, the Act means that all actions should be considered in an integrated way, meaning issues relating to, for instance, the economy should not take place to the detriment of the environment and Wales’s global responsibilities.

Small businesses and consumers alike will be affected by an array of new policies and regulations that will facilitate energy efficiency, decarbonisation of transport, and recycling. Depending on the type of business, the level of impact will vary. For example, a hairdresser on the high street will face different challenges in comparison to a rural-based design business. Small businesses need sufficient space to plan and to understand the changes their business needs to make.

**Figure 3: Proportion of small businesses that have a plan to reduce their impact on the environment**  
**Source: FSB Climate Change Survey 2021**

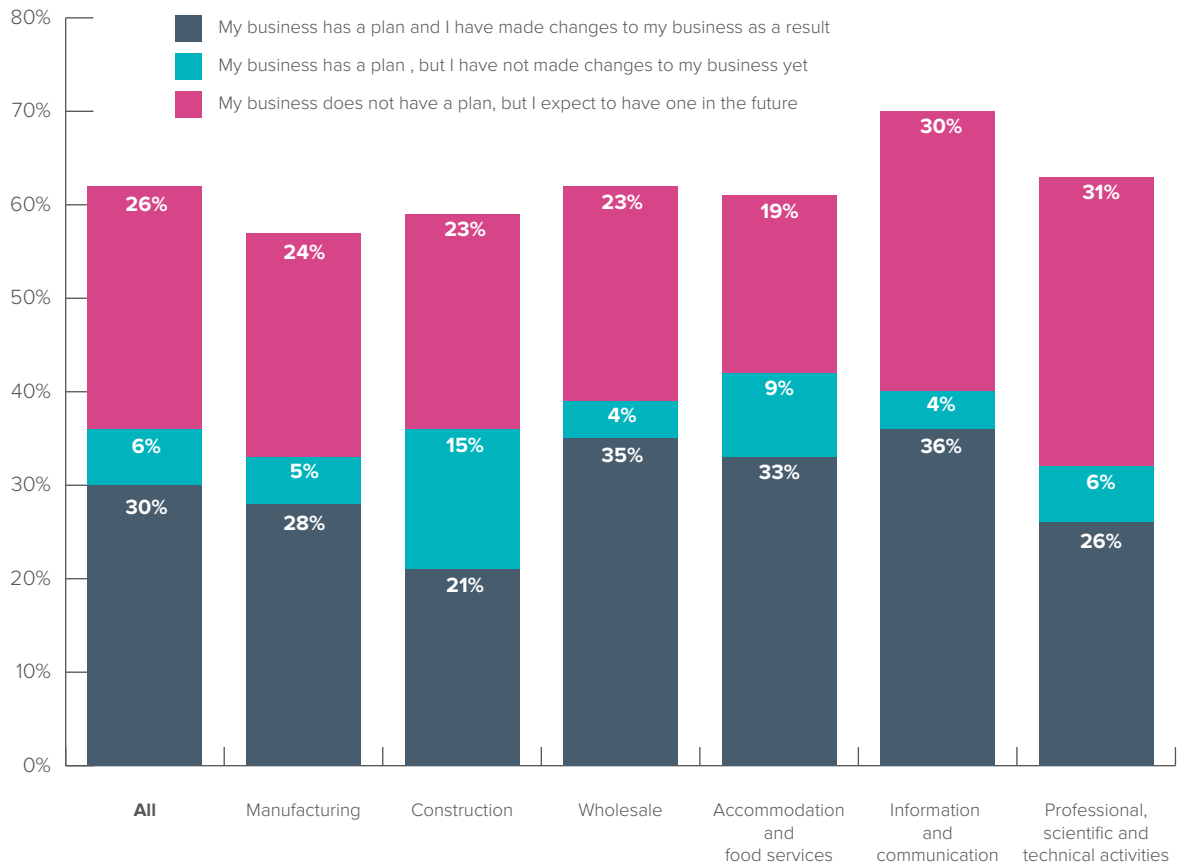


Figure 3 shows there is a need for significantly more awareness and planning to take place among small businesses in order to ensure they can play their role in the transition. When asked about having made a plan to reduce carbon emissions, nearly a third of small businesses say that they have a plan to transition to net zero and have made changes in their business as a result. Just over a quarter of small businesses expect to have a plan in the future. Over two fifths (22%) of small firms say they don’t expect to have a plan, and 17 per cent have not yet considered making a plan.

Small businesses are time-poor, and as FSB's Small Business Index, Quarter 3 2021 shows, small firms are currently facing a range of pressures including rising input costs and skills shortages.<sup>6</sup> These other pressures are often urgent, in the sense that action must be taken immediately, whereas the need to make a plan on sustainability is rarely seen as something that must be done straight away.

A similar picture emerges with regard to measurement of carbon footprints. Only 9 per cent of small businesses have measured their carbon footprint, with over two thirds (69%) acknowledging that they do not know how to do so. Completing this exercise is complex and requires allocating extra time that most time-constrained small businesses do not have. It furthermore requires repeated measuring and monitoring to compare with previous years to mark progress towards net zero, but there are significant benefits. According to Government guidelines, measuring your carbon footprint can have direct benefits to your organisation and result in lower energy and resource costs.<sup>7</sup>

The lack of measurement of carbon footprints has not precluded small businesses from taking any actions. Across the UK more than two thirds (67%) of small businesses have made some improvement to their businesses to make it more environmentally friendly, with the most popular change being to install energy-efficient appliances (37%). This suggests that, rather than fully understanding their environmental impact and planning to mitigate it, businesses are currently acting upon easily identifiable and achievable changes.

Small firms in Wales lead the way with more than three quarters of businesses having taken some action (77%), closely followed by small businesses in Scotland (74%). This is in contrast to England where two thirds (65%) of small firms have acted. Actions of these small firms should be encouraged, and it would be misguided to prize measurement above all else: if a small business can take the step of measuring its carbon footprint, it can spur a more complete understanding of the business's environmental impact, and support a more comprehensive plan.

## CASE STUDY

*"We are a family-run sustainable wedding venue on the Kent coast. While we were already doing a few things – like recycling – we asked ourselves, how long will it be until our customers start thinking about their wedding day's impact on the environment? We had a hard time during the pandemic and were shut for nearly a year when we decided to join the United Nations Race to Zero Campaign in January 2021. Signing up for the campaign was something positive to focus on – also for our staff, who were, just like us, already interested in the topic. By joining the campaign, it allowed us to commit to it publicly.*

*Admittedly, the whole concept of net zero was not clear. One of our team members focused on calculating our carbon emissions, which then allowed us to strategically review our business – including behaviour change, supply chains and procurement. Now that we have a plan in place and have made a commitment, we are continuously working towards the goal and doing something every year. One of our biggest challenges is with our suppliers and broader networks (including competing venues) to commit to net zero. Doing it in isolation is not going to help the cause. Most importantly, we can't achieve our target if we don't have support from our customers. We incentivise our clients through reward schemes, for instance a free lunch if they take specific steps.*

*As for our business premises, in addition to the new purpose-built orangery, we have an old country house. Before we can start thinking about putting in a heat pump, we need to increase insulation in the old house and replace windows. For us, committing to net zero makes complete business sense. We know there are challenges and opportunities. We are trying to lead the way in our industry, using our venue and our business to show that we can do it even though we are 'only' a small business. If our industry wants to thrive, sustainability needs to be at its core. Lots of small business owners would like to be sustainable. Everyone would choose that path, but they don't know where to start."*

Fleur Record Smith, Haynes House, Kent

Clear provision of online information and advice will be important, in order to support small firms that are seeking to do more. Using simple language can make a fundamental difference.

<sup>6</sup> FSB Small Business Index, Q3 2021

<sup>7</sup> UK Government, Environmental Reporting Guidelines: including streamlined energy and carbon reporting guidelines, March 2019

*“SMEs care about the environment but do not define it according to the language of net zero. They are more likely to use a range of other terms about Climate Change that have emerged over several decades.”<sup>8</sup>*

The Broadway Initiative

Some nations have gone further in providing centralised resources and standards for businesses. For example, Wales has some helpful resources such as WRAP Cymru and Business Wales’s Green Growth Pledge, which can be accredited against ISO14001 or via the Green Dragon Environmental Standard. For Wales’s domestic sector, schemes such as NEST help provide individuals with advice on home energy efficiency measures. FSB would like to see a similar service to NEST provided for SMEs, through Business Wales, that would help them to understand their baseline environmental impact across all areas of their business, and which could signpost them towards potential areas of action.

In England, LEPs should be utilised to deliver net zero messaging and signposting, while establishing a centralised resource for businesses to gather net zero information and support. In Northern Ireland, the Government could establish a dedicated webpage or microsite for businesses with easy-to-digest advice to help businesses take action. Meanwhile, in Scotland, action could be taken to simplify the competing sources of online information from Scottish Government, public agencies, and local authorities.

To complement local and national government resources, partnerships between business organisations and industry can help small business understand their situation and help them plan. For instance, the Zero Carbon Business Partnership – a partnership between the UK’s leading business organisations, including FSB, and energy networks – is developing a national online advice service for small businesses that will enable them to take practical action in decarbonising their business.

Universities can provide helpful support and advice for small firms on net zero. Access to external advice and information is important for small firms as it helps improve their productivity. Our recent research on business support found the number of small businesses receiving free support from universities is significantly higher for micro employers than for the other size of business (7% vs. 2% for businesses with no employees and 1-9 employees). As there are more microbusinesses in the UK than other larger sizes of business, local economies would benefit from more colleges and universities engaging with microbusinesses. Local authorities should support microbusinesses to engage with local universities and colleges and find collaboration opportunities.

While provision of information will make a difference, it does not necessarily get over all the barriers that small businesses face in measuring, planning and acting. We believe the Government’s Help to Grow programme can provide a model which could be adapted to support small businesses to measure their emissions, make a plan, and take the necessary next steps towards net zero.

Based on Help to Grow (Digital), the Help to Green scheme would grant firms a £5,000 voucher to put towards qualifying environmental products or services. The voucher could, for example, be used to fund an energy audit for the relevant firm, which would help that small business to measure its energy usage. Alternatively, the vouchers could be used to help businesses replace polluting equipment and materials.

Putting in place a scheme like Help to Green would create a financial incentive for a small business to take the next steps towards net zero immediately, addressing the problem that only 36 per cent of small businesses have a plan, and only 9 per cent have measured their carbon footprint. A Help to Green scheme would be much more appropriate for the small business community than a rigid regulatory solution to this problem.

## Northern Ireland

Although there is a UK net zero target of 2050, Northern Ireland is the only part of the UK without its own dedicated Climate Change legislation, framework, and associated target. To this end, despite a range of Government strategies in development, there is a ‘patch work’ of environmental related policy which is not conducive to the rapid action required.

Therefore, the Northern Ireland Assembly should ensure Climate Change Legislation is passed within the current electoral mandate to avoid further delay and uncertainty. This legislation should include a statutory duty on officials to engage with small business by carrying out a Small and Micro Business Impact Test (SAMBIT) when developing future environmental policy across Northern Ireland.

Our research provides indicative data into small firms in Northern Ireland. 74 per cent of small businesses in Northern Ireland say they do not know how to measure carbon emissions, while only 10 per cent of small firms in Northern Ireland have measured their carbon emissions. 35 per cent say they have a plan to reduce their impact on the environment. This indicates that awareness raising, knowledge transfer and incentives are required in order to engage, enable and encourage small businesses to play their part in a just transition. This is a primary reason why the NI Executive should establish a dedicated webpage or microsite for businesses, with easy to digest advice to help businesses take action now.

### CASE STUDY

*“At Specialist Group, our environmental awareness was raised some years ago when we started an action plan focused on making a difference to the way our business impacts on the environment. We are taking a pro-active approach and are now well placed to assist clients to score points within the LEED, SKA, BREEAM and WELL frameworks. Already, we have converted to 100% renewable electricity, starting with a significant investment in solar energy generation on our site to provide at least 50% of the electricity for our offices and factory. The remaining 50% is generated from local suppliers of wind generated power from the turbines in the hills around our rural location to achieve our target on renewable energy use. This switch to 100% green energy has resulted in a carbon saving of over 500,000kg, representing a significant reduction in the embodied carbon content of the products manufactured by Specialist Group.*

*Further investments in our factory are aimed at reducing energy consumption. We have installed a heat recovery system to save and re-use the heat generated by our manufacturing machinery. In addition, where material offcuts are created and cannot be used, we convert these into heat for the factory via our biomass boiler, reducing the use of non-renewable resources and the impact of their transportation. Specialist Group now owns and manages 100 acres of local forestry as a further positive step towards becoming carbon neutral as well as a recent investment in bee farming.”*

Mareanne Bradley, Specialist Group, Maghera

## Recommendations

**LEPs and Combined Authorities in England should be required to set out net zero engagement plans by the end of 2022, and plan a sector-specific messaging campaign until 2025.** LEPs and Combined Authorities could pool resources when designing and delivering these plans, but the LEPs must act as important signposting stations and as hubs of relevant communication for their local businesses. This would also include circulating key pieces of information on deadlines and changes in Government policies.

**The UK Government should issue £5,000 vouchers for businesses to spend on qualifying environmental products and services under a Help To Green initiative.** This would be in a similar vein 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 carbon footprint with relevant advice on how to reduce greenhouse gas emissions, or to enable firms to replace equipment and materials to become more energy-efficient.

**In England, the UK Government should expand the scope of the lifetime skills guarantee to support green skills.** Currently the guarantee is only available to those who do not have a Level 3 qualification, which means that if you were to have done A-levels when you were eighteen years old, you would not be eligible for the lifetime skills guarantee.



For this reason, the lifetime skills guarantee should be expanded in scope, so it is better-suited to allow people to retrain in the skills of the future. Green skills were not taught or known about at the time that many people who are now in the labour market achieved their Level 3 qualification. Allowing those who already have a Level 3 qualification to retrain for free in new, green skills will help improve employment as well as environmental outcomes. Skills boot camps could also be used to retrain people in green skills, if they are rolled out widely enough across the country.

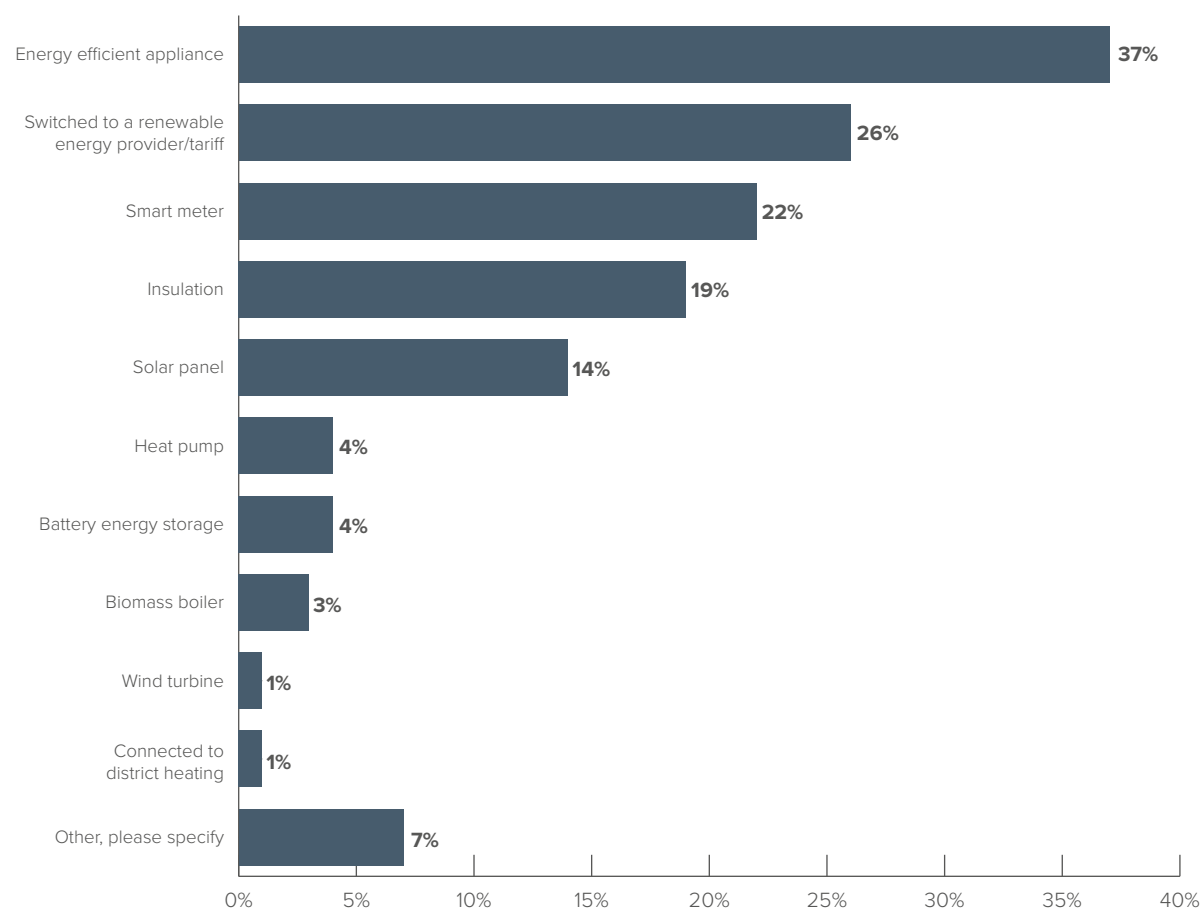
**In Northern Ireland, the Department of Agriculture, Environment and Rural Affairs should establish a Climate Change Stakeholder Group.** This group would help Northern Ireland business representatives to maximise dialogue and joint working, and help to address the limiting patchwork effect of current Northern Ireland environment policy.

**The Northern Ireland Assembly should ensure Climate Change Legislation is passed within the current electoral mandate to avoid further delay and uncertainty.** This legislation should include a statutory duty on officials to engage with small business by carrying out a Small and Micro Business Impact Test (SAMBIT) when developing future environmental policy across Northern Ireland.

# ENERGY

When a business is considering ways to reduce the environmental impact of its energy usage, there are two principal ways it can look to achieve this. First, it can improve its energy efficiency – i.e. it produces the same output but uses less energy to do so. Second, it can switch to energy generated from low or zero-carbon energy sources. This switch can be achieved through the purchasing decision that a business makes (e.g. buying a renewable energy tariff), or through investing in micro-generation capability, and thereby producing its own energy on site.

**Figure 4: The proportion of small businesses that have taken steps to address their energy usage**  
**Source: FSB Climate Change Survey, 2021**



As shown in Figure 4, there are a wide range of options available to small businesses; however, the most popular, and easily achievable, method of improving energy efficiency is to invest in energy-efficient appliances. The four most adopted methods for small businesses to improve their energy efficiency are all relatively cheap and easy to carry out, when compared to the other options available – such as installing a heat pump or a biomass boiler.

## CASE STUDY

*“I am a weaver and I work from home. I have installed solar panels to generate electricity and have an air-source heat pump for heating. The main impact of my work will come from growing the fibres I use, so where I can I always buy organically produced yarns. I buy wool from local farmers and have it processed to my needs. Where that is not possible, I buy British wool, though I buy silk from China. I’m not sure what else a micro-business like mine can do.”*

FSB member, textiles business, Shropshire

## Renewable tariffs

26 per cent of small businesses have switched to a renewable tariff, highlighting the importance of having credible green tariff options available, to support decarbonisation in the smallest businesses, particularly if micro-generation is not a practical option.<sup>9</sup> With more renewable energy providers available on the market, switching to renewable energy tariffs has become more accessible for small businesses, although there are clear differences across regions of the UK. Our research shows small businesses in the East Midlands (35%) are the most likely to have switched to a renewable tariff. Conversely, East Anglia (19%) and the West Midlands (18%) both perform less well with the number of small businesses using renewable energy tariffs.

Small businesses that have measured their carbon footprint are more likely to have switched to a renewable energy tariff (46%). Although switching to a renewable energy tariff may be a leading option for those businesses already engaged with the drive to net zero, the majority of small businesses have not made the switch to a renewable energy provider (74%). This is unsurprising as small businesses are still largely driven by two factors when considering which tariff to sign up to: cost and price stability. In FSB's 2020 report, Time and Energy, 65 per cent of small businesses listed "cheapest possible cost" as one of the top three factors when considering switching, and 75 per cent listed price stability.<sup>10</sup>

Many small businesses are struggling with the ever-increasing cost of doing business. FSB's SBI Q3 2021 found that 76 per cent of small businesses say they have experienced a net increase in costs in the last quarter, and 37 per cent cited utility costs as a key reason for this.<sup>11</sup> Our previous research found that 39 per cent of small businesses described themselves as being relatively energy-intensive,<sup>12</sup> so even marginal savings by negotiating a slightly cheaper tariff can make an important difference. Although cost and price stability remain the overwhelming factors when small businesses are making the decision to switch, some businesses have little choice about who their energy provider is and what tariff they can choose from.

One of the key barriers faced by small businesses are the restrictions found within their tenancy and lease agreements, which may restrict if and what they can install in terms of energy-efficiency measures, as well as which energy provider the business can use. Figure 5 shows the main factors as to why some small businesses have not yet taken any of the steps that we asked about in our survey. A fifth (20%) say their landlord does not allow the installation of these solutions.

*"We are in serviced premises, so these issues are the responsibility of the landlord."*

FSB member, arts, entertainment and recreation business, Cardiff

**Figure 5: Reasons cited by small business owners as the main factors for not introducing an energy efficient solution**

**Source: FSB Climate Change Survey, 2021**

Energy is not a significant cost	<b>29%</b>
Return on investment takes too long / too uncertain	<b>24%</b>
Lack of capital (savings) for energy efficient investment	<b>22%</b>
The landlord does not allow the installation of energy efficient solutions	<b>20%</b>
Lack of information about energy efficient options	<b>19%</b>
I have not yet been made aware of these options by my energy provider or the local Government	<b>18%</b>
I was not aware of these options before this survey	<b>10%</b>
Potential disruptions to business	<b>10%</b>
I cannot access affordable finance	<b>8%</b>
I am not interested in reducing my energy consumption	<b>7%</b>
Other, please specify	<b>23%</b>

9 See section below on "Generating onsite energy".

10 Federation of Small Business (FSB), Time and Energy: An FSB review of the microbusiness retail energy market, May 2020

11 Federation of Small Business (FSB), Small Business Index, Quarter 3, 2021

12 Federation of Small Business (FSB), Time and Energy: An FSB review of the microbusiness retail energy market, May 2020

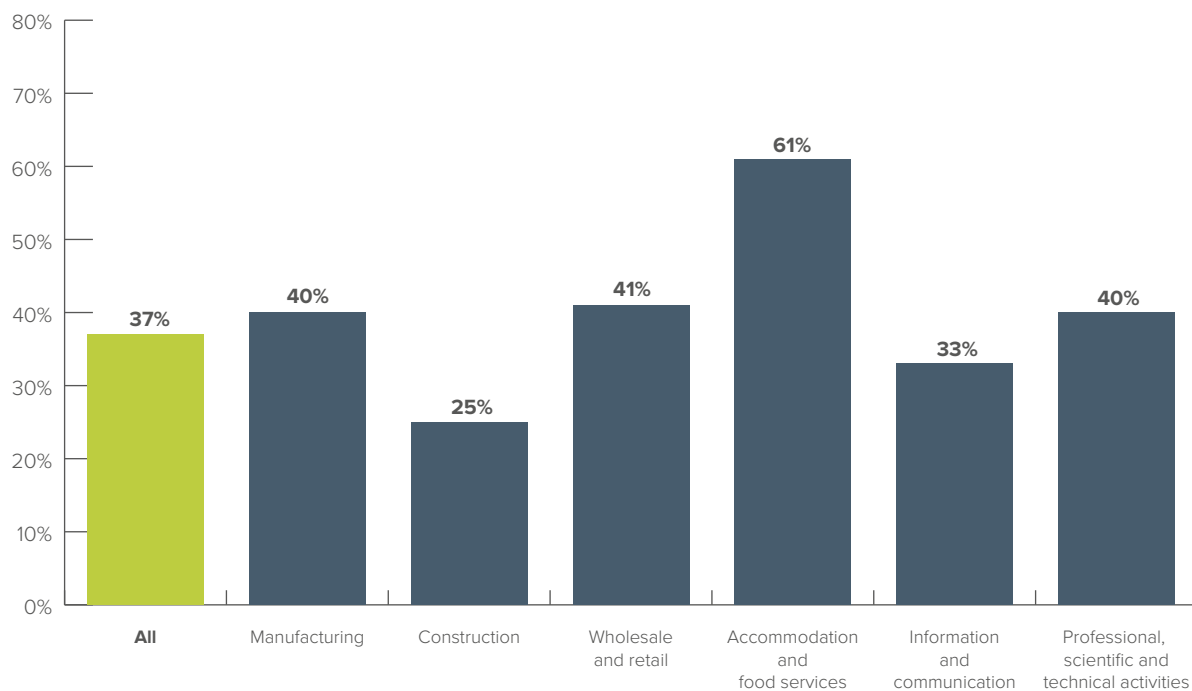
*“We are a small business, located in a small industrial barn on a farm. We do not own the building, so cannot make changes to the building - and have to buy our electricity from our landlord, not directly - as such what we can do is very limited.”*

FSB member, manufacturing business, Gravesham

The concept of green leases has emerged in recent years, to try and align incentives within a lease agreement, for example by ensuring that landlord and tenant agree, in the lease, to share data on utility usage. These clauses have the potential to help address the problem that landlords and tenants do not always share incentives to invest in greener premises.

**Figure 6:** Proportion of small businesses that say they have installed an energy efficient appliance by sector

**Source:** FSB, Climate Change Survey, 2021



Even with popular measures, like installing energy efficient appliances, there is still significant room for improvement. Targeted interventions on the benefits of energy-efficient appliances, smart meters and renewable tariffs must highlight the economic as well as the environmental benefits, as this is often a key driver in small business decision making.

## Smart meters

Smart meters are considered core to our understanding of how and when we use energy, enabling consumers to make better decisions. Smart meters replace one manual reading every few months with a half-hourly meter reading. This information could be critical to helping small firms understand how and when they are using energy; however, the delay in the rollout of smart meters and continued difficulties means many small businesses are not yet seeing the benefits.

Only 22 per cent of small businesses say they have installed a smart meter. The number increases to 28 per cent among small businesses that also have made a plan to transition to net zero. The rollout has slowed down recently due to the pandemic; with only four years to go, and already a year past the original deadline, the rollout of smart meters to small businesses has been disappointing.

Different sectors have adopted smart meters at different rates: our research found that small businesses in the accommodation and food services sector are more likely to have installed a smart meter (33%) in comparison to small firms in the information and communication sector (14%). When comparing nations, small businesses in Scotland have the highest percentage of smart meters (26%) compared to England (22%) and Wales (17%).

Smart meters are an essential tool for small businesses to engage with the smart energy market and the transition to net zero. Smart Energy GB, a Government-backed campaign to help customers understand the benefits of smart meters, is instrumental if the Government is to reach its target. However, the Government must do more to support small firms.

## Energy efficient appliances

For the purposes of this report, we define energy-efficient appliances and equipment as items that use technologies that are less energy-intensive, and thus reduce the amount of electricity per product. Nearly two fifths of small businesses say they have installed an energy-efficient appliance, such as an air conditioner, printer, refrigerator or LED lighting.

As Figure 6 shows, there are stark sectoral differences in terms of small businesses investing in energy-efficient appliances. Three fifths (61%) of small firms in accommodation and food services say they have invested in an energy-efficient appliance. This may be due to there being a higher number of energy-efficient appliances available in the accommodation and food sector, in comparison to the construction sector, where only 25 per cent of small firms say they have invested in energy-efficient appliances.

### CASE STUDY

*“Since 2016, Laundry Efficiency has been helping commercial laundries become greener and more sustainable. Textile care facilities use significant amounts of water and energy, with some companies using between 60,000 and 70,000 litres of water per day. They also produce an enormous volume of wastewater – loaded with chemicals harmful to the environment. We offer businesses a Green Laundry System that helps them reduce the amount of chemicals, energy and water consumption. The Green Laundry System uses Ozone Technology – a solution that uses electricity and oxygen to create ozone that can replace many of the chemicals typically used in a washing process. As a result, one of our customers has seen their carbon footprint drop from 78 tonnes of carbon per calendar month to 13 tonnes within a one-year period, in addition to a significant drop in their wastewater usage and monthly gas bill. With the right investment we can grow as a company, hire more staff, scale our operations, and help other laundries reduce their carbon footprint.”*

Graham Oakley, Laundry Efficiency, Staffordshire

## Insulation

Insulation can also play an essential role in increasing energy efficiency; however, only 19 per cent of all small businesses say they have invested in insulation (for instance to meet EPC requirements). However, there is a clear sectoral split. Around half (46%) of small businesses in the accommodation and food sector say they have installed insulation to make their business more energy-efficient, in comparison to 15 per cent of small businesses in manufacturing.

Small businesses in Wales are more likely to have installed insulation than any other part of the UK, with 1 in 3 small firms in Wales (33%) having invested in insulation. This compares to 19 per cent of businesses in England and 20 per cent of firms in Scotland. Some of this could be overspill from the specific Welsh Homes NEST scheme for the domestic sector, alongside some basic advice hosted by Business Wales. An effective domestic scheme, such as NEST Home, may encourage business owners to consider insulating their business premises; it is therefore possible that business owners who run their businesses from their homes may benefit from the scheme, even though the scheme was not intended for businesses.

Across the UK regions, the East Midlands (27%) and the South West (24%) outperform other areas of England in the installation of insulation, with London (13%), East Anglia (14%), the South East (14%) and the North West (11%) the least likely to have installed insulation.

## Generating onsite energy

Ofgem defines microgeneration<sup>13</sup> as the small-scale generation of heat and/or electricity from a low carbon source, for example solar panels, micro wind, micro combined heat and power, or heat pumps. A small but significant minority (18%) of small businesses say they generate their own energy.

Prior FSB research found 47 per cent of small businesses stated that they would consider generating their own energy in the future.<sup>14</sup> There is clearly an appetite for small businesses to generate all or part of their own energy. It brings significantly lower energy bills and greater control and responsibility, and a big step towards achieving net zero.

The four forms of microgeneration we have focused on in the report are solar panels, heat pumps, biomass boilers and wind turbines. Although small enterprises are unlikely to be fully self-sufficient in their generation, there is nonetheless interest among the small business community regarding investment in small-scale onsite renewable forms of energy.

### CASE STUDY

*“My business is located on a farm. We transformed a dilapidated barn into a wedding and events venue. The venue implements self-sufficient methods, such as rainwater harvesting and [energy generated from] our wind turbine. We are also working towards a zero single-use plastic policy.”*

FSB member, wedding venue, Blackburn

Solar panels are the most frequently chosen type of microgeneration by small businesses with 79 per cent of small businesses who invest in microgeneration choosing solar. Heat pumps (26%) and biomass boilers (18%) are significantly behind.

However, around four-fifths of small businesses (82%) have not undertaken any micro-generation yet. Economies of scale will play a part in a small business’s decision-making, particularly when it comes to decisions about renewable energy. Out of all small businesses who have invested in microgeneration, 34 per cent in the 10-49 employee bracket have installed a biomass boiler, as compared to only 14 per cent of micro-businesses (0-9 employees). This will, in part, be down to medium-sized business with more staff being better able to carve out the time required to invest in and install a biomass boiler. It will also be related to the amount of space that a biomass boiler and its fuel supply takes up, which would not be feasible or cost-effective for many of the smallest businesses.

A fifth (21%) of small businesses who had invested in microgeneration chose to do so by investing in battery energy storage, to help them to counter the peaks and troughs of renewable energy generation. Storage solutions will be important on a national as well as microgeneration level. Our previous report, Time and Energy, found that 40 per cent of small businesses stated that they would consider using battery storage to avoid expensive peak rates, so there remains untapped demand if the right incentives can be unlocked.<sup>15</sup>

<sup>13</sup> Ofgem, Glossary of terms: RPI-X@20, 2010, <https://www.ofgem.gov.uk/sites/default/files/docs/2010/07/rec-glossary.pdf>

<sup>14</sup> Federation of Small Business (FSB), Time and Energy: An FSB review of the microbusiness retail energy market, May 2020

<sup>15</sup> Federation of Small Business (FSB), Time and Energy: An FSB review of the microbusiness retail energy market, May 2020

**CASE STUDY**

*“We are a business offering wool and luxury fibre recycling in the UK. In 2021 we intend to install the first wool and luxury fibre recycling line (for re-spinning) since the last one in the UK closed in 2000. Our consumption and effluent production are greatly reduced because processes such as raw wool scouring and dyeing do not need to be repeated. While water consumption is minimal, energy usage is still significant from our machines. Although we are aware of an option to make our machines more energy-efficient, we weren’t able to afford this at the point of purchase. Although the new motor already uses less energy, it could be more efficient. The next blue-sky thing for us are solar panels; but that requires much deeper pockets. We know that in the meantime we can make some small changes.*

*From our business there is no lack of will to implement the changes to help Government with their net zero agenda. What we need is someone to come in and survey where we are at and what we need to get to net zero. We either don’t have the skills or the knowledge to assess where we are and where we need to be, and we wouldn’t have the financial resources even if we had the relevant information. But the will is there.”*

John Parkinson, iinouiiio, Yorkshire

**Northern Ireland**

55 per cent of small firms in NI say they have taken steps in their business to become energy efficient, with the use of energy efficient appliances being the most popular step (36%). However, there are many opportunities to engage, enable and encourage small businesses to do more.

Our research provides indicative data into small firms in Northern Ireland. 58 per cent of small businesses in Northern Ireland say grants / low interest loans or interest free loans to install energy efficiency measures would encourage them to become more energy efficient. Followed by lower costs for choosing a renewable energy tariff compared to my current tariff (56%), a reduction to their tax bill (45%) and a discount in business rates (45%).

**CASE STUDY**

*“Our business provides software solutions for justice systems internationally. Our mission is to ensure a prisoner’s experience is as close to that of a citizen as possible, in order to ensure rehabilitation is as effective as possible. We have become more and more focused on our net zero commitments in recent years but would like to do more. What we have done is purchase an Electric Vehicle and, given we are a service-based business, we have considered our staff carbon footprint and made successful adjustments in light of Covid. We lease premises from a landlord in greater Belfast and share with two other tenants on site. We split our utility bills across the three companies. Our site has fantastic potential for building efficiencies and microgeneration. We are having conversations about this with our landlord who has provided an enclosed bicycle shed to encourage cycling to work and has recently changed most of the lighting to LED. We think it would be really useful if landlords could be proactive in working with tenants to maximise our energy efficiencies – it’s the right thing to do and it will help us manage costs, especially given the recent rise in energy prices.”*

Patricia O’Hagan, Core Systems, Belfast

As part of the delivery a new energy strategy for Northern Ireland, due to be published in 2021, it is essential the Department for the Economy facilitates use of smart technology and data so NI businesses can also benefit from more accurate billing and energy efficiency. In order for the strategy to be fit for purpose and inclusive of small business, the Department should add a ‘just transition’ as one of its delivery principles.

## Recommendations

**UK Government and Ofgem should establish a taskforce of suppliers, small business landlords and business groups to agree 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 own energy use.

**UK Government should review the law on commercial tenancies to prevent commercial leases from blocking low-carbon improvements.** Tenants in commercial properties should have the primary decision-making power with regards to 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 installing other reasonable energy efficiency improvements.

**UK Government should utilise its new powers, having left the EU, and alter (lower) the capital requirements banks must adhere to when lending to businesses for green improvements.** There remains significant potential for small businesses to invest in improvements to improve their energy efficiency, or invest in renewables. Yet 24 per cent of small businesses which have not yet taken any action to address their energy use said that the length of the return on investment is a barrier to taking action. If more can be done to make the necessary private sector finance available, it could spur more businesses to invest faster.

Currently, the capital requirements set out under Basel III and implemented under EU Regulation 575/2013, on prudential requirements for credit institutions and investment firms, act as a brake on banks releasing funds in the form of loans to small businesses looking to invest in green technologies and improvements. Current margins can be too low, and risk profiles too high. Reviewing these requirements is not something that would have been possible as a member of the EU; however, the impact of lowering these requirements in respect of green investments should be considered now that the UK has left the EU.



# WASTE AND RECYCLING

Although changes in the way we create, use and conserve energy can help get businesses towards net zero, these changes cannot achieve the target in isolation.

According to the Ellen MacArthur Foundation, moving to renewable energy can only address 55 per cent of global greenhouse gas emissions.<sup>16</sup> Waste reduction and resourcefulness, creating a circular economy, will also be important if the UK Government wants to reach net zero by 2050. Additionally, reducing waste and recycling provide environmental benefits beyond simply reducing greenhouse gases.

## CASE STUDY

*"I am running a second-hand bookshop in Exeter. We generally don't have a lot of waste and I arrange for collection every other month once I have enough. Customers either drop off books directly with us, or if I buy more books, I collect them with reusable carrier bags. We also ship books to customers, but I usually use packaging that customers share with us. We have one customer who kindly donates bubble wrap and jiffy bags that I use to send books to customers. There is definitely more scope for businesses to share their packaging waste that can be reused by other businesses."*

Hilary Neil, The Topsham Bookshop, Exeter

Reducing waste and increasing resourcefulness has an economic benefit for businesses, as they can deliver the same products and services with fewer resources and less waste in need of disposal. Many small businesses have taken action already, with almost two thirds (64%) of small businesses already taking steps to increase their recycling. Some sectors are able to do more than others due to the nature of their waste. For example, small firms in the information and communication sector and the professional and scientific sector are leaders in terms of recycling, with over 70 per cent and 75 per cent respectively. Some of this has been encouraged by the shift towards paperless offices and the desire to do more electronically than ever before. Our research shows that those in the construction sector are the least likely to have increased recycling in their business.

In addition to recycling, small businesses have also taken further steps including limiting their use of products and materials that cannot be recycled, such as hard plastics and food waste. Overall, 50 per cent of small firms say they have taken steps beyond recycling to eliminate additional waste; 57 per cent of small firms in the accommodation and food sector say they have done so.

Nearly half (47%) of small firms say they have taken steps to avoid plastic products if an alternative is available. Small businesses in London and the South West are more likely than any other UK region to avoid plastics where possible. On a sectoral comparison, the strongest performers in terms of plastic use are found in the accommodation and food services sector, with 60 per cent of firms stating that they try and avoid plastic products if an alternative is available.

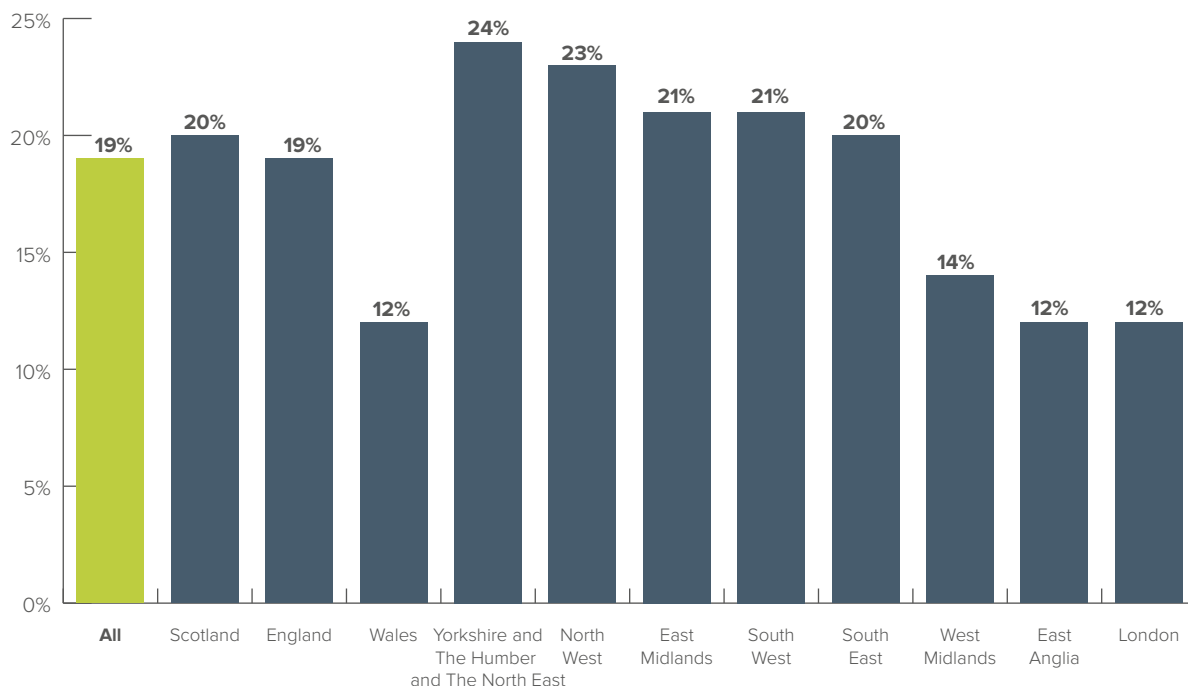
Some firms have gone even further, ensuring that all the packaging that they put on the market is sustainable. Nearly half (46%) of small firms in retail and a third (33%) in manufacturing say that all of the packaging they place on the market is either recyclable, reusable, or compostable.

Around one in five small businesses source sustainable materials, although this varies by region and nation of the UK.

<sup>16</sup> Ellen MacArthur Foundations, Completing the picture: How the circular economy tackles climate change, 2021, <https://ellenmacarthurfoundation.org/completing-the-picture>

**Figure 7: Percentage of small businesses which source sustainable materials for their business by nation (excl NI) and region**

**Source: FSB Climate Change Survey, 2021**



When respondents were asked what would be most likely to encourage their business to take further action to improve waste management, the most popular answer was lower costs for recyclable or sustainable materials, with 45 per cent of small firms citing this. SMEs in accommodation and food services (56%), wholesale and retail (54%), and manufacturing (51%) sectors would be most encouraged to act if this were implemented.

Of those small businesses that have not yet taken any steps to reduce and manage waste, 39 per cent say business recycling is too expensive and/or too complicated. If recycling costs can be reduced on a local level, it would make a significant difference to small businesses. Given the wide array of environmental changes that could be made to businesses, it will also be important to communicate to each sector clearly about which changes could have the biggest impact for them. Businesses are not a homogenous group and the type and level of waste vary greatly.

Unlike domestic households, businesses are not eligible for local authority waste and recycling collections. Only a limited number of councils have expanded waste and recycling services to small businesses. This means small businesses are, on the whole, required to negotiate with private contractors, often with little choice as to who provides this service and with little bargaining power over the terms and costs of that service.

*“If the council allowed business recycling at its recycling centres, we could recycle much more.”*

FSB member, retail, Lancashire

*“[We would like to have] better recycling facilities near the office. We are currently restricted to only landfill and mixed recyclable bags, [but not able to] separate paper, batteries or small electricals.”*

FSB member, London, computer programming, consultancy and related activities

*“The local waste collection service does not segregate waste – they tell us they sort it later, but I don’t find that credible. We don’t seem to have any alternative supplier in our area.”*

FSB member, photographer, Omagh, Northern Ireland

FSB welcomed the announcement of the Environment Bill in 2018, and we are keen to see progress made in bringing this through Parliament. The Environment Bill 2020 aims to put the environment at the centre of policy-making, with a renewed focus on “making a cleaner, greener and more resilient country for the next generation.”<sup>17</sup> The Bill also includes new policies for resource and waste management that will impact small businesses directly, ranging from charges on single-use plastics to the introduction of a deposit return scheme for some kinds of drinks containers.

New regulations under consideration by the Welsh Government will mandate the separation of waste by businesses (i.e. plastics and glass).

#### CASE STUDY

*“I am running a forestry business in Scotland. Although I have access to recycling and electrical power to ensure that used oil from engines and oil filters and other maintenance waste from machinery is recycled, we have problems discarding small quantities of certain types of waste (e.g. cardboard boxes from deliveries). As business waste is defined as commercial waste, we cannot take it to the local council dump. Instead, I am disposing of our waste through an official waste carrier, but this is expensive. I accept that local authorities should not dispose of “commercial” waste, but we need more cooperation between small businesses and local authorities. Local small businesses should (with a certificate) be able to recycle small items via the recycling facilities. I am contributing more to net zero at home – not because we do not want to do more, but because we can do little or nothing. What we can do, we are already doing.”*

Brendan Burns, forestry, Scotland

## Northern Ireland

DAERA has held multiple consultations in recent years regarding its future waste management and recycling strategies. Our research found that small firms in NI have taken a series of steps to reduce and manage their waste, such as increased business recycling (67%), elimination of waste wherever possible, e.g., food waste going to landfill (47%) and avoiding the use of plastics if an alternative is available (44%). Fewer small businesses in NI cited increasing the use of recycled input material in manufacturing processes and sourcing sustainable materials for their business as steps taken to reduce waste and manage recycling. This indicates the types of interventions that the Department could address to engage, enable and encourage smaller businesses to better manage their waste.

Our research provides indicative data into small firms in Northern Ireland. Of those small businesses who have not taken any steps, reasons included the cost of recycling, complicated processes or difficulty sourcing sustainable materials. 56 per cent of small businesses suggested that discounts on recycled or sustainable material would encourage further action. 44 percent of businesses suggested grants, low interest loans, tax bill or business rates reductions would encourage action – however, one in four businesses (27%) noted that further advice would also be of use.

<sup>17</sup> Environment Bill 2020, <https://www.gov.uk/government/publications/environment-bill-2020>

## CASE STUDY

*“Granville Eco Park are helping businesses get ahead using a circular economy model called “Smart Loop”. Utilising food waste as a resource at our Enhanced Anaerobic Digestion Facility we create renewable electricity direct to grid, a natural fertiliser used by over 200 local farmers as an alternative to chemical fertiliser, and biomethane, an alternative vehicle fuel. Chemical fertiliser prices have increased 95% in the last year and are set to increase further, creating extra cost for the consumer. We intend on keeping costs down for the farmer as well as removing 7 tonnes of CO<sub>2</sub> emissions, 1 tonne of oil and 108 tonnes of water for every tonne of artificial fertiliser we replace.*

*Our biomethane powered lorries, dubbed the “Smart Loop Lorries” allow us to offer a closed loop for our customers; from “farm to fork”, and “waste to wheels”, nothing goes to waste and it presents a perfect opportunity for businesses, not only to meet their sustainability targets, but to save money. A move to our fuel could save a company up to 50% in costs compared to diesel as well as an impressive 85% reduction in greenhouse gas emissions. Government targets will not be met without providing incentives within the transport and haulage sector and should support all movement towards this change.”*

Pauline McCrory, Granville Eco Park, Dungannon

## Recommendations

**Local authorities (in England, Wales and Northern Ireland) should incorporate small business waste collection services into their domestic collection services with the costs for these waste collection services included in business rate charges.** This would only apply to businesses currently under the Small Business Multiplier, so as not to be used by larger businesses which generate far more waste and could not be incorporated into the domestic schedule.

**Small businesses should have access to reuse and recycling centres operated by councils – building on a permit system that operates for tradespeople in some local authorities.** Currently, these facilities are only available to individual residents, but by expanding access to small businesses and sole traders, it would boost the incentive to recycle.

# TRANSPORT

Transport currently constitutes the largest contributor to UK domestic greenhouse gas emissions and was responsible for around 27 per cent of greenhouse gas emissions in 2019 – mainly from the use of petrol and diesel in road transport.<sup>18</sup> Understandably, transport is critical to the running of most small businesses, whether it is to make deliveries, keep the supply chain moving, or just to get employees to the workplace.

*"We have already reduced the net CO<sub>2</sub> footprint of our fleet of tugs operating on the Thames by 90% through changing to 100% renewable fuel. This has also reduced SOx emissions by about 30% and reduced particulates by 80%."*

FSB member, marine contractor, Kent

## Reduced commuting and travel for business

Although increased home working has been largely driven by the pandemic, 21 per cent of small businesses say they now offer their staff the ability to work from home more than they did prior to the pandemic.

Due to the nature of their work, businesses in the information and communication sector as well as in the professional and scientific sector have utilised home working the most, at 47 per cent and 32 per cent respectively. A greater use of working from home will not be right for each business, but where offering virtual meetings and home working is appropriate, this can serve to reduce the carbon impact of businesses from commuting and business travel.

Although working from home was adopted across the UK during the pandemic, the Welsh Government has gone so far as to define this as "working outside of a traditional office or 'central place' of work", including "working close to home and close to your local community". With this in mind, Wales looks to solidify this change brought on by the pandemic, with the aim to have 30 per cent of workers in Wales working remotely on a regular basis.

However, given the additional energy required to heat individual workers' homes during colder months, the overall net impact on the environment of home working may be seasonal at best. Further research is required in this area, but a move to home working should not be assumed to be entirely helpful in reducing emissions.

### CASE STUDY

*"At Staffline we place great importance in our environmental responsibilities. We have committed to a four-pillar strategy to reduce our carbon output: Property and Estates, Business Travel and Accommodation, Technology and Assets, and Reporting and Evaluation. Examples of some of the initiatives we drive in these areas include environmental commitment from our stakeholders, green waste management plans, centralisation of travel plans to reduce unnecessary travel, plus a policy of deploying energy-efficient computer equipment. The Group Environmental, Social and Governance Committee are responsible for driving these initiatives throughout the Staffline Group.*

*Due to Covid-19 we significantly reduced our emissions in 2020-21 and as a group we are committed not to return to pre-Covid levels of emissions. We have introduced a hybrid working model for all staff, and as a result of the excellent take-up from our staff, we will have reduced our commuting carbon by at least 20%."*

Robert Wharry, Staffline, Belfast

<sup>18</sup> ONS, Final UK greenhouse gas emissions national statistics: 1990 to 2019, February 2021, <https://www.gov.uk/government/statistics/final-uk-greenhouse-gas-emissions-national-statistics-1990-to-2019>

## Alternatives to cars and vans

Many businesses are looking for alternatives to using a car or van, in order to reduce their environmental impact or save money. Our research shows 17 per cent of small businesses say they have increased cycling and walking themselves or have encouraged staff and customers to do the same. One in eight (12%) businesses reported that they are using more public transport or encouraging their staff and customers to do so.

Small businesses based in London report a higher (32%) use of public transport and/or encourage their staff and customers to do the same. This is because of the well-developed public transport network in and around London, along with the to use private vehicles in the form of the Congestion Charge in central London, and the recently-expanded Ultra Low Emissions Zone, which adds extra costs for vehicles which do not meet emissions standards.<sup>19, 20</sup> Most small businesses however do not have the luxury of being able to use an integrated public transport system. Only 5 per cent of small businesses in Yorkshire and the Humber, the West Midlands, and the North West said they had changed their transport habits by using public transport regularly and asking staff and customers to do the same. Greater Manchester is a city region dominated by car travel. Many small businesses have been forced to rely on vehicles for their business transportation due to underfunding of public transport, and piecemeal planning from borough to borough. Investing in local transport plans could encourage small business owners in major UK cities to use public transport at higher rates.

When looking at the reasons why small firms have not taken action to change their transport habits, it is worth noting that public transport being inefficient or unavailable was seen as a much more significant factor, cited by 36 per cent of businesses overall, than public transport options being too expensive, which was only cited by 18 per cent. This is likely to be because cost is irrelevant as a barrier without access to an efficient public transport system.

## Transport electrification

In November 2020, the UK Government announced that all new petrol and diesel car sales will be phased out by 2030. By 2035, all new cars and vans must be fully zero-emission at the tailpipe.

Although electric vehicles are becoming more common domestically, only 9 per cent of small businesses say they have or will have switched all or some of their fleet to zero emission vehicles (ZEVs) by 2030.

The UK Government's ambitious targets for transport decarbonisation will require significant investments in R&D and a rapid rollout. For the Government's decarbonisation strategy to work for small businesses, we need to see commitments from the Government to follow through with its investment plans in rural public transport infrastructure, the acceleration of zero emission vehicles – including LGVs and HGVs – and the necessary charging infrastructure.

Our research shows that 8 per cent of small businesses have already installed an electric vehicle workplace charging point. There is a long way to go in the business community if the Government is to meet its 2030 and 2035 targets, and significant challenges remain for small firms. Almost half (46%) of small businesses say that ZEVs are currently too expensive, with 16 per cent concerned about the lack of a second-hand market for ZEVs. The UK Government has also raised the importance of the second-hand electric vehicle market as “critical in the UK's transition to zero emission vehicles”,<sup>21</sup> however, a second-hand market organically grows over time.

---

19 Transport for London, Congestion Charge, <https://tfl.gov.uk/modes/driving/congestion-charge>

20 Transport for London, Ultra Low Emission Zone, <https://tfl.gov.uk/modes/driving/ultra-low-emission-zone>

21 HM Government, Transitioning to zero emission cars and vans: 2035 delivery plan, July 2021

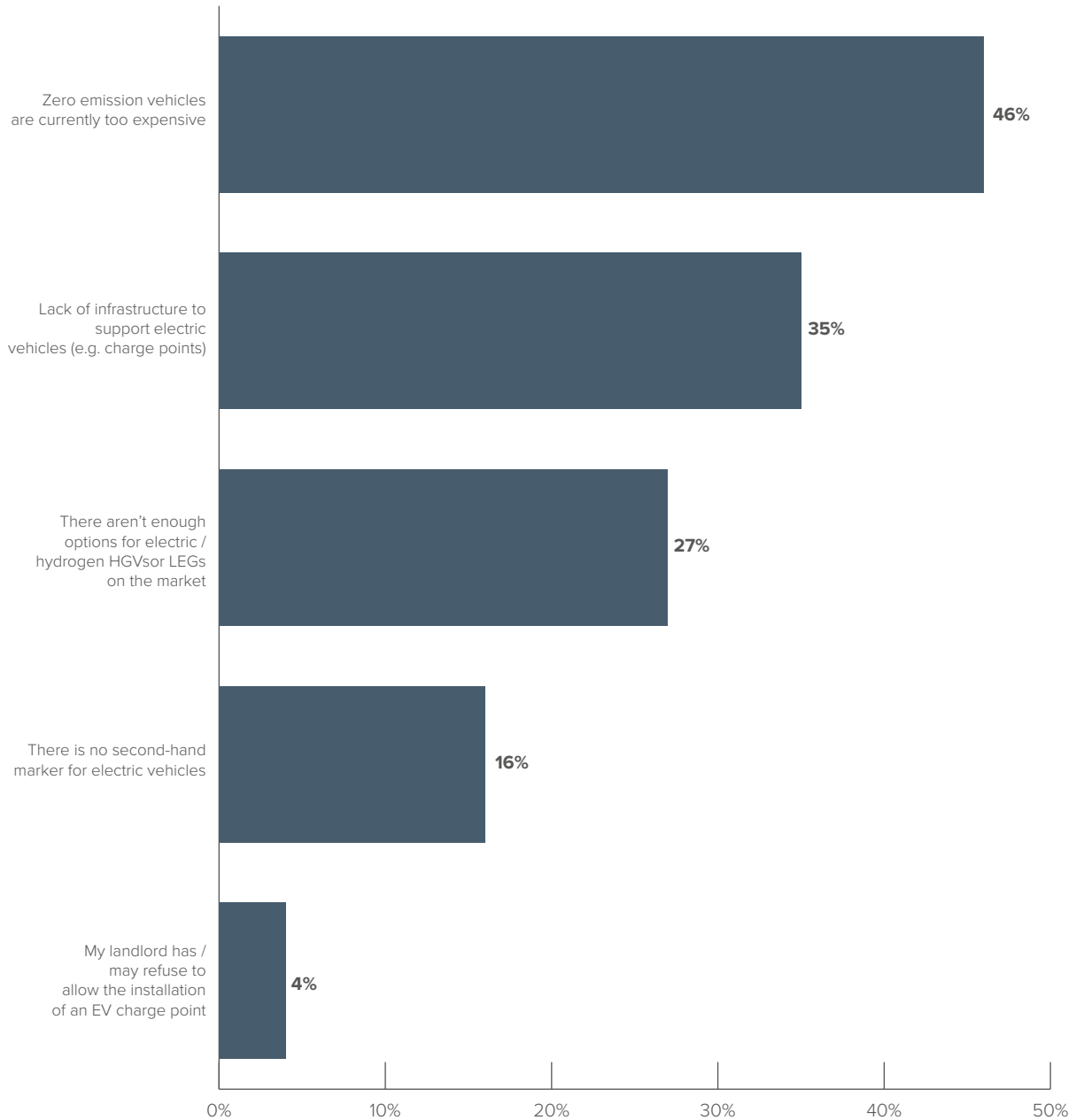
**CASE STUDY**

*“I started my business in 2015. I knew that I wanted to launch a sustainable business. In addition to operating a paperless business, all of the pet products I sell are recyclable, designed in the UK and, if possible, also manufactured here. I aim to reduce my carbon footprint. I offset my emissions by planting trees through the Carbon Trust. Although I am very keen to upgrade our van to an electric vehicle, it is currently financially not possible. Sustainability is a key part of my business plan, and I was very excited to have made an SME Climate Commitment.”*

Di Symes, That’s Pawfect, Staffordshire

**Figure 8:** Percentage of small businesses that report a barrier to switching to a net zero emission vehicle

**Source:** FSB Climate Change Survey, 2021



A third (35%) of small firms say the lack of charge points is a reason why they have not taken any steps with regards to their business's transport habits – with 43 per cent in rural parts citing this as a reason. The Government's Transport Decarbonisation plan highlights plans to accelerate the infrastructure rollout, and notes that "a driver is never more than 25 miles away from a rapid ChargePoint anywhere along England's motorways and major A roads".<sup>22</sup>

Governments across the UK each have an opportunity to set in place a clear electric vehicle strategy with targeted interventions for each nation, which should include investment in relevant infrastructure. It will also be important to ensure that these strategies are coherent, creating no unnecessary barriers for vehicles and businesses that need to travel regularly between the different nations. The Welsh Government published its electric vehicle charging strategy in March 2021, and it is important that the UK Government's strategy is consistent with it, and vice versa.

## Northern Ireland

Our research provides indicative data into small firms in Northern Ireland. Whilst many businesses in Northern Ireland have taken positive steps to adjust their transport habits, such as 46 per cent of business owners that say they have minimised site, customer visits or in-person meetings via the use of video conferencing. Those that have not taken steps cite primary reasons such as a lack of electric vehicle charging infrastructure, the high cost of zero emission vehicles, and inefficient public transport. Despite recent adjustments to planning law, the NI electric vehicle charging infrastructure is the least advanced across the UK. In order to address the barriers aforementioned, the NI Executive should ensure an Electric Vehicle Charging Infrastructure Plan forms part of the overall Future Sustainable Transport Strategy.

### CASE STUDY

*"Environmental Street Furniture has been at the forefront of integrating sustainable innovation into outdoor furniture for the past five years. With award winning solar powered (grid free) benches to provide phone charging, WiFi and LED lighting, and more recently with our new solar powered compacting bin holding ten times the capacity before it needs to be serviced. This added to the increased use of 100% recycled plastic materials has allowed us to live up to our environmental name. The company name also brings its challenges as often we get questioned on what exactly makes us environmental. It therefore was a natural progression to move to a hybrid electric car for work and leisure purposes.*

*Hybrid electric cars are becoming more and more popular as the move from petrol and diesel increases, however whilst the availability and options for vehicles increases, the infrastructure in Northern Ireland to support this is not in place. Although I have a charging point at home, and at my office, it is very unusual to be able to access another point in the city center, car parks, on-street parking or anywhere I need to visit as part of my daily work schedule. If we are to really embrace this new technology and assist willing company car owners and drivers to make this move, then there needs to be a massive increase in charging points to support this. If we had one ask for government, it would be to increase the number of charging points."*

Alan Lowry, Environmental Street Furniture Ltd, Newtownabbey

<sup>22</sup> HM Government, Transitioning to zero emission cars and vans: 2035 delivery plan, July 2021



## Recommendations

**Governments across the UK should ensure that businesses operating in and around Clean Air Zones or Low Emission Zones receive their charges back in form of grants for the purchase of a zero emission vehicle.** The drive to zero emission vehicles may result in a two-tier society, with those that have made the switch exempt from clean air charges, while those who cannot afford the switch still paying penalties. Funds generated by Clean Air Zones should be packaged into grants available for businesses operating in and around Clean Air Zones towards the purchase of zero emission vehicles.

**Governments across the UK must publish a coherent set of target-based infrastructure strategies to deliver the necessary charging and rapid charging infrastructure by 2030.** The number of ZEVs being purchased is outstripping the number of charging and rapid charging points on motorways and highways across the UK. Encouraging more businesses to switch to ZEVs by 2030 will require a redoubling of infrastructure efforts to ensure that businesses do not suffer from ‘charge anxiety’. In addition, the UK Government should liaise with the executives in Wales, Scotland and Northern Ireland to ensure the system is coherent for motorists who travel across borders.

**The Plug-in Car Grant should be extended and funded beyond March 2023, to give small businesses confidence in planning their transition to zero emission vehicles until 2030.** The adequacy of the grants for small vans (currently £3,000) and large vans (currently £6,000) should be kept under review.

**UK Government should introduce a scrappage scheme where diesel commercial vehicles can be recycled in exchange for grants towards cleaner hybrids and zero emission vehicles.** This would pay businesses £2,000 which could then only be used to purchase a zero emission vehicle for the business.

# TAXATION AND FINANCE

---

The UK's ambitious net zero target has significant ramifications for the UK economy and the small businesses that operate within it. Many taxes, reliefs and ways of operating will change over the coming decades and businesses will need to adapt to stay viable.

Given that only around a third of small businesses have made a plan to reduce their impact on the environment, over the coming years small businesses are likely to come under significant additional pressure to alter their business models and processes to align themselves with new environmental policies.

Unless distributional impacts are carefully considered, net zero policies have the potential to be regressive. If not implemented in a fair way, the transition to zero emission vehicles could prove to be an example of this. A small business that relies on a fleet of vehicles will have either have the major cost of upgrading its fleet to electric vehicles, or it will continue with its current vehicles and be subject to likely increases in fuel duties and emissions charges that will accompany the path to net zero. Either way, this may pose significant challenges for small firms, as a business may struggle to afford to upgrade its fleet while being faced with rising carbon costs.

Although net zero is the overarching aim, it needs to be considered within the context of the UK economy. Any policies abruptly implemented will likely have far-reaching indirect effects. Small businesses are only just beginning their economic recovery following the Covid crisis, and governments should be mindful not to add to the pressures they face by imposing costly policies on business.

In order to ensure that the UK's small business community is not left behind in the transition to net zero, policies to encourage investment in zero carbon solutions must provide positive financial incentives that support, rather than undermine, the ability of businesses to invest. When asked what measures would encourage them to become more energy efficient, 54 per cent of small businesses cite grants or low interest loans. Two fifths (40%) cite a reduction in their tax bill, which is troubling in light of the tax increases being introduced in April 2022, and in light of taxes like business rates currently acting as a drag on investment.

The principles set out in 2020 by the UK's major business representative bodies<sup>23</sup> are intended to act as a 'fairness test' for policymakers in planning and designing regulatory and policy frameworks, and in prioritising investment. They include:

- **Fairness of Ambition** – matching the reality of the challenge
- **Fairness of Accountability** – taking a coordinated approach with coherent and accountable governance
- **Fairness of Delivery** – seeking to support, empower and incentivise businesses to find their own ways to net zero
- **Fairness of Opportunity** – ensuring businesses of all sizes, in all sectors, across every region and nation, can contribute
- **Fairness of Cost** – ensuring policies are affordable and achievable

---

23 Federation of Small Business (FSB), UK's top five business groups call for 'just transition' to net-zero by 2050, November 2020, <https://www.fsb.org.uk/resources-page/uk-s-top-five-business-groups-call-for-just-transition-to-net-zero-by-2050.html>

## CASE STUDY

*“Since 2009 we have built an all-encompassing sustainable business, defying significant infrastructure challenges due to being located in rural Scotland. We were one of the first Highland businesses to install an underground heat network for all our heating and hot water to our 12 holiday cottages and the farmhouse.*

*Additionally, we have 60KW of solar photovoltaic panels, our cottages have solar heat, and our electric car charge point at the cafe encourages the use of EVs among our guests. We also run a farm shop focusing on locally sourced foods, produce, and gifts. Our shop is an essential lifeline for many locals and our chefs provided elderly locals shielding over both lockdowns with nutritious food delivered by volunteers.*

*Financing our ambition was one of the biggest challenges we faced. It was the right thing to do, and we are now making real savings to the business and the economy. Net zero is a great excuse for small businesses to closely look at their business. Every business will know where and how they can make changes.”*

Kenneth McKenzie, Highland Farm Cottages, Dingwall

Grant schemes are still available to small businesses; however, they often come with conditions and are limited geographically. The Low Carbon Workspaces scheme, for example, offers match-funded grants between £1,000 and £5,000 to cover 33 per cent of a project’s cost. There are however several limitations to the scheme, mainly that it is only operational in a limited area (covering Buckinghamshire, Bedfordshire, Berkshire, Hertfordshire, Milton Keynes and Northampton).<sup>24</sup>

Looking at waste specifically, 45 per cent of respondents cite lower costs of choosing recyclable or sustainable materials as the most significant incentive. A third (33%) cite a reduction in tax bills as a key incentive, and 29 per cent cite grants or low interest loans. This data shows that sectors which tend to produce a greater amount of waste believe grants or interest-free loans in technology will incentivise change (manufacturing [42%], construction [35%] and accommodation and food [34%]). In order to ensure low-interest loans are available, FSB recommends that the capital requirements banks must hold when lending to businesses for green improvements should be reduced, to make green investments more attractive to lenders.

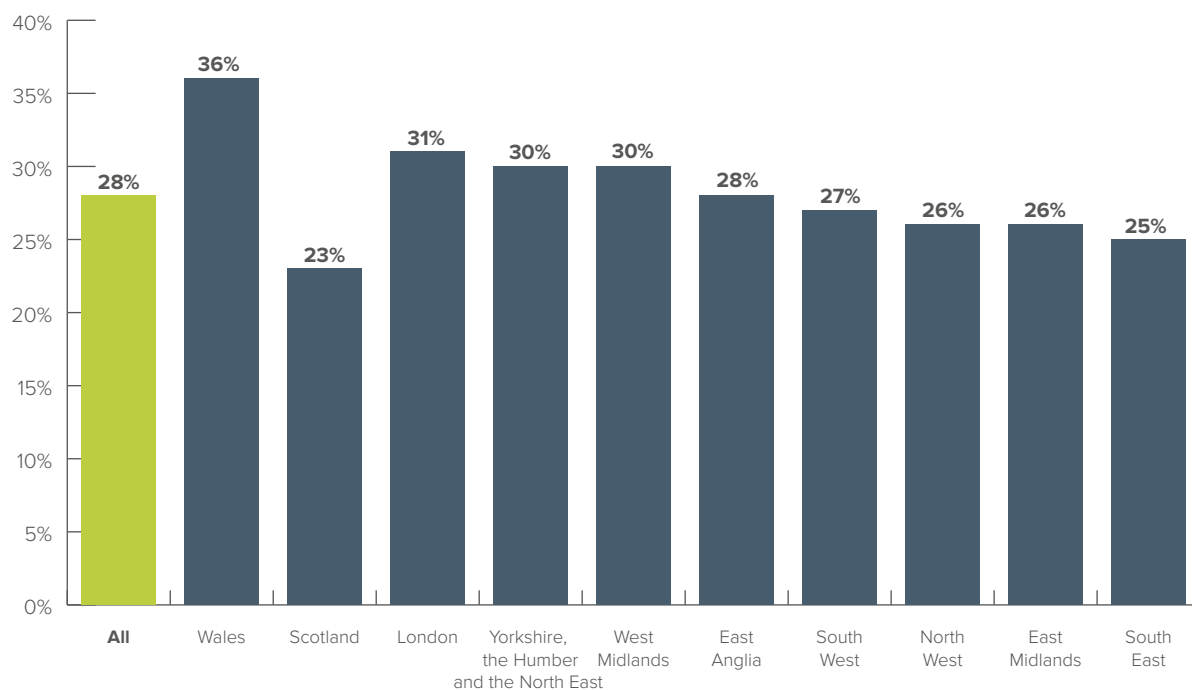
<sup>24</sup> Low Carbon Workspaces criteria, <https://www.lowcarbonworkspaces.co.uk/eligible-projects/>

## Business rates

To support small businesses and sole traders, the Government must ensure that business owners have clear and consistent incentives to invest in low-carbon technology. Three in ten (28%) small businesses say a discount to their business rates would encourage them to become more energy-efficient (Figure 9). At the very least, small businesses shouldn't be deterred from making these investments by Government policy – such as the business rates system, which in effect penalises companies which invest in modernising or 'greening' their premises.

**Figure 9: Percentage of small firms that state a discount in their business rates would encourage them to become more energy-efficient**

**Source: FSB Climate Change Survey, 2021**



Investing in microgeneration or insulation should not result in an increase in business rates. Although it increases the value of the business, businesses should not be punished for investing in their business and making it more energy-independent and efficient, and ultimately supporting the net zero agenda.

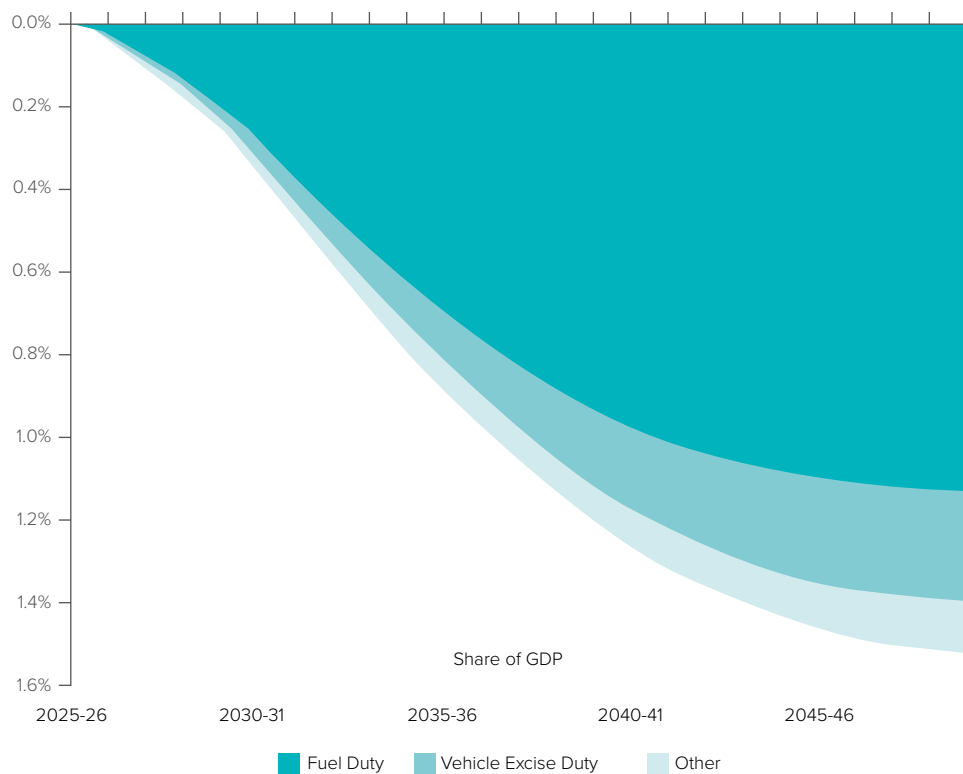
## Road charging

Between July 2020 and July 2021, 85,023 Battery Electric Vehicles (BEV) were registered in the UK.<sup>25</sup> Meanwhile, the UK Government has put forward plans to phase out the sale of new petrol and diesel vehicles starting from 2030.

The rollout of zero emission vehicles and the phasing out of diesel and petrol cars will have far-reaching ramifications for the UK Government’s revenue. Currently, electric vehicles (EV) do not pay fuel duty or Vehicle Excise Duty (VED). The Office for Budget Responsibility estimated that VED raised £6.5 billion in 2019-20.<sup>26</sup> For the same period, it expected fuel duty to raise £28.4 billion (excluding VAT).<sup>27</sup> The current system of fuel tax and VED will become obsolete in a world of electric vehicles if tax policy does not keep pace with Government targets.

**Figure 10: Reduction in tax revenues from decarbonisation**

**Source:** HM Treasury, Net Zero Review, Analysis exploring the key issues, October 2021<sup>28</sup>



Looking ahead to 2030, it is therefore necessary that the UK Government starts to engage early with small business and other stakeholders to look at the future of transport-related taxation. This will necessitate consideration of different options for road charging, with an aim to be fiscally responsible, without damaging the much-needed take-up and switch to electric vehicles.

One way that the Government could conduct this business engagement is by adapting the model that is currently used for the Low Pay Commission. The Low Pay Commission is independent from Government, comprising a mix of experts spanning all relevant stakeholder groups, and advises Government on the National Minimum Wage and National Living Wage. A similar commission could be established to advise the Government on the future of road-related taxation. It could provide independent advice on how the Government could meet revenue targets (set by the Treasury), while ensuring that the future system of road charging is fair, continues to incentivise low carbon options, and is affordable for the businesses and other road users that will pay it.

25 SMMT, Vehicle Data, EV & AFV Registrations, July 2021, <https://www.smmt.co.uk/vehicle-data/evs-and-afvs-registrations/>

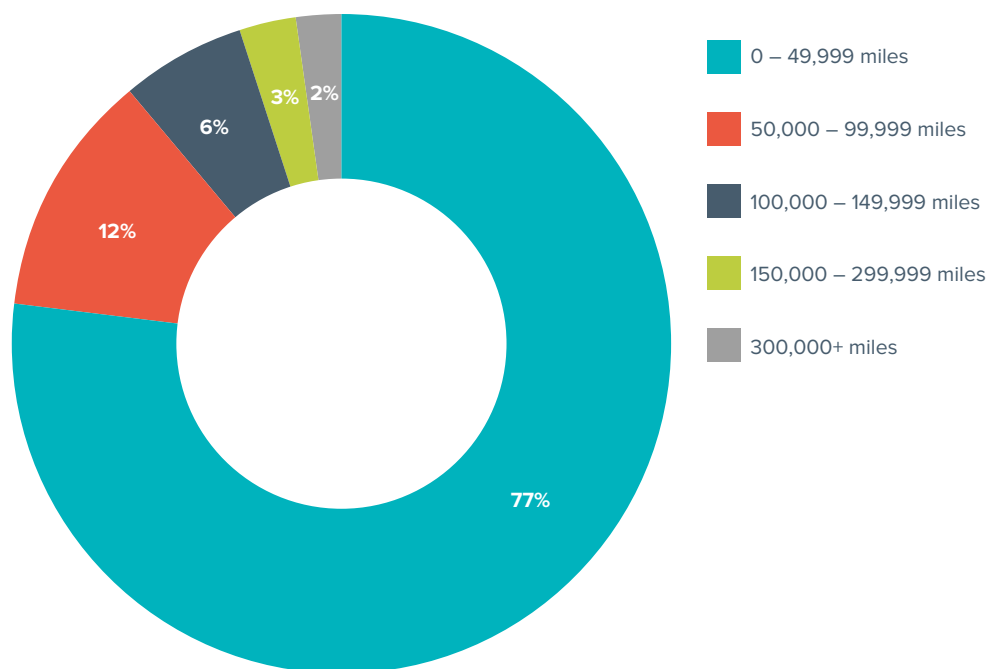
26 Office for Budget Responsibility, Vehicle excise duty, May 2021, <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/vehicle-excise-duty/>

27 Office for Budget Responsibility, Fuel duties, July 2021, <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/>

28 HM Treasury, Net Zero Review, Analysis exploring the key issues, October 2021, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1026725/NZR\\_-\\_Final\\_Report\\_-\\_Published\\_version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1026725/NZR_-_Final_Report_-_Published_version.pdf)

One potential component to any future road charging system could be the mileage covered by a vehicle. Although the vast majority of businesses currently use petrol- or diesel-powered vehicles, their mileage habits are likely to stay relatively consistent.

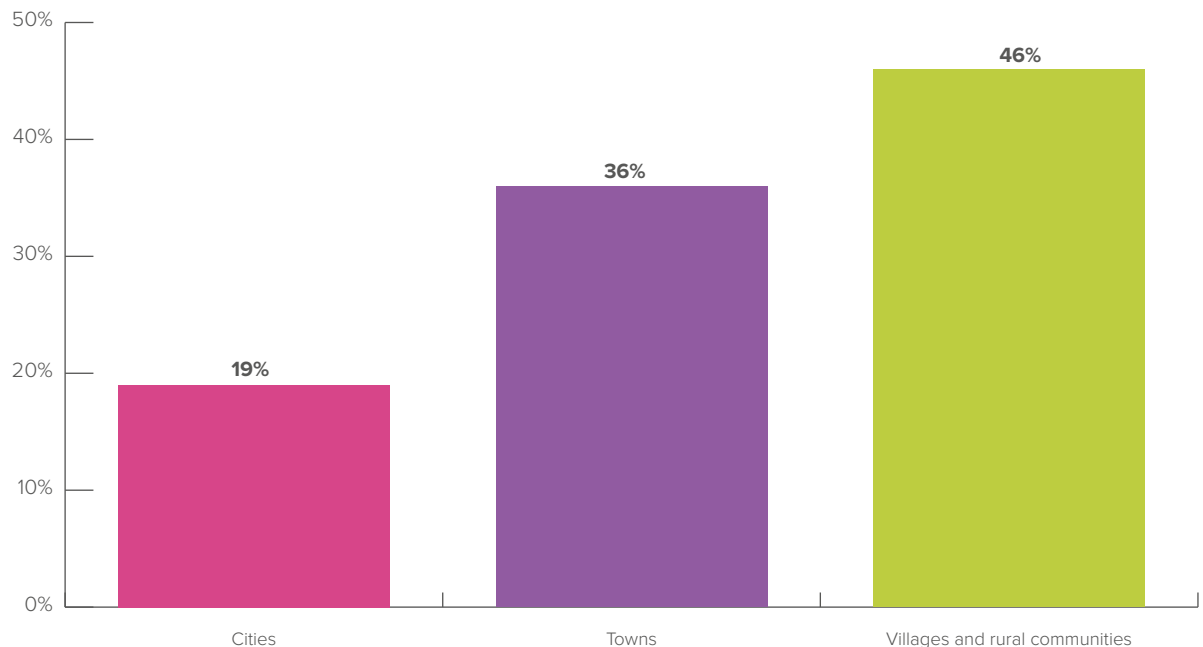
**Figure 11: Average yearly mileage for a small business vehicle (prior to the COVID pandemic)**  
**Source: FSB Climate Change Survey, 2021**



As mileage is likely to remain fairly consistent in the future, this metric should form the backbone of any future road charging policy. This also follows the principle of “the user pays” and was the most favoured option when put to small businesses (27%). Mileage is also relatively easy to collect data on and translate into a rate, which could be paid either online, or when MOTs are due on the vehicle. This would of course run alongside VED for remaining polluting vehicles and look to be a taxation system which complements rather than replaces the current system.

In order to encourage businesses to make the transition to ZEVs, Government could also introduce a number of incentives, such as granting a business allowance of, for example, 5,000 miles free and adding in additional allowances depending on the sector it wished to support. In addition, rural roads could be charged less, compared to major A-roads and motorways. The majority of small businesses either operate in and around towns, or villages and rural parts of the country.

**Figure 12: Geographic concentration of travel by small business owners**  
**Source: FSB Climate Change Survey, 2021**



There are of course a number of other metrics that could be used to calculate road charges, such as tolls, time-of-day, city and occupancy charging; however, the simplest primary metric to roll out effectively would be mileage.

## Northern Ireland

Limited sustainability grants have also been available in Northern Ireland on an intermittent basis. For example, the COVID-19 Energy Efficiency Capital Grant provided partial support for the installation of energy-efficient equipment, which helps to bring cost and carbon savings. However, as is often the case in Northern Ireland, many Small Businesses are unable to access this type of grant because it was only open to existing Invest NI customers or businesses eligible to become an Invest NI customer. 58 per cent of businesses indicate that a grant or low interest loan would encourage them to take action and as such, there is a need for considerable expansion of provision. The Department for the Economy should expand the eligibility for future schemes.

Non-Domestic business rates are a devolved matter for Northern Ireland, and indicative research shows that 45 per cent of small businesses noted that a discount would encourage investment in energy efficiency improvements. Having conducted a review prior to COVID-19, the Department of Finance should consider this in its future approach to business rates policy.

## Recommendations

**The UK Government should establish a commission of industry experts to begin consultation on a future road charging system.** The rollout of zero emission vehicles and the phasing out of diesel and petrol vehicles will have far-reaching implications for the UK Government's revenue generated from VED and fuel tax. The backbone of any future road charging system for zero emission vehicles could be based on mileage; however, an allowance (for example, 5,000 miles) should be given to small businesses using zero emission vehicles.

**The UK Government should exempt green investments and improvements in premises, such as installing ventilation or solar panels, from inclusion in a business rates assessment. This will incentivise greater investment in improving premises in line with the Government's net zero and Covid strategy.**

Under the current system, any and all improvements are counted towards a business rateable value. This can include the installation of air conditioning, CCTV, fire safety equipment, solar panels, and even printers. The introduction of an exempt list of items which businesses could introduce without fear of increasing their business rates valuation would unlock investment which would otherwise not take place, as well as making workplaces safer, greener, and healthier.

**The UK Government should encourage investment and R&D by allowing businesses to write off losses at a similar rate at which gains are taxed.**

Small businesses would be more likely to engage in investment and R&D if they knew they could write off losses at a similar rate at which gains are taxed, producing a more symmetrical and equal system. The ability to write off losses means that investments that do not yield expected results may not be as devastating to a business as they may otherwise be.



# METHODOLOGY

---

The FSB survey, “*Climate Change and the impact on your business 2021*”, was conducted with members across the UK. Individuals were invited to participate in the survey via email and social media channels. The total number of completed survey responses was 1,200. The survey was administered by the research agency Verve and was in the field from 23 August to 3 September 2021.

The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). References to Northern Ireland in the body of the text are unweighted and have been used to highlight the sentiment from small businesses based in Northern Ireland. All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not sum to 100 per cent.

A focus group with members was conducted by FSB staff members over Zoom. The focus group took place on Wednesday 1 September 2021. A number of UK wide semi-structured interviews also took place in August, September and October.

© Federation of Small Businesses

[fsb.org.uk](http://fsb.org.uk)

 [federationofsmallbusinesses](https://www.facebook.com/federationofsmallbusinesses)

 [@fsb\\_policy](https://twitter.com/fsb_policy)

 [@fsb\\_uk](https://www.instagram.com/fsb_uk)

If you require this document in an alternative format please email:  
[accessability@fsb.org.uk](mailto:accessability@fsb.org.uk)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB website at [www.fsb.org.uk](http://www.fsb.org.uk)