

Business, Energy and Industrial Strategy Committee

Oral evidence: Energy price support, HC 980

Tuesday 31 January 2023

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Members present: Darren Jones (Chair); Bim Afolami; Alan Brown; Ruth Edwards; Ian Lavery; Andy McDonald; Mark Pawsey; Alexander Stafford.

Questions 41 - 70

Witnesses

[II](#): Kate Nicholls OBE, Chief Executive, UKHospitality; Stephen Phipson CBE, Chief Executive, Make UK; and Tina McKenzie, National Vice Chair and Chair of Policy and Advocacy, Federation of Small Businesses.

Examination of witnesses

Witnesses: Kate Nicholls, Stephen Phipson and Tina McKenzie.

Q41 **Chair:** We are now moving on to our second panel where we will be talking about non-domestic customers, so businesses, public services and others. We are welcoming Tina McKenzie, national vice-chair and chair of policy and advocacy for the Federation of Small Businesses; Stephen Phipson, chief executive for Make UK; and Kate Nicholls, chief executive of UKHospitality.

Thank you and good morning to all of you. To kick us off, it would be useful to get your individual perspectives, specifically the implications of high energy bills for businesses and what you are seeing in terms of companies going bust as a consequence of having to make different decisions, trying to distinguish that from other economic factors, if at all possible, just so that we can focus in on the energy aspects.

Kate Nicholls: Thank you for inviting me here today to give evidence to you. It is incredibly difficult to separate out those energy challenges from the wider economic challenges that we have across the hospitality sector but I will do my very best to do so because there is some emerging evidence of what you are seeing.

We are facing into quite a perfect storm. You have long economic covid affecting the sector with high debt levels. You have had no real time for recovery to be building back cash reserves. Half of our members say that they have no cash reserves, and a third that they are still not trading profitably over the course of this year, so it is quite difficult to dissociate.

We have seen, however, a marked change in the role that energy plays in the business model for hospitality and the increasing significance in terms of business viability going forward. Pre-pandemic, if you looked across the hospitality sector at an individual outlet level, energy costs were typically around 4% to 6% of turnover, or higher in some of those high-energy usages, particularly around hotels. They have now become 15% to 17% of turnover at an outlet level. It has gone from being the fourth largest cost centre to the second—more than rent and rates combined. The only bigger cost that you have before you open your doors is your staffing.

That is why it has become such a significant factor in business viability decisions and seeing whether you are a going concern. Before you meet any of your other costs, you have to meet those high energy bills and be able to cover them. You have to know that, when you open on a wet Monday in January in the north-east, where I come from, you have to be able to cover about £800 to £900 before you turn a penny profit, in order to make the decision as to whether it is worth opening. We have, therefore, seen quite a different trend over the last year in business failures in the sector.

We had a contraction of about 6% across the sector as a whole. Over the course of 2022, 5,000 businesses closed for good. About three-quarters



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of them were in the last quarter of the year, which is highly unusual. We normally have our business failures coming at the start of the year, not in the third and fourth quarter. People usually hang on to trade their way through Christmas and get some cash in the tank. We are not seeing that. As I say, three quarters of those business failures were happening in September, October, November and December. One of the largest factors talked about in those business failures, particularly among the independents, was energy costs. They just were not able to manage to cover those costs and remain sustainable and viable.

The inflationary environment and the cost of doing business are all factors. With the downturn in discretionary spend and the rail and travel disruption, we are facing into that perfect storm, but energy is a more significant factor in business failure in our sector than it has ever been in the 30 years that I have worked in the industry.

Stephen Phipson: We have the same issues in disaggregating the challenges that manufacturers have in terms of labour costs, supply chain disruption and everything else. However, we have done a lot of work with manufacturers around the energy cost, which has gone up in our surveys as a top priority for many manufacturers in terms of risking their businesses going forward.

I like to use the example of a machine shop producing parts for the aerospace industry. Just before we introduced the EBRs, their annual costs for electricity were around £160,000 a year and were rising to £1.1 million a year. The challenge for those kinds of SME manufacturers is that they are often locked into two or three-year pricing arrangements with prime contractors, with no chance of passing that on whatsoever.

The fact that we brought in the EBRs at that stage was very welcome to those kinds of companies, but it shows you the long-term nature of the pricing arrangements and the inability of those companies to increase prices. We see that replicated across the sector.

The other thing that I would point out—and you are probably going to ask this later on in the session—is the behaviour of energy suppliers in the industrial sector. For these sorts of smaller companies, it has been very variable and very difficult. We are now in a phase where companies are being asked for £100,000 security deposits up front to switch contracts.

The wholesale price that we talk about and the schemes that the Government have are often not filtering through in terms of those discounts to suppliers. We welcome the Chancellor's comments about bringing Ofgem in to regulate the industrial sector; that is important, but, on top of everything else, that is something that these companies do not need. It has been quite tough.

In terms of specifics, right now, we estimate from our survey data that around 13% of manufacturers in this country are operating on breakeven and without cash reserves, with the current level of energy support. If that is withdrawn, or if it becomes worse, it is going to tip them over the



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edge. That is the group that is most at risk in our sector out of a community of around 250,000 manufacturers in the country.

- Q42 **Chair:** Tina McKenzie, where does a business get the cash flow from? If they have already taken on debt from the pandemic and have no cash reserves, these costs are coming through the doors, so where do they go?

Tina McKenzie: They have limited choice as to where they go. It is important to say that the IMF figures are out today and show that the UK has a contraction. We were looking at, hopefully, a small increase, but, across the G7, we are the only country with a 0.6% contraction. Everyone else is due to grow.

Interestingly, 99% of businesses in the UK are SMEs. We know that it was sitting at 5.9 million in 2020 going into covid. We know for a fact that it then dropped over those 12 months to 5.5 million, so we have already lost hundreds of thousands of SMEs in the country. We have not yet been given absolute figures for the last 12 months, but the introduction of the EBRs certainly saved a lot of businesses up and down the country.

In terms of where they go, they have few choices. We have seen from the ONS stats that cash reserves are down to some of their lowest levels, because of all the other things that those businesses are facing. They can increase prices, and our survey shows that a percentage of businesses are looking to do that. They cannot push all of that into a price increase, so others are looking to close down, to change their businesses or, indeed, to go offshore.

- Q43 **Alan Brown:** Tina, the Chancellor has brought in the energy bill discount scheme from April, and you said that that would stop businesses facing a cliff edge, and provides a transition. The reality is that it is a 0.7p discount per unit of gas and 0.2p per unit of electricity. The FSB described these levels of support as "totally insignificant for small businesses". What does that support look like for a typical small business? What effect does it have? Does it remove the cliff edge this April for small businesses?

Tina McKenzie: It is absolutely pitiful; we were clear about that in our messaging and to Government as well. Unfortunately, a lot of businesses tied into fixed prices over the period of August and September last year. They were tying into prices of usually around 75p to 80p. If you had the fixed support from the Government, it was not an issue, because the price per kilowatt was capped.

Now that that is taken away and we have a few pennies over 30p that will be discounted, if you are sitting in a contract that you cannot get out of for the next two years, at 75p to 80p, those couple of pennies over 30p on a discount will not do much at all to help you. That is the point where a lot of businesses have still not even realised what is about to hit them with those bills that are coming in April, May and June, and we are



quite worried about that cliff edge. When those bills hit, what is going to happen?

We know that wholesale prices have gone down, and people have asked, "Is there anything to worry about if the wholesale prices have gone down?" On the one hand, we have people fixed into these really high contracted prices, but, on the other hand, looking around the world at the moment with the geopolitical situation that we have, we feel like we may be gambling a little early on stability and low wholesale prices, and that is what we are quite concerned about. Any other global move—and there are several things going on around the world—could absolutely affect that wholesale price, and businesses are in real trouble again.

Q44 Alan Brown: What reforms, if any, to the energy bill discount scheme would you like to see, given that you have said it is pitiful at the moment?

Tina McKenzie: We would have liked to see the Government ring-fence and help the most vulnerable businesses, which are the smallest microbusinesses, which, in a sense, are like domestic users. Domestic consumers are still protected. We would have liked them to give those microbusinesses that are vulnerable and have no cash reserves a bit more of a landing zone and a bit more time.

As a country, we have spent billions supporting businesses to stay open through covid, and it does not make sound economic sense to let them go and disappear now due to energy prices and them being tied into such high-priced contracts. For us, it is not good economics. It does not make sense.

The smallest and most vulnerable businesses are, by the way, high energy users, such as pubs, sunbed shops and butchers; the list goes on. These are some of our smallest businesses that are so open to local communities but use a lot of energy.

Alan Brown: Do other members echo the thoughts that Tina just shared there?

Kate Nicholls: Yes, absolutely. Around three quarters of our members were renewing contracts ahead of October, so they were locking in to try to get a contract. They were having to pay very high security deposits, as Stephen has said, in order to just secure a contract and not even to look at changing. Lots of businesses were locked in at very high rates over the summer, which, when they come out of the contract or we move away from the support, are not going to see it drop as significantly in terms of price.

On top of that, over and above the level of commodity price, which is regulated, there are non-commodity charges, which are making up an increasing part of the bill and mean that our customers are still facing a significant high retail charge for them.



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We are estimating that, for our members, across the board, the average price increase is going to be around 85% when we come out of the support in April, because of the level of the cap that Tina has talked about and the very low level of support. Then there are members that are still facing 150% or 200% increases in price as we go through that. We are not seeing the suppliers passing on the drop in wholesale price, and we are also seeing large numbers of members that are contracted in and not coming up for renewal for quite a period.

Q45 Alan Brown: After spending £18 billion on the energy bill relief scheme, are the Government just paying that money to delay the inevitable collapse of some businesses, unless there is massive reform?

Kate Nicholls: The scheme that was put in place undoubtedly saved many thousands of jobs and businesses in our sector that would otherwise have gone to the wall, because of the situation that we are facing with energy. It is energy that is the gamechanger in our sector. We are a viable, vibrant sector of the economy. We are the third largest employer. We generate a revenue of around £130 billion, and a £40 billion tax take for the Exchequer, so we are a hugely important part of the economy. When we fire on all cylinders, the economy starts to grow and we recover.

It is undoubtedly the case that that scheme was vital to get businesses through. The cliff edge has been shaved off slightly and the drop has been filled in, but many businesses will still see a significant increase in costs, because of the introduction of a cap and the very low level of support that we are seeing from April. We would have preferred to see the approach that was previously being talked about, where vulnerable sectors and hospitality were name-checked by the Chancellor, the Business Secretary and the Prime Minister previously as being vulnerable and needing more support. We would have liked to see additional support to hospitality from April.

Q46 Mark Pawsey: I want to focus on the treatment of businesses by energy suppliers. Kate, you were very critical and pointed out that there are some rogue companies. It was acknowledged by Emma Pinchbeck in her evidence session that there are one or two companies that have not behaved as they might have done. Can you just give us a sense of how extensive this problem is in the experience of any of your members?

Kate Nicholls: Very few energy suppliers will contract with hospitality. They treat the sector as a whole as being at risk, rather than looking at individual companies. There is a blanket risk premium and we, therefore, find that any problems that emerge are magnified, because you have a smaller number of suppliers—typically, three or four.

Q47 Mark Pawsey: A hospitality unit sees its contract coming to an end, picks up the phone and rings up half a dozen suppliers.

Kate Nicholls: You cannot do a “comparethemarket”.

Q48 Mark Pawsey: How many out of half a dozen would say, “Sorry, we are



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not willing to supply your sector”?

Kate Nicholls: Usually about four. You have three or four main suppliers that supply the sector. You have a general unwillingness to let people move contracts. You have higher charges that are being applied, and security deposits and risk premiums that are applied if you want to try to switch. Switching is very difficult, so competition does not exist.

In the first half of last year, we saw very high security deposits being attached to get a supply, and contract terms being applied. Once the Government regulated the wholesale price and the commodity price, we then saw significant changes in practice, where there was an acceleration of increases in service charges, access charges and non-commodity charges. You were seeing 500% to 600% increases put through on standing charges. That meant that the bill was significantly higher. Those are the kinds of practices that we have seen.

We have also seen quite a few companies being unable to pass on that discount that the Government scheme is providing, including some very big providers in the sector saying that they cannot apply the discount to bills until January, because their systems do not allow them to do it. These are vulnerable businesses that need support straightaway, and some of the biggest energy suppliers are not passing it through.

Q49 **Mark Pawsey:** Are those examples that you have given common or are there some good guys among all of this?

Kate Nicholls: There are some very good guys among all of this. There are those that have recognised that security deposits do not need to be six months of energy supply, which, inevitably, is at a higher charge. There are many that have kept prices low.

Q50 **Mark Pawsey:** What is your organisation doing to pass on details to your members of the companies that are reputable and worth dealing with in this sector, and those that perhaps they should avoid?

Kate Nicholls: We have regular seminars and webinars with our members. We have had liaisons with Energy UK and Ofgem to be able to identify what is good and bad practice, and to provide that information, advice and guidance to our members to direct them in their negotiations and contract discussions. Inevitably, although we represent large companies as well, there is an imbalance of power if you are a single-site, independent pub, bar, restaurant or hotel talking to an energy supplier. Even with the best of endeavours from UKHospitality, we sometimes cannot get traction on that.

Q51 **Mark Pawsey:** Stephen, you first drew our attention to these security deposits, but let me put it to you that, if one of your manufacturing members was supplying a sector that was emerging and pretty risky, it might want some form of deposit from its customer before proceeding with a bespoke manufactured product. What is unreasonable about an energy company saying, “Some of these businesses are liable to fail and, if they do, we will end up with a bad debt, so we can insure ourselves



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against that by asking for a deposit"? Why should they not do that?

Stephen Hipson: You are right to draw attention to the insurance element, which comes out very strongly when we are talking about why they are requesting these security deposits in the first place. It is a change in behaviour. As an organisation, we are trying to help companies, particularly smaller ones, that do not normally have to do a financial presentation to their energy company about the financial robustness of their organisation in order to encourage them to give them an energy contract. That sort of process is new.

Q52 **Mark Pawsey:** The accounts that the energy company can look at are usually a year or two out of date, so is it unreasonable for an energy company to say, "If you can provide me with evidence that your business is secure, I am happy to forgo the security deposit that I might need from another company"?

Stephen Hipson: It is probably entirely reasonable. However, we are finding that the majority of energy companies are then not proceeding to offer a contract—"It is too risky"; "It is too difficult"; "We need a bigger deposit if we are going to do that"—which leaves a lot of these companies struggling in terms of where they are going to get those energy contracts in the future. That is becoming a real problem.

Q53 **Mark Pawsey:** What is the solution?

Stephen Hipson: The solution is regulation. The Chancellor is doing this, to be fair. He has called for an inquiry by Ofgem as to how it might intervene in the industrial energy market to make sure that there is a level playing field here and we all understand what the rules are going forward. That would help enormously.

Q54 **Mark Pawsey:** Tina, the FSB said that 2023 is looking like the beginning of the end for thousands of small businesses. Is that not a bit dramatic?

Tina McKenzie: It is definitely not.

Mark Pawsey: Thousands of businesses.

Tina McKenzie: Yes, absolutely.

Mark Pawsey: These are innovative entrepreneurs and you are telling me that they are not able to adapt.

Tina McKenzie: Would you like me to give you examples of what some of these businesses are facing? I have a whole pack of examples where businesses may be standing on an annual charge on their energy of around £2,000 to £3,000, going up to £60,000, £70,000 or £80,000. When you imagine that a lot of these are SMEs that are running on profits of maybe £20,000, £30,000 or £40,000, you can automatically see that they become unviable.

We have written to the energy suppliers, and I agree with what the others have said about the standing charges. Small businesses and the FSB are very into normal market conditions and the market playing out,



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but we are not in that environment. When we got into a tricky situation where the prices went astronomical and were completely abnormal because of the war, that is where we saw these deposits and caps increase significantly. We feel like some suppliers took advantage of a situation that the country was facing, and that was unfair.

Q55 Mark Pawsey: What do we need for a normal market scenario, in your view?

Tina McKenzie: We need to go back to what the barriers to entry are for organisations becoming energy suppliers in this country.

Q56 Mark Pawsey: We did that. We had one giving evidence to us here who had started a business out of his front room and went bust. The Government had to step in to support the people who were customers of that business. We have to be a bit careful, do we not?

Tina McKenzie: The first thing is that you do not want to stave off entrepreneurs. We are a country of entrepreneurs. We want to give people an open opportunity.

At the same time, when you are speaking of something as important as energy—and there are many others industries like it—where it is the heartbeat not just for consumers but for businesses across the UK, we need to ensure that those businesses going in there have their own healthy cash reserves but also are living by rules such that, if the country gets into a situation where our energy is significantly reduced and under such risk, they do not take advantage as you may do in a normal market scenario.

That is not too much to ask for, and that is why we have a Government, in order to ensure that, when we get into these situations, we protect the most vulnerable and do not drive our economy off a cliff. That is really important.

Q57 Mark Pawsey: Are you agreeing with Stephen that there is a role here for Ofgem?

Tina McKenzie: Yes, absolutely. We have been speaking to Ofgem about it. We would like to see Ofgem, with the consultation, have more teeth with this and have more time, energy and resources to spend on it. That would absolutely help the sector for the future if we were to get into one of these scenarios again.

Another thing that is going to help here is encouraging the Government with help to green schemes, so that businesses and consumers are not so reliant on the increases, decreases and volatility in the normal markets. We can put people on to some of the green schemes, so that they can be self-sufficient in their energy and we are not dictated to by actions such as Russia's in the future.

Q58 Ruth Edwards: I should probably just declare that I had the pleasure of working with Stephen in one of his former roles, and I also know Kate outside of the Committee.



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Just to carry on with the theme of Ofgem, you have talked about what you would like Ofgem to do in the future. How would you rate Ofgem's performance in protecting non-domestic consumers, your members, throughout the energy crisis to date?

Kate Nicholls: We have worked with Ofgem over the course of the crisis. We tend to be the canary in the coalmine, because of the experiences of our members. We first flagged this as an issue with Government and with Ofgem in February last year, so this has been an escalating crisis. The only criticism that I would make is pace, scale, and sense of urgency. I would echo some points made on the previous panel that the focus has undoubtedly been on domestic customers, and this sector has been a bit of a Cinderella and not had the same attention and scope.

We have been flagging these issues with Ofgem. Ofgem has used its convening power to gather groups of suppliers together to try to address common concerns, but it has been quite difficult to get acceptance and traction that there are issues here that need to be looked at as we have gone through the crisis.

When the Government started to hold Ofgem's feet to the fire, and Ofgem then held suppliers' feet to the fire in November, that was when we started to see a marked and material difference and a willingness to engage in constructive dialogue about how we could solve these problems together. Prior to that, there was an element of denial going on among energy suppliers that there was a real issue that businesses were facing.

Q59 **Ruth Edwards:** What progress have you seen since November?

Kate Nicholls: We have seen quite rapid progress. There have been several meetings. There has been evidence gathering both from the affected businesses that are frustrated with some of the terms that are being imposed, because it is right and proper that we make sure that we have a valid evidence base, and from the suppliers to look at where the real issues of priority are.

Ofgem has then been able to drill down on those issues, particularly around deemed pricing, where people were on variable daily rates that were exceptionally high, and non-commodity charges and security deposits that are inflating the price that people are paying for energy bills. We have been quite heartened by the progress since November and have had several positive meetings with Ministers and with Ofgem over the last couple of weeks.

Q60 **Ruth Edwards:** Stephen, what has your experience been?

Stephen Phipson: To be fair, Ofgem has not really had the remit to look at the industrial energy sector. That has not been its area of focus in terms of regulation. The resources devoted to this within Ofgem have been very small. There are good conversations but not much resource, hence I welcome the Chancellor's recent intervention.

Of course, non-commodity charges are highly regulated across the piece, so the 8% to 12% of your energy bill that is the non-commodity prices is



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regulated by Ofgem, but the rest is not. What we are asking for here is to broaden its remit to give it the responsibility to bring that in. That is exactly where the Chancellor has asked the question, but that is going to mean more resources for Ofgem to do this job properly.

- Q61 **Ruth Edwards:** That is a fair comment. We heard from Energy UK in the previous panel. Its view is that Ofgem does not have the resources or expertise to enforce its existing regulatory role properly. Is that something that you would agree with?

Stephen Phipson: I am not so sure on the consumer side, because that is not my area of expertise, but certainly, on the industrial energy side, it needs to stand up a proper team to do this properly. We need to do that properly and quite quickly.

- Q62 **Ruth Edwards:** Tina, what is the FSB's view?

Tina McKenzie: It is twofold. It is not just about Ofgem, but about the energy companies themselves in terms of who we allow to enter, on what basis, what reserves they have and what rules they are under. It is also about Ofgem looking to police that and have some power in that. Certainly, more resources, more expertise, more finance and a bigger scope are needed, and it is going to take some time to get that right.

The good news is that we are now in a period where prices are lower. We may have a window of opportunity. I hope that we do not have another shock in the market and that prices do not go up quite as significantly over a short period of time, but, while we have these dropping prices, this is the perfect time to get into Ofgem and get it right.

- Q63 **Ruth Edwards:** As a quick follow-up on your earlier comments, you mentioned that the Government should be looking to ring-fence and help the smallest businesses. How would you advise that we can best identify those businesses that need the most help?

Tina McKenzie: We have given a few examples of how they can do that. It could be as simple as those businesses that use less than a certain amount of hours in energy per year. You can identify those quite quickly. They are the microbusinesses. There are lots of ways to identify them. It would not cost the Government a lot of money, but what it will do is stop energy firms taking advantage of those smallest businesses, which sometimes really do not know, when they are quoted a contract of 75p, 85p or £1 per hour, what they are signing up to.

- Q64 **Ruth Edwards:** What is your view on what the cost would be? Does the FSB have any idea of the scale?

Tina McKenzie: We have done some costings, which we can forward to the Committee, on various scenarios, depending on how you define it.

- Q65 **Ruth Edwards:** Stephen, while not a substitute for reform of the energy market, we have seen a number of manufacturing businesses in Germany save a huge amount of money on energy costs by rethinking their processes. Are any of your members doing that? What conversations are



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going on with firms that are making breakthroughs here to spread that best practice?

Stephen Phipson: The manufacturing sector in this country is an extremely innovative sector. In our current survey, 39% of manufacturers in the country are investigating or starting to invest in alternative sources of energy. Certainly on the efficiency side of their processes, that is important.

That brings up another point about support and encouragement from Government. The long term is not subsidy for energy costs for industrial, but reform of the energy market and investment in more efficient processes. The energy transformation fund, for example, comes to an end in two weeks' time. We do not have anything to replace those incentives after this.

One of the calls we have had with Treasury is about what we are going to do now, because we should be encouraging these businesses to look at a lot more of these alternative investments to get them off the dependency of high energy costs. That is really important, so we would welcome that.

Some of that can be done on their own, but the SMEs in the manufacturing sector are going to need some help. That help comes either in the form of funds such as the energy transformation fund—which was rather complex to access, but that is a whole other subject—or in terms of tax incentives for investment in green technologies. That is a real push for us at the moment with Treasury.

Q66 **Andy McDonald:** Staying on the theme of energy-intensive industries, there are not many alternatives available to them today. I just want you to inform us about their competitiveness. I am thinking of steel, ceramics, chemical and processing industries. If they go, we might be in trouble, as will the SMEs that flow therefrom. Are you seeing that impact in terms of competitiveness now?

Stephen Phipson: We are indeed. In terms of the situation for energy intensives, there are two points. Under the EBDS scheme—the new scheme that is coming out post April—the definition of trade intensity and energy intensity is done by SIC code, basically, if you look at the way that they have arranged this. This means that it goes on your primary SIC code.

A lot of companies that are energy intensive, such as car companies that make batteries and have foundries on site, are not going to be included in the new scheme, because their primary SIC code does not allow them to be in that category. That applies throughout industry. We see a calculation of a reduction of about 10% of businesses that we would have considered energy intensives to be able to qualify for EBDS. That is one of the challenges with that scheme.

On your point about competitiveness, it remains the case. If we look at what is happening in places like Spain and Portugal, which have now decoupled gas prices from electricity prices and taken out network



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charges from industrial bills, it means that the difference in the new scheme going forwards is about 60% in terms of our prices being more expensive. Even with a generous 30% discount and everything else, we remain highly uncompetitive compared to a lot of European countries.

That means switching production. For things like steel, we are talking about global commodity prices here. Very often, some of those plants have sister plants in European or other countries, and we have seen them taking decisions about whether to operate that day, depending on the spot price of electricity. That will continue and, as the disparity between us and Europe grows, that will become more of a risk to our own foundation industries, which are critical to industrialisation.

Q67 Andy McDonald: Given that we are the highest out of 24 countries in terms of our energy prices, are you seeing that realisation of people saying, "We have the ability to switch"?

Stephen Phipson: There are daily decisions being taken in those plants about whether to operate, depending on today's spot price, compared to their sister organisation, where they could transfer production.

Q68 Andy McDonald: Liberty Steel has cited high energy costs leading to 440 redundancies. Are you seeing signs that that is going to happen? If so, which are the sectors that are most concerning to you?

Stephen Phipson: Steel is No. 1 for me. They are all vital. We are seeing the same things in chemical industries at the moment as well. In fact, some of the chemical plants are now not included in the EBDS, because of this SIC code issue, but that is a technicality. It is the comparison between what is going on in Europe, if you look at the way that they are handling their energy crisis, compared to the prices going forward.

Q69 Andy McDonald: Surely, the chemical and processing industries are those that are most agile. They have the ability to go to Holland and Germany very quickly.

Stephen Phipson: They have, exactly. They will do, and that is the problem, rather than keeping it here.

Q70 Chair: I heard the evidence around businesses changing their processes or their energy use to reduce their energy consumption needs. For businesses that are in offices, pubs or hotels, though, are we seeing landlords come forward with investment to improve energy efficiency in those settings?

Kate Nicholls: We are to an extent. It depends on the type of landlord in our sector. If you have commercial landlords and you are on the high street, they are not coming forward in the same way. You are seeing that from some of the pub industry, with pub-owning landlords doing refurbishments and doing co-investment in kitchen technology in particular. It is undoubtedly the case, though, that, where you are looking at that investment in green technology or you are doing a refurbishment of a site, which would typically take place every seven



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years, the energy-efficient induction hobs and lighting, and so on, are more expensive than the non-green alternative.

Stephen is absolutely right that we need to look at tax incentives, look again at the definition of an R&D tax credit and look at capital allowances for our sector. You have to make a profit to benefit from a capital allowance—you can have a capital allowance that is not getting you anywhere.

Bringing forward some more innovative schemes to allow people to make the investment in more expensive technology and kit when they are doing a kitchen refurb would undoubtedly be beneficial, but we are going to need to change the definition of the R&D tax credit and to look again at how it is done. The Skidmore report identified some of the moonshot approaches that are being taken, where that is offset against pre-profit taxes rather than post-profit taxes, which is our scope.

Tina McKenzie: A lot of our members are small commercial landlords and, due to the uncertainty in the market, they are not investing in their premises. We are not seeing that in terms of energy, and that is for a number of reasons. It is the uncertainty in the market, the lack of availability of cash, the fact that a lot of people have more loans and are carrying more debt than ever before, and a lack of information about what is available out there.

Certain parts of the country have suppliers that are good at going in and delivering some green, efficient energy solutions. Other parts of the country do not. I am particularly thinking of some of those rural towns that are really being impacted. If you go up and down a high street in a small town, you will see that a lot of commercial premises are now simply empty. Therefore, we are not seeing a huge investment from those landlords. Something has to be done to kickstart it.

Kate Nicholls: Our member survey showed that 80% of our members were looking to make investments in energy efficiency. Their working capital was predominantly tied up in energy security deposits sitting with their energy suppliers. There are millions of pounds that is just dead capital sitting in security deposits.

Chair: It is an interesting thought with which to finish that panel. Thank you to all three of you for your contributions, as ever. We are very grateful.