Greater Birmingham Chambers of Commerce

The Ongoing Energy Crisis – what does this mean for businesses in Greater Birmingham?

March 2023

Forward

Businesses are facing unprecedented challenges at the moment as the business community continues to bear the impact of the exogenous shocks from the rising costs of doing business. The data that was collected from our latest Quarterly Business Report shows that inflation is a growing concern amongst businesses and that the sustained soaring energy costs are one of the key driving factors behind this.

The additional support announced in the Budget for households struggling with rising energy costs will play an important part in reducing inflationary pressures in the short term. The lack of equivalent support for the business community was noted though, especially given the new support scheme which goes live in April will be a lot less generous than its predecessor. The hope is that wholesale gas prices continue to come down otherwise any rise could lead to real hardship, particularly for those hospitality and retail firms that are still struggling with huge debts racked up during the pandemic.

In the face of the widening discussion around the "energy crisis" we have collected both qualitative and quantitative data to inform the findings of this paper, which aims to reflect the challenges that local businesses have faced and continue to face. The paper also clearly sets out a series of asks from Government to help businesses overcome the crippling cost pressures they are currently facing and give them the platform to build a long-term path to prosperity. As a Chamber, we remain steadfastly committed to our role to connect, support and help local businesses to grow in what remains an uncertain economic landscape.

Henrietta Brealey,

Chief Executive, Greater Birmingham

Chambers of Commerce

Introduction

The unprecedently high energy prices faced in our economy continue to impact businesses in our region, as some even struggle to stay afloat in the current climate of sustained high energy costs. In order to examine the broader impact of this crisis on the regional business community, the Greater Birmingham Chambers of Commerce has worked to collate a series of case studies which contains direct feedback from businesses struggling to navigate the sustained high energy prices. In addition, the three Chambers have partnered on surveying businesses across the region as part of the data collection for our Quarterly Business Report – the longest running survey of its kind in the city region – the results of which will be shared within this report. The paper concludes with our initial response to the measures announced by Government last week in relation to the Energy Price Guarantee Scheme and a seriesof recommendations for Government to help alleviate the crippling cost pressures many firms are still facing.

What are our key findings?

- 58% of firms cited inflation as more of a concern to their firms than they did 3 months ago.
- 24% of firms said that their fixed-rate tariff for electricity was due to expire at some point in the next 6 to 24 months.
- Almost a third of businesses surveyed were paying more than 25p p/kWh for their electricity, whilst 1 in 4 business were found to be paying more than 5p p/kWh for their gas.

What actions would the GBCC like the Government to take to help businesses struggling with their energy bills?

- Provide Ofgem with more power to strengthen regulation of the energy market for businesses.
- Introduce a Hardship Fund so that businesses who haven't got the cash liquidity can survive the current energy crisis.
- The Government should build flexibility into the fiscal envelope and review the Energy and Trade Intensive Industries sector list.
- Extend the existing Industrial Energy Transformational Fund to £185million to align with the Skidmore review.
- Introduce a floor price to the Energy Profits Levy.

What is the existing support in place for businesses?

The Energy Price Guarantee Scheme protects customers from increases in energy costs by limiting the amount suppliers can charge per unit of energy used.

The scheme has been extended for an additional 3 months at its current level from April 2023 to the end of June 2023. This will bring a typical household energy bill for dual-fuel gas and electricity down to:

- around £2,500 per year in Great Britain
- around £2,109 per year in Northern Ireland

The energy price guarantee was designed as a temporary additional measure to protect consumers from the recent significant increases in wholesale gas prices. Customers who don't look for different energy contracts and get stuck on their supplier's basic default energy tariff are disadvantaged in the energy market. The price cap ensures that prices for customers on default energy tariffs are fair and cost-reflective.

In the most recent Spring Budget, the government stated they will look to end the premium that households on prepayment meters currently pay, by aligning their charges, with those charges paid by customers on direct debit.

The Energy Bill Relief Scheme, which operated from 1st October 2022 to the end of March this year, has essentially meant that instead of capping the rates that energy suppliers can charge for gas and electricity, the Energy Bill Relief Scheme discounts the rates that suppliers pay for wholesale energy. The government had set the following baseline energy prices, known as the 'government supported price':

- £211 per megawatt-hour (MWh) for electricity
- £75 per MWh for gas

The Energy Bills Discount Scheme will run for 12 months and apply for consumption between 1 April 2023 and 31 March 2024. Organisations will receive a £/MWh discount on their energy bills and do not need to take action to receive this universal level of support – the relevant price reduction will be applied automatically to bills.

Businesses will only be provided a discount when the wholesale prices go over a certain price threshold and there will be a limit to the level of discount a business can receive. These parameters have been set by government as:

- Electricity: a maximum discount of £19.61/MWh and discounts being applied when the wholesale price goes above £302/MWh
- Gas: a maximum discount of £6.97/MWh and discounts being applied when the wholesale price goes above £107/MWh

Business reactions

The Chambers have collected a series of case studies from local businesses in order to understand the acute challenges many are experiencing. It is clear that a number of overarching themes have emerged from the anecdotal evidence we have gathered from local firms:

- Many have seen a sustained high price in their energy bills over a period of time
- In conjunction with other high prices, for example the high costs of food in the hospitality industry, businesses are struggling to stay afloat as cash liquidity is eaten into
- Those business who are facing the situation of having their fixed energy price contracts come to an end this year are worried about obtaining a new contract because, without Government support, they see the options available to them as unfeasible.

Nathan Pammenter, Managing Director, P&P Limited

"P&P Safety Limited is small manufacturing company specialising in the manufacture and supply of standard and bespoke PPE products for people working at height and in confined space.

The impact on us from an energy point of view is a potential disaster. Our electricity cost that runs out in July this year is between £650 and £700 per month – with many 'deals' around at the moment, I didn't want to fix for longer than 12 months and the best deal available is £2020 per month which is a 300% monthly increase. How are we expected to fund this???

Ann Tonks, Managing Director, Chapters Restaurant

"Chapter's utility usage is primarily electric - our kitchen cooking suite is induction (the most energy efficient type of kitchen) and our ovens are electric. All heating and cooling usages are electric.

When we opened Chapter in December 2021, the cost of electricity was 19.35p per kWh. We had to start renegotiating our contract in early March 2022 and the cheapest price we could achieve was 32.22p per kWh. As prices were fluctuating wildly at that point, we entered into the contract for two years.

When the standing charge and 'authorised supply capacity' charges are included, our total 12-month projected costs rose by +£30,000pa, an increase of 85%. With 6 months of government help, it still rises +£25,000. Our gas usage is minor and is limited to heating the water. Nevertheless, the increase from November 2022 is +70%, an additional £3,000 over a 12-month period.

"These price increases cannot be seen in isolation. Our food costs have risen by +30% over the same period. In a market where consumer demand is depressed, we cannot simply pass all of these extra costs onto the consumer.

In total, we estimate we have just spent an extra £100,000 over the past 12 months on increased costs which wipes out any chance of making a profit. Food costs are not coming down and at the moment it's very hard to see where utility costs will end up."

School's Trust, Birmingham

"The Trust fixed price contracts for gas and electricity have been in place for 3 years and are due for renewal in April 2023. This covers 11 schools in the Trust.

Up until now the Trust has not received any government support for energy pressures as the prices in our current contract were lower that the threshold for support. The current contracts amount to c. £0.3m p.a. for gas and £1m p.a. for electricity do £1.3m in total.

We have been obtaining periodic quotes through our broker on the lead up to renewal to assess how pricing is moving. In December we received 12 months quotes with the "best price" being £2.5m for gas and £3.1m for electricity. These are annualised estimates based on pricing on the day. In January we received 12 months quotes with the "best price" being £1.3m for gas and £2.3m for electricity. These are annualised estimates based on pricing on the day. We have asked for a third round of pricing for the week beginning 13th February.

We have also considered the option of a 6-month contract but are also concerned about the risk of security of supply as well as price, particularly with China reopening.

Due to the energy increases, especially electricity, our costs will more than double early next year which has to be paid for and with raw material price increases, delivery costs and the Brexit fall out costs continually rising, we cannot pass these increases on to our customers so to stand still and not develop but still be here in 12 months will be a major success. Small companies like ours cannot compete with cheaper imports now anyway, we have to bespoke and be better with quality and service than our competitors but this comes at a price, especially when we specialise in manufacturing in the UK."

Anne-Marie Simpson, Co-owner and Managing Director, Birmingham

" Our business have both been directly and indirectly significantly impacted by the increasing energy costs that business are facing. We have a hospitality business in Sutton Coldfield which was founded in 2016 and we founded a new spirits production business in 2019. The hospitality business has faced increasing costs of energy as part of our direct running costs, but even more critically, has been impacted by price increases from suppliers caused, they have advised, by increased production costs due to elevated energy prices. Already this year, our main supplier of drinks has programmed four price increases. The spirits business is facing price increases for costs of glass for bottles, raw materials, transport costs and increased duty. Our business just cant keep absorbing this. Another real impact has been the increased costs of domestic energy meaning that customers just have less money in their pockets for discretional spend for leisure - its is impossible to raise prices to where they need to be, as footfall is already at critically low levels.

In the past 18 months, our turnover has halved and I have had to take the difficult decision to de register for VAT and maintain annual turnover below the £85,000 threshold. Unless we can increase turnover to minimum circa £125,000, paying VAT would lead to business liquidation. Only stock costs are VAT deductible and the remaining larger items of running costs - labour costs which have increased by around 20% since Brexit and post pandemic, together with rent and rates, make up the largest element of our running costs. So turnover of circa £86,000 carries a VAT burden of around £17,000 gross, with maybe £5,000 deductible, creating a net tax burden of £12,000, which is of huge impact. We would need to increase turnover by around £40,000 to make the equation balance in terms of gross running costs and that just hasn't been possible in the current climate.

Reduced footfall, economic conditions that make passing increases onto customers impossible, and constant price increases have created a perfect storm of demise for hospitality. In addition, the increase of voids on High Streets and lack of investment in town centres has further exacerbated an air of decline which doesn't attract confidence or appetite to spend amenity time in places. Hospitality businesses create the colour and activity on our High Streets and town centres, they bring joy and community to life, help people connect and abate loneliness, without support I can foresee some very real decline in community economy, and health and wellbeing."

Quarterly Business Report

The Greater Birmingham Chambers of Commerce's Quarterly Business Report (QBR) offers an up-to-date snapshot of the performance of the Greater Birmingham business community. It is the most comprehensive regular report of its kind in the city region. The data below reflects QBR data from Q1 of 2023, which encompassed 218 survey responses from firms, with 183 coming from those firms in the service sector, with 34 responses coming from those in the manufacturing sector. This reflects that 84% of survey responses were from those in the service sector, whilst 16% of responses were from those firms in the manufacturing sector.

Participants were asked the following question: **Which of the following factors have become more of a concern to your business than 3 months ago?**

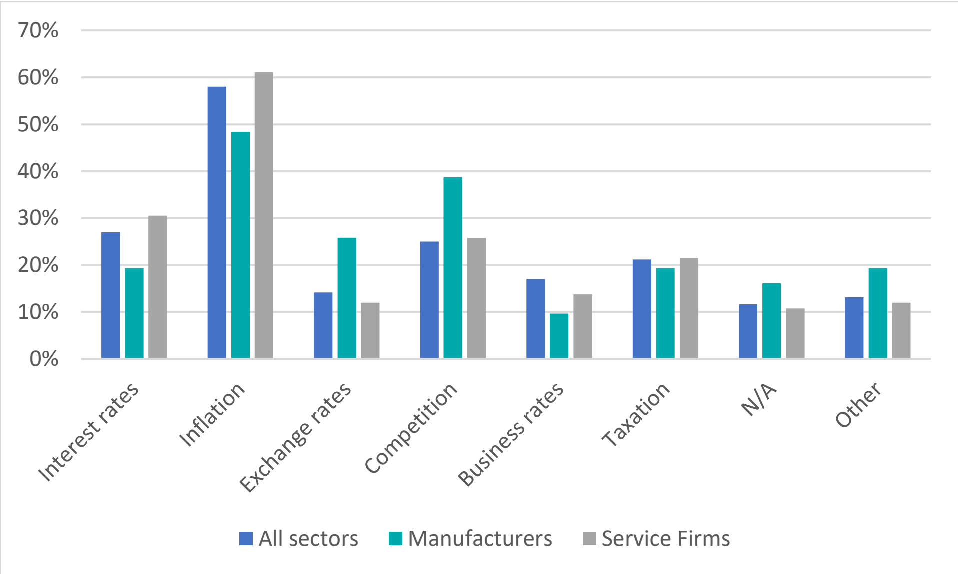

Figure 1: Business Responses to the question: Which of the following factors have become more of a concern to your business than 3 months ago?

In total, 58% of businesses across both sectors cited inflation as a factor that has become more of a concern to their business compared to 3 months ago, with 48% of manufacturers noting this concern compared to only 61% of service firms. One of the driving factors behind the recent high rates of inflation (noted in the most recent inflation figures for February where CPI inflation went up to 10.4%, this being not far off the 40 year record high figure which was seen in the second half of last year where CPI inflation rose above 10% and has yet to come bellow that point), is the sustained high energy costs which are leading to ingrained cost pressures, which is then in turn leading to sustained high costs pressures. Such cost pressures are indicated in the QBR with a real concern amongst local businesses around the erosive impact inflation costs are having on their businesses.

Participants were asked the following question: **In p/kWh what rate are you currently charged for electricity?**

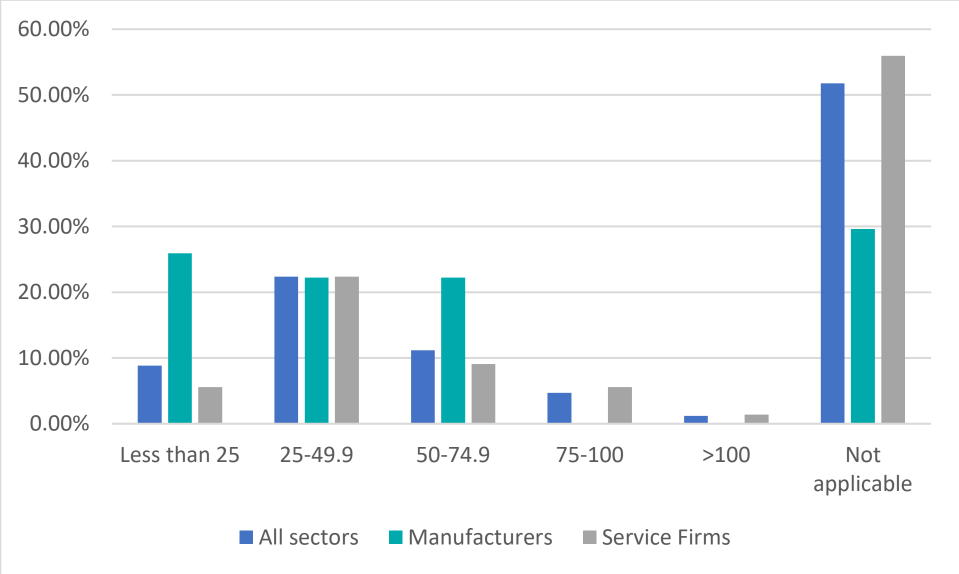

Figure 2: Business Responses to the question: In p/kWh what rate are you currently charged for electricity?

Of all the firms to who this question was applicable 4 in 5 firms found that in p/kWh they were currently paying less than £75. When looking at those firms from the service sector who found this question applicable, 64% of these firms were in fact paying less than 50p in p/kWh. A further notable observation is the extrapolation of figures as for the manufacturing firms 26% and 22% of firms found that they were paying less than 25p p/kWh and between 50p p/kWh to 74.9p p/kWh respectively, which is in comparison to service firms where only 6% of firms were paying less than 25p p/kWh and 22% of firms were paying between 25p p/kWh to 49.9p p/kWh.

Participants were asked the following question: **In p/kWh what rate are you currently charged for gas?**

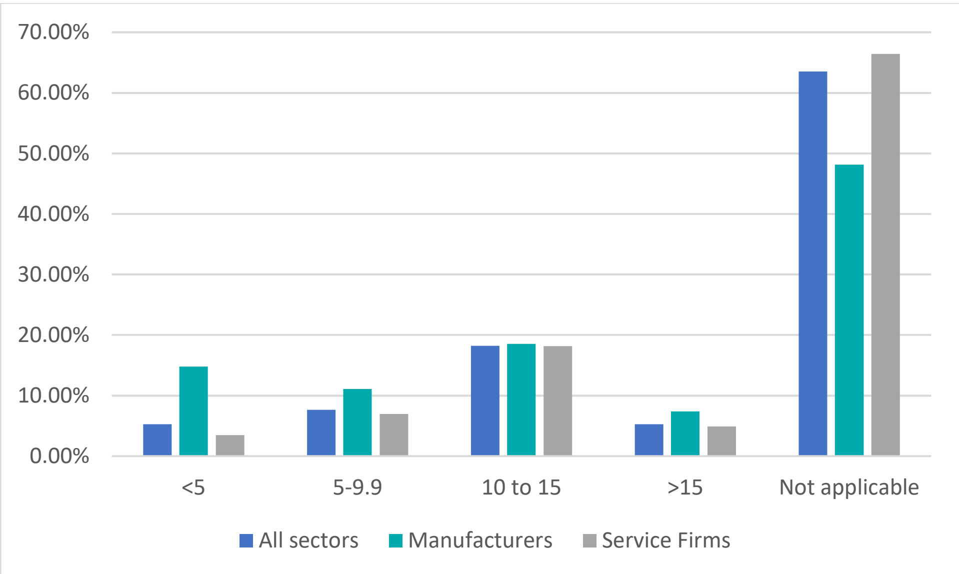

Figure 3: Business Responses to the question: In p/kWh what rate are you currently charged for gas?

Of all the firms to who this question was applicable 50% of firms were found to pay between 10p to 15p in p/kWh for their gas. This statistic is reflective across both manufacturing and service sector firms. When observing those firms who pay between 10p to 15p in p/kWh for their gas there is very little discrepancy between those firms in the service sector, which accounts for 18.2% of service firms surveyed, and those firms in the manufacturing sector, which accounts for 18.5% of manufacturing firms surveyed. Interestingly for those firms who found this question applicable 14.5% of firms were found to have paid more than 15p p/kWh.

Participants were asked the following question: **what proportion of your turnover do energy costs currently represent?**

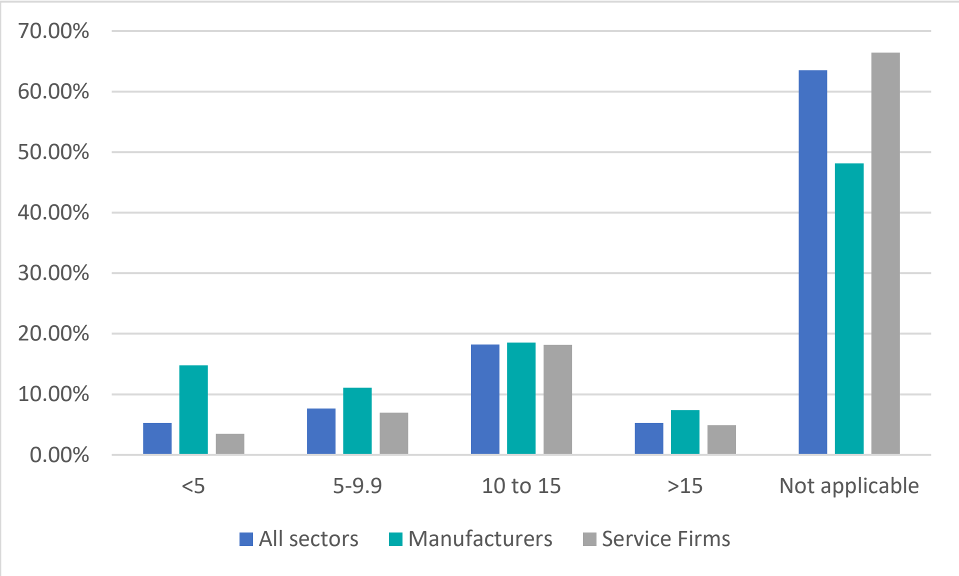

Figure 4: Business Responses to the question: what proportion of your turnover do energy costs currently represent?

Whist we hear that sustained high energy costs are damaging to local business and, in some cases, certain businesses don't believe they have the necessary cash liquidity to survive if energy costs remain high, figure 4 tells a slightly different story. We can see that around three quarters of the businesses that we surveyed said that less than 10% of their turnover is represented by energy costs. Only 4.1% of firms stated that more than 40% of their turnover was represented by energy costs.

What is the GBCC calling for?

Whilst we recognize that there are measures being put into place to combat the sustained high energy costs that we are seeing, the Government still needs to go further and offer additional support to businesses that are dealing with crippling energy costs that are bringing businesses to their knees. In line with the British Chambers of Commerce, we would urge the Government to undertake the following actions in order to alleviate the huge energy cost pressures firms are currently facing:

1. **Provide Ofgem with more power to strengthen regulation of the energy market for businesses, which would ensure effective competition in the business energy market for non-domestic contracts.**

   After the energy prices rise in 2022, Chambers across the countries have expressed their concerns about the difficulties in finding contracted rates at competitive prices. Government should ensure effective competition in the business energy market for non-domestic contracts by ensuring Ofgem has sufficient regulatory powers to guarantee that businesses can access competitive fixed rate contracts, to ensure energy providers move swiftly to pass on wholesale price reductions and to eradicate inflated surcharges such as higher than necessary standing and distribution charges.

2. **Introduce a Hardship Fund so that businesses who haven't got the cash liquidity can survive the current energy crisis.**

   A number of businesses have highlighted through case study and surveys that the projected high energy costs is one of the biggest threats to their business over the next 12 months. Data collected from our Q4 2022 Quarterly Business Report data from Q4 of 2022 that almost 2 in 3 business surveyed felt that their business was suffering pressures to raise prices from utility costs.

   The British Independent Retailers Association, which works with over 6,000 independent businesses of all sizes across the UK, has highlighted that based on the government's own calculations, the current scheme provides a typical small retail shop with £6,400 of financial support with energy bills. Under the new discount scheme, this support falls to £400 for the same small shop. One of the biggest contributors to inflation for February 2023 was a CPI inflation figure of 18% for food and drink, which just shows the impact that rising costs are having on certain industries, such as the restaurant and hospitality sector.

3. **The Government should build flexibility into the fiscal envelope and review the Energy and Trade Intensive Industries sector list.**

   The premise of the latest scheme relies on a fundamental, yet risky, assumption that energy prices will remain low. The Chamber advocates that flexibility should be allowed to account for further exogenous shocks to the wholesale energy price. Furthermore, the use of Energy and Trade Intensive Industries sector codes has revealed some anomalies. For example, most alcohol producer segments are listed but spirits distilleries are not. Another example is the inclusion of museums, but the exclusion of commercial laundries (almost the perfect description of an energy intensive industry) and leisure centres.

   For example, when looking at SIC codes for heat-treatment, the most relevant code looks to be 25610 and this is not included in the list of sectors eligible under the Energy and Trade Intensive Industries scheme. It is essential that the Government realign the Energy Bills Discount Scheme so that it captures all Energy Intensive Units.

4. **Extend the existing Industrial Energy Transformation Fund to £185 million new support for SMEs and in commercial sectors/buildings to align with the advice in the Skidmore review.**

   The Skidmore review proposed that Government should legislate by 2025 for the minimum energy efficiency rating for all non-domestic buildings, both rented and owned, to be Energy Performance Certificate B by 2030. This would be beneficial in the long term by reducing energy usage as well as reducing carbon emissions. However, the issue here is that the Department for Business and Trade estimate that around £20 billion is required to achieve all energy efficiency potential in non-domestic buildings. This need to be adapted to ensure that SMEs are able to capitalise on because the process has not only been found difficult to navigate for SMEs, but remains a sticking point due to the £100,000 limit cap.

5. **Introduce a floor price to the Energy Profits Levy (EPL) and retain the investment allowance.**

   The Energy Profits Levy (EPL) has had a detrimental impact on investment in the UK Continental Shelf and undermined the government's stated aim on increasing UK oil and gas production to enhance our domestic energy security.

   The government introduced the Energy (Oil and Gas) Profits Levy in May 2022 to respond to exceptionally high prices that meant oil and gas companies were benefiting from extremely high profits.

   The Energy (Oil and Gas) Profits Levy was announced on 26 May 2022 and legislated for in July 2022. This was a new, temporary 25% levy on ring fence profits of oil and gas companies. This was in addition to Ring Fence Corporation Tax which is charged at 30% and the Supplementary Charge which is charged at 10%. The levy included a new 80% investment allowance and was due to expire by 31 December 2025. This measure increases the rate of the levy to 35% and extends the time that the levy applies to 31 March 2028. This measure also reduces the investment allowance from 80% to 29%.

Greater Birmingham Chambers of Commerce

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About the Greater Birmingham Chambers of Commerce
We have been in business, for business since 1813. Today's GBCC exists to connect, support and grow local businesses. We offer an array of services and initiatives to businesses Across six geographical regions and four themed divisions. From our wide range of events, international trade services, policy and marketing campaigns, to networking opportunities and media exposure, the Chamber has something for business of all sizes and from all sectors.

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