

21 October 2022

Via email to:

Consultation: Business retail market: 2021-22 review of the Retail Exit Code

Dear Sir or Madam,

FSB is a non-profit making, grassroots and non-party political business organisation that represents members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, microbusinesses and the self-employed.

We first wanted to offer some background on the small business community, which FSB believes should inform the review of the Retail Code.

The small business customer base

Firstly, small businesses are a diverse customer base, constituting 99 per cent of the UK's business population (5.5 million).

Secondly, FSB has long argued that microbusinesses and small businesses are more akin to domestic customers when deciding on new or existing utility contracts. Previous research into the retail energy market identified several areas where smaller businesses are disadvantaged compared to larger companies and domestic consumers.

These disadvantages include the following:

- Lack of expertise in purchasing energy
- Lack of time available for making purchasing decisions
- Poor bargaining power

Small firms want price stability, a low price, and they don't have lots of time to devote to utilities. These observations will apply to the retail water market, as they do the energy market. Unlike energy, in many cases water constitutes a non-expensive utility for businesses, therefore not requiring a significant level of engagement from time-poor businesses.

The cost of doing business

FSB's latest Small Business Index (SBI) reveals the lowest confidence levels among small business owners outside of lockdowns, with a net confidence score of -35.9 in Q3 2022, down 11.2 points compared to the previous quarter.¹

¹ FSB, Small Business Index, Quarter 3, 2022.

Similar to the previous quarter, rising costs continued to affect the vast majority of small firms (89%), with nearly two in five (8%) seeing costs increase by more than 10%.² The primary cost factors are utilities (60% of respondents), fuel (57%), inputs (48%), and labour (43%).³

With regards to energy costs, recent FBS research revealed that nearly two-thirds of small businesses have seen their energy costs increase compared to last year – with some reporting an increase by double, triple or even higher.⁴

Considering the cost-of-doing-business crisis and the small business customer base we, therefore, welcome Ofwat’s decision to retain existing REC price cap protections for Group One and Group Two customers – the smallest and most vulnerable firms.

The review of the Retail Exit Code

1. Retaining gross margins for Group Two customers

FSB is concerned about the ongoing cost-of-doing business crisis. As previously highlighted, confidence levels have plummeted among the small business community, with cost pressures further hampering business growth. Therefore, we agree with the proposal to retain the gross margins of Group two customers at current levels.

2. Inflationary adjustment

However, we are concerned that the inflationary adjustment planned for 2023 will add to business cost pressures. Our Small Business Index for Q3 2022 shows that despite these inflation levels, more small businesses are seeing their revenues decrease (43%) than seeing them increase (31%). While costs inflation is running high, business customers are not seeing increased revenues which would allow them to afford an inflationary increase. In context with inflation currently at 10.1 per cent,⁵ we recommend not proceeding at this time the planned inflationary adjustment to allow businesses to return to a solid economic footing.

3. A single, England-wide, retail allowance

FSB recognises that a single, England-wide retail allowance may offer more transparency and fairness for businesses in England without putting some businesses at a regional disadvantage. However, we are concerned that some businesses will see their overall bills increase due to the changes. Should Ofwat decide to go ahead with a single, England-wide retail allowance, introducing the changes through a glide path, as proposed by Ofwat, would allow those affected to plan ahead and adjust to the changes.

Yours sincerely,

Paul Wilson
FSB Policy Director

For further information please contact:
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² Ibid

³ Ibid

⁴ FSB, Out in the Cold: Helping small businesses through the energy crisis, September 2022

⁵ Bank of England, October 2022, <https://www.bankofengland.co.uk/monetary-policy/inflation>