

Plan it with

PURPOSE

GREEN AMBITION

UNLOCKING SUSTAINABILITY
OPPORTUNITIES FOR SMALL BUSINESSES

FOREWORD

ADAM WINSLOW
CEO OF AVIVA UK
AND IRELAND GENERAL
INSURANCE

Britain is renowned for its entrepreneurial spirit, its start-ups and smaller businesses that set out, often from humble means, to achieve ambitious plans in every part of our country. Countless small to medium enterprises (SMEs) – not just shops but hairdressers, restaurants, accountants, builders, web designers, insurance brokers and many, many more besides - collectively create the very fabric of our country. These businesses power our economy. They provide our jobs, our goods, our services. They make up 99 per cent of all firms in the UK. They also produce a third of our nation’s greenhouse gas emissions. If the country is to have any hope of creating a sustainable, low carbon future, our SMEs need to be leading the charge.

To help them head in the right direction, we need to understand where they stand, ask them what might be getting in their way, and work out what more they need to take meaningful action on climate change. This report is a valuable contribution to that end.

Its findings show that the vast majority of these business owners want to do the right thing. They’re already looking beyond the bottom line and want to make a positive contribution to their communities. And yet it also makes clear they need more help, better information about what is available to them, better financial incentives and better recognition for those who are already blazing a trail so that more and more businesses can take inspiration from their example.

Meeting the climate challenge will take ingenuity, commitment and enterprise. We hope policy makers will use this report to make sure small firms, and the invaluable contribution they need to make, are not overlooked as together we aim to build communities that are fit for the future.

HELEN BOOTH
DIRECTOR,
THE ENTERPRISE TRUST

Small businesses make up 99 per cent of all businesses in the UK – and produce a third of our greenhouse gas emissions. That means the small business community must be front and centre of policy-making because any attempt to make inroads into our total carbon consumption will require their cooperation and involvement.

This report shows that there is no shortage of enthusiasm for decarbonisation. But it also shows we must rethink the way we support these enterprising companies to adopt climate change measures to achieve maximum benefit. Its recommendations point to the fact that must do better at communicating policy and areas that will involve their expertise and innovation - and crucially we must also be prepared to make it financially rewarding.

These firms already want to incorporate green business planning. But they also need to see they can be successful at it.

That leads directly to the third and final recommendation. We need to celebrate success and to champion those self-starters that are already making progress and having a positive impact. This is going to be key not only to raise awareness about important climate issues – but to encourage and support future green entrepreneurs.

The reality is, their ingenuity, enterprise and innovation will be crucial in meeting the climate challenge, allowing us to meet the needs of the future without overly compromising the standards of living we have achieved in the present.

Small businesses play a pivotal role in the economic health and resilience of communities across the UK and it’s crucial that they are given the right support to aid their transition to more sustainable business practices.

We hope policy makers will use this report to understand more about the needs of the UK’s brilliant small business community.

EXECUTIVE SUMMARY

Small and medium sized enterprises (SMEs) will be crucial to meeting the UK's Net Zero target by 2050. To better understand how they can be supported to help deliver on the ambition, Enterprise Nation/ The Enterprise Trust partnered with Aviva and commissioned YouGov to survey British SMEs in nine different sectors to understand their attitudes to environmental, social and governance (ESG) related issues. In doing so, it illuminated:

- the importance British SMEs place on environmental policies
- how well they understand ESG-related issues
- how successful they've been in effecting change to their business
- what obstacles may be impeding their progress

The poll found the following:

- SMEs had little awareness and understanding of major government environmental initiatives.
- Only 1 in 3 British SMEs is considering adopting or has adopted corporate social responsibility (CSR) measures, and only 1 in 5 is considering adopting or has adopted ESG measures.
- Most businesses didn't track their impact on the environment, with only 1 in 3 businesses polled making efforts to measure it. This was even lower among professional services firms.

- More than two-thirds of SMEs don't believe that existing government policies are supporting them in achieving CSR ambitions.
- If financing or grants were available, half of SMEs would seek to adopt environmentally friendly business practices and solutions. However, only 12% of businesses were aware of environmental business practices and technological solutions.

Most SMEs want to make a positive impact through business, and have objectives beyond generating increased profit. But they'll need additional support to deliver the ambitious, but necessary, net zero agenda. Our polling insights suggest SMEs should be supported in three key ways:

- Clear communication from the government over the long-term direction of policy to plan investments in skills, technology, and organisational change
- Financial support and reward for adopting green solutions
- Being championed by business leaders, the media and government for doing the right thing

As SMEs are responsible for a third of the UK's emissions, without the above recommendations, the UK will be in a less favourable position to be able to innovate and develop the solutions it needs to meet net zero targets.



INTRODUCTION

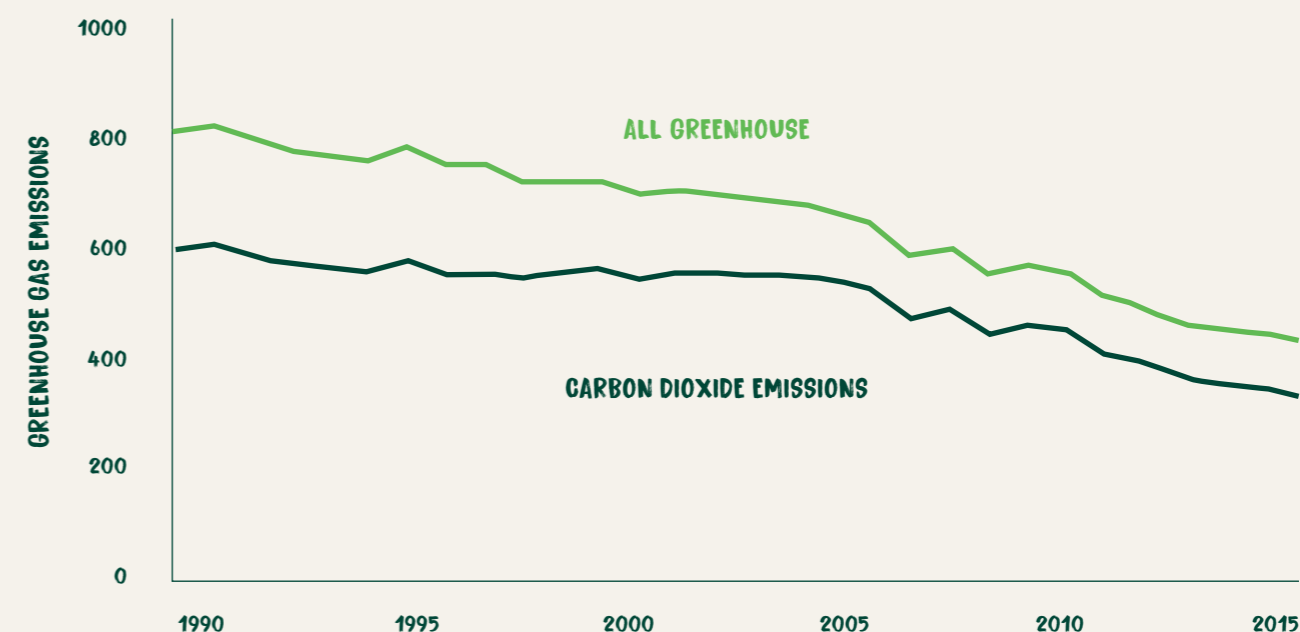
The British Business Bank estimates that when including smaller households and the public sector, small and medium-sized enterprises (SMEs) in Britain are responsible for around a third of all the nation's greenhouse gas emissions.^{1,2} This means that reducing the UK's carbon footprint even partially (known as decarbonisation) will require the co-operation and involvement of SMEs. Reaching net zero itself is impossible without addressing this segment.

SMEs make up 99% of the British business population, meaning they'll play a crucial role in the UK's efforts to decarbonise. They're also economically significant – SMEs are a steadily growing percentage of the British economy, worth over £4.14 trillion today. Most of these businesses are micro businesses, meaning they employ fewer than nine people in total. This may present challenges regarding environmental concerns, as many sustainable alternatives and eco-friendly solutions are expensive and not yet accessible for smaller businesses with less available capital. A micro business in Leeds can't be expected to incorporate carbon capture, use and storage (CCUS) into its business model, but it might be able to use more sustainably sourced materials, install a smart meter in its premises to manage its energy use, or rely more on public transport for its business needs.

The facts and arguments surrounding climate change are well known. What's less well known is where entrepreneurship and business fit into this picture. Given the critical role British SMEs will play in the green transition, it's important to gauge how aware they are of environmental concerns such as decarbonisation, sustainability and circular economics. Getting a better understanding of businesses' awareness of these issues, and how successfully they're considering them in their daily operations, is therefore crucial. As SMEs produce a third of the UK's greenhouse gas emissions, reaching net zero won't be possible without decarbonising those businesses.⁵

1. University of Cambridge Corporate Leaders Groups, 'Small and medium enterprises (SMEs) are vital to UK decarbonisation – how do we meaningfully engage them?'
2. British Business Bank, 'Smaller businesses and the transition to net zero.'
3. Department for Business, Energy and Industrial Strategy, 'Business population estimates for the UK and regions: 2019 statistical release.'
4. Statista, 'Business enterprises in the UK – statistics and facts.'
5. British Business Bank, 'Smaller businesses responsible for around half of all UK greenhouse gas emissions from businesses, British Business Bank research reveals.'

IN 2019, UK TERRITORIAL GREENHOUSE GAS EMISSIONS FELL BY 3% FROM 2018 AND WERE 44% LOWER THAN IN 1990



What can small business owners and entrepreneurs do to assist the transition towards a cleaner, greener and more sustainable future, and what are the main obstacles preventing them from doing so? Do SMEs in the UK treat the environment as a priority, or are they more concerned by other issues? Are they failing to act on environmental issues because of financial or legal concerns, or a general disinterest? Answering all of these questions is vital if we're to understand the role this enormous part of the British economy will play in reaching net zero and improving the quality of air, riverways and natural environment. If the UK is to decarbonise and adapt to climate change, its micro, small and medium-sized enterprises must not only be a part of the conversation, but contribute to the solution.

Climate change is becoming an increasingly dominant concern in public policy and is front and centre of the public consciousness. An Ipsos MORI poll found climate change to be the second-biggest concern for people in Britain, after the coronavirus pandemic. Further polling from Opinium, commissioned by the Conservative Environment Network, found that 83% of British people are worried about the climate and the environment, and only 22% believe enough is being done to tackle the issue.⁷

6. Politico, 'Poll shows big increase in British concern over climate change.'
7. Sky News, 'Climate change: Only a quarter of voters think Boris Johnson is best leader to tackle issue, survey suggests.'
8. Edmans, A. (2021). *Grow the Pie: How Great Companies Deliver Both Purpose and Profit—Updated and Revised*. Cambridge University Press.
9. UK Gov, 'Greening Finance: A Roadmap to Sustainable Investing'.
10. Investment Association, *Investment Management in the UK 2020-2021*.

A historically high level of concern over environmental issues, combined with a high degree of public support for environmental activism, presents both government and businesses with a unique opportunity to deal with climate change in an effective and sustainable way. Taking action on climate change isn't only a necessity, but will help create more jobs, increase exports and develop green skills. Demand for solutions to environmental problems will only grow as more and more parts of the world commit to net zero goals. If British SMEs can be supported, there's the potential to capture emerging market opportunities and export solutions all over the globe.

Climate change isn't just a concern for multinational corporations, but all businesses. Environmental, social and governance (ESG) measures help to attract new customers and investors, increase efficiency and reduce waste, attract and motivate staff and inspire confidence among shareholders. Impact investing has grown significantly – the British government notes that 70% of the British public want their money to go towards making a positive difference to people and the planet. Furthermore, the Investment Association found that in 2020, 49% of the £9.4 trillion in UK assets was integrating ESG reporting, compared to 37% in 2019. At the SME level, there's an increasing trend towards impact investing. Impact start-ups in the UK raised £2 billion in investment in 2021 (up from £1.7 billion in 2020), and over 35,000 people are employed by start-ups that are building solutions to the United Nations' Sustainable Development Goals.¹¹

The UK has long been one of the world leaders on climate change. In June 2019, it became the first major economy to legally commit to reaching net zero by 2050. Greenhouse gas emissions on UK soil fell 44% between 1990 and 2019, making the UK the most rapidly decarbonising nation in the G7.¹²

TO GET TO NET ZERO, THE UK NEEDS TO MORE THAN DOUBLE ANNUAL EMISSIONS REDUCTIONS.



However, we need to accelerate emissions reductions from 1.4% per year (1990–2018) to 3.1%, even though many of the easier and cheaper means of reducing emissions have already been addressed.¹³ This means that the transition will become more difficult and costly as the need to reduce emissions grows further, making decarbonisation a particularly wicked problem to tackle. However, the UK's leading position on climate issues means that British SMEs will have more support – as well as greater expectations – in responding to environmental issues.

11. Department for Digital, Culture, Media, and Sport. UK impact startups raise £2 billion to solve the world's greatest challenges
 12. Department for Business, Energy and Industrial Strategy. 'Final UK greenhouse gas emissions national statistics: 1990 to 2019'.
 13. IFS. 'Tax policies to help achieve net zero carbon emissions'. (These percentages refer to 1990s benchmarks for emissions.)

Climate change is evidently rising to the top of the agenda, and there's strong public support for tackling the issue, but there's a lack of consensus on the ways in which the UK will achieve its objectives.

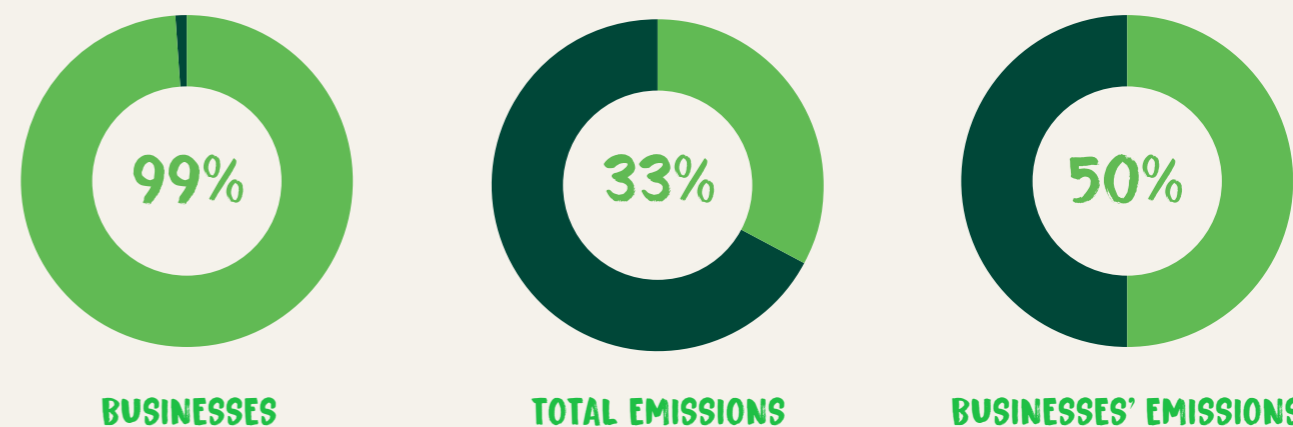
The government will only meet its target to cut emissions by 68% by 2030 and 78% by 2035 (relative to 1990 levels) if it has a variety of measures to call upon. Emissions from transportation and housing make up 27% and 15% respectively and must be addressed with both decarbonisation and energy efficiency.¹⁴ The UK's energy grid has removed almost all coal-fired energy sources (from 28% in 2010 to 1.7% in 2020) but needs to move past its reliance on natural gas (which generates around 35% of the nation's electricity) towards low-carbon alternatives such as nuclear and hydropower, as well as renewables backed up with storage and grid-balancing technologies.¹⁵

To understand how entrepreneurs perceive and act upon environmental concerns, for this report we (Enterprise Nation, Aviva and Enterprise Trust) commissioned YouGov to poll a nationally representative sample of 1,007 British SMEs across nine business sectors and asked them about their environmental and social priorities. We then used this data to develop three key strategies to help British SMEs reach their environmental, social and governance goals.

We wanted to discover whether costs, legislation or other obstacles had prevented SMEs from meeting their environmental and social goals. By clearly identifying common barriers to progress, we could offer insights into what the government can do to improve businesses' ability to decarbonise, and what businesses can do to prepare themselves to make the necessary changes for future prosperity and growth.

Additionally, we wanted to identify trends and methods which have allowed businesses to meet their ESG targets. In drawing trends from the data, we can offer insights and ideas for other businesses that are looking to make ESG criteria a greater priority.

SMEs ARE KEY TO DECARBONISATION. TO GET TO NET ZERO, THE UK NEEDS TO MORE THAN DOUBLE ANNUAL EMISSIONS REDUCTIONS.



14. Gov.uk. 'Final UK greenhouse gas emissions national statistics: 1990 to 2019'.
 15. Gov.uk. 'Energy Trends: UK electricity'.

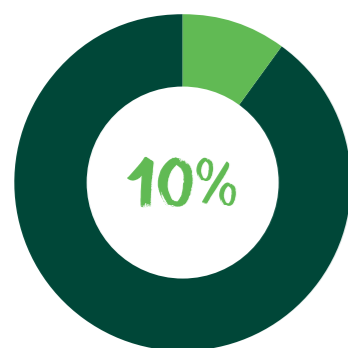
BACKGROUND

The Entrepreneurs Network and The Enterprise Trust has previously surveyed British SMEs on their attitudes to environmental concerns on 28th October to 14th November, and found businesses were generally receptive and positive towards aspects such as carbon footprints, recycling, energy efficiency and sustainable materials. Business owners and employees alike viewed the green transition as a necessary and optimistic movement, and saw that environmental policies offered opportunity for growth. **Out of 1007 businesses polled,** 61% believed that the green revolution provides these opportunities, and only 8% disagreed. However, we're still a long way from having fully decarbonised the British business sector, and many SMEs have barely started the process of addressing the environmental concerns in their business operations. If the will is there to make the change, what's standing in their way?

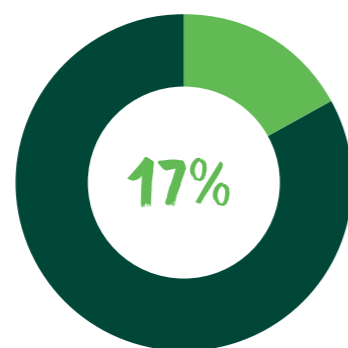
Most British businesses have never heard of crucially important government schemes, and many don't understand how they work.

Awareness and understanding of the government's main environmental policies and strategies is concerningly low. Just under a third (29%) of businesses have heard of and understand the landfill tax, while awareness of other policy initiatives is even lower. For example, fewer than one-fifth of businesses are aware of and understand emissions trading, which is set to be a major part of the government's net zero strategy. When a business can't understand legislation and its specific impact on them, it's impossible for the business to adequately prepare and respond to the changing political landscape.

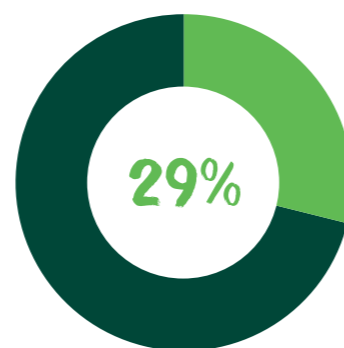
AWARENESS OF KEY ENVIRONMENTAL SCHEMES AND INITIATIVES IS LOW.



**HEAT AND BUILDINGS STRATEGY
HAVE HEARD OF AND UNDERSTAND
HOW IT WORKS**



**EMISSIONS TRADING
17% HAVE HEARD OF AND
UNDERSTAND HOW IT WORKS**



**LANDFILL TAX
29% HAVE HEARD OF AND
UNDERSTAND HOW IT WORKS**

AWARENESS AND UNDERSTANDING IS LOW EVEN IN SECTORS THAT ARE DIRECTLY AFFECTED.

Heat and Buildings Strategy: Just 13% of SMEs in the construction, home repairs, and improvements industries have heard of and understand how it works.

Most concerning is the fact that awareness and understanding of policy remains low even in those sectors that are directly affected. For example, only 13% of SMEs working in construction, home repairs, and improvements have heard of the government's Heat and Buildings Strategy. This is despite the strategy having important implications for home improvements (such as funding support for installing heat pumps and insulation) and construction. Research from the Social Market Foundation suggests that decarbonising home heating will require high levels of retraining, yet the mostly self-employed workforce are unlikely to make the necessary investments in new skills if they're unaware of, or lack confidence in, the government's plans to stimulate demand for heat pumps and home insulation.¹⁷

When engaging SMEs, corporates may also need to moderate the language they use. Although most SMEs (64%) polled cited priorities beyond generating higher profit – such as employee wellbeing (24%), promoting green values (16%) and reducing carbon emissions (16%) – their engagement with concepts such as ESG and corporate social responsibility (CSR) was low. Across sectors, between 10% and 35% of businesses don't even know what "ESG" means, while for "CSR" the figure is between 10% and 30%. Only a third of SMEs consider CSR in their business planning and just a fifth consider ESG. However, levels of engagement vary significantly across the sectors. Unsurprisingly, charities and not-for-profits are most likely to consider both in their business planning (55% and 49% respectively), while retail and wholesale are least likely (17% and 14% respectively). Among for-profits, professional and business services are significantly more likely to consider both in their planning (32 and 27% respectively).

When large businesses want to engage SMEs and SMEs' customers on ESG or CSR issues, they should tailor their language carefully and avoid jargon. There's a strong case for taking a sector-by-sector approach to engaging SMEs on these subjects. Put simply, priorities differ across sectors and, unsurprisingly, businesses take the greatest interest in issues that affect their bottom line. For example, consumer-facing sectors such as retail prioritised promoting green values and supply chain sustainability. By contrast, professional and business services firms were more likely to focus on employee wellbeing.

Businesses are clearly keen for practical solutions which allow them to make a positive impact while cutting costs. Government policies such as the Heat and Buildings Strategy or the CRC Energy Efficiency Scheme should enable this approach, not obscure it. If policy is complex or unclear, businesses may be unaware of the support on offer to help them decarbonise. As a result, the path to net zero is likely to be longer than necessary. Furthermore, low levels of awareness or understanding of environmental initiatives can also reduce the demand for entrepreneurial solutions to problems such as climate change and plastic pollution. As a result, fewer breakthrough technologies will be developed and scaled in the UK than elsewhere.

Simplifying the way in which it communicates environmental policy to SMEs should become a priority for the government. By focusing on how to make businesses and consumers more aware of policies, their impacts and objectives, government policies could be far more effective. Giving both producers and consumers the information they need will make them far more likely to see adopting sustainable practices as an opportunity, rather than a series of difficult and confusing hoops to jump through.

16. The Entrepreneurs Network & Eamonn Ives, 'Green Entrepreneurship'

17. Social Market Foundation, *Did no one call the plumber? Analysis of the Heat and Buildings Strategy's approach to skills and workers.*

The government itself has acknowledged this. In its 200-page Heat and Buildings Strategy (which only 10% of the SMEs polled had heard of and understood), the government acknowledged that “clear regulatory drivers and market-based approaches need to be accompanied by a cross-cutting framework for transformation which ensures that measures are accessible and affordable”.¹⁸

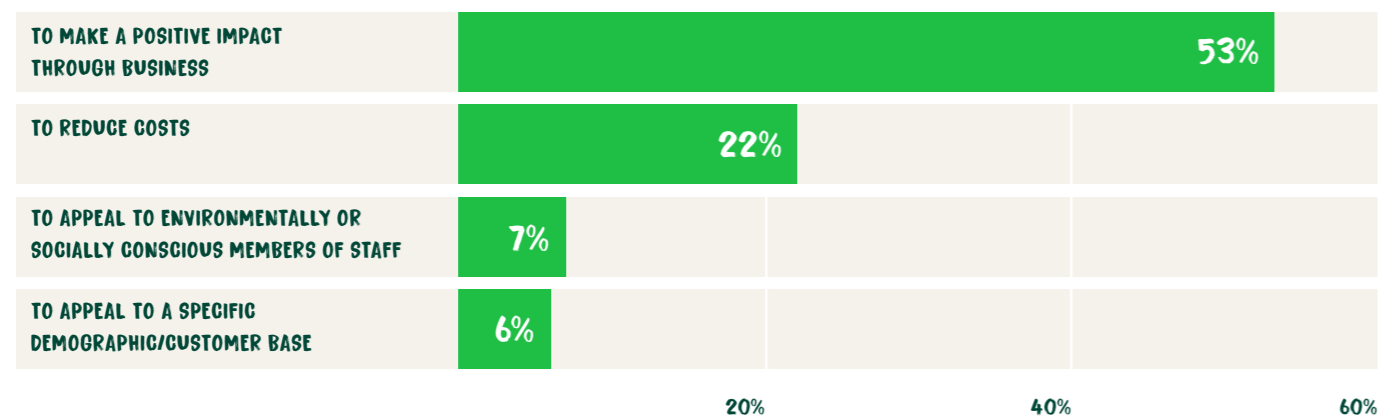
Most SMEs wouldn’t advise other business owners to adopt eco-friendly business practices but most would embrace eco-friendly practices if there were greater financial incentives to do so.

A crucial way of engaging British SMEs will be to stress the opportunities for growth that the green industrial revolution will provide. As all national economies begin to put greater emphasis on greener business models, the UK will be able to capture a greater market share as the world leader in decarbonisation. By becoming early adopters, British businesses can future-proof their business models against changing regulations and consumers’ attitudes towards sustainability and social responsibility. Importantly, if British SMEs embrace new green technologies, entrepreneurs will have an opportunity to trial innovations locally, before hopefully scaling them across the world.

The primary barrier for businesses in adopting eco-friendly practices is related to cost. If there were a greater financial incentive for SMEs to invest in renewable energy sources, energy efficiency measures or biodegradable materials for their products, it would be a straightforward decision to pursue a more eco-friendly and responsible business models without losing out financially.

When businesses adopt sustainable and socially conscious practices – recycling, flexible working, or introducing more sustainably sourced materials in their supply chain, for example – their primary motivation is to make a positive impact through what they do. However, it isn’t the only reason. Some businesses see practices such as reuse and recycling as a way of reducing costs (22%) and measures such as volunteering leave as a method of appealing to environmentally or socially conscious members of staff.

TOP 4 REASONS FOR ADOPTING ENVIRONMENTALLY AND SOCIALLY CONSCIOUS PRACTICES.



18. Gov.uk, 'Heat and Buildings Strategy', p.164.



It's important to note that while most businesses adopt sustainable practices for largely selfless reasons, they can still benefit in a range of ways. For instance, environmentally minded consumers are more likely to buy products from businesses that use renewable energy and carbon offsets to be carbon neutral. Similarly, using fewer resources through recycling or more efficient use of packaging can generate cost-savings.

In some cases, there may be a problem of perception where businesses see green practices as a luxury option. But, this isn't always the case and often the cleaner option is also the cheaper option in the long term. There may be a role for large businesses and the public sector to highlight these cheaper options to SMEs.

Despite businesses indicating that they're aware of and sensitive to issues such as employee wellbeing and reducing their carbon footprint, they feel they lack the support or resources to pursue these goals further. The government must recognise that businesses' priority is to sustain themselves via profitable business models – if the numbers don't add up, the businesses won't pursue secondary goals such as sustainability. Although many SME owners would like to do more, what they can do is often constrained by competitive pressures.

Among businesses that have adopted socially and/or environmentally conscious business practices, half (50%) believe they have achieved their goals and just 9% feel they haven't at all. However, a significant proportion (42%) gave a mixed response, suggesting that while they've made progress, their long-term aim of making a positive impact through business is still ongoing.

Significantly, a majority of SMEs that have adopted socially conscious business practices would not speak well of them to other SMEs. Charities and arts businesses were most likely to speak positively, but across other sectors there was a clear majority (68% to 74%) that were unlikely to recommend adopting such practices. Why are SMEs achieving their goals but not recommending the same practices to other businesses? There are a range

of potential explanations. On the one hand, they might believe that other businesses are less likely to share their goals. On the other, while ultimately successful, they might believe there was insufficient support available or the return on investment was simply too low to justify the effort.

In some cases, decarbonisation will be best achieved indirectly. For example, UK SMEs will have become substantially greener in their energy use over the past decade. However, this is unlikely to be the result of active choices, such as choosing green tariffs, but rather as the UK has taken almost all coal-fired energy sources off the energy grid.

However, if more financing were available in the form of grants or loans, just over half (52%) of SMEs believe they would adopt more eco-friendly/socially conscious business practices and solutions, suggesting that finance may currently be what's restricting them. This may not be the case for all initiatives and solutions. While adding on-site renewable energy generation or investing in workforce training may involve large upfront costs, other changes such as carbon offsets and adopting diversity and inclusion policies may have less of a direct need for finance.

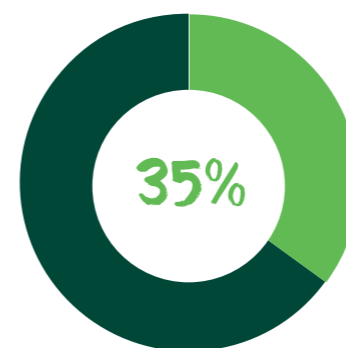
SMEs face different challenges to larger businesses and require tailored support.

Smaller businesses – with limited staff, budgets, time and access to specialist skills, compared to larger firms – are in danger of losing out on green opportunities. Though they want to make a positive impact through business, to achieve their objectives they need clear communication from the government over rising environmental expectations, access to finance to fund upfront investments in technology and skills, and incentives to develop new innovations aimed at environmental and social objectives.

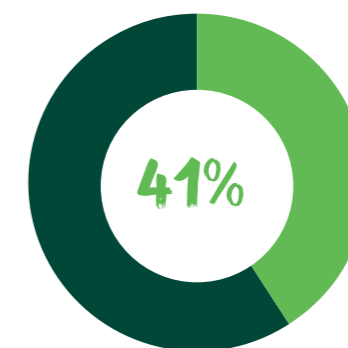
A key constraint all SMEs will face is that due to their limited scale, business owners will often find they have insufficient time to plan and track new initiatives. For instance, our polling revealed that just one in three (36%) businesses tracks its environmental and social impact. This is significant for two reasons. First, businesses that track their impact are more likely to identify areas for improvement. Second, businesses that fail to track their impact will struggle to assess whether any changes they make are successful. There's an added incentive for businesses to track social and environmental outputs: the public sector is increasingly taking into account social value when awarding procurement contracts. SMEs that are competing for tenders may find they are at a disadvantage if they fail to track their impact.¹⁹ The need for SMEs to track and act on environmental issues is heightened now COP26 has passed, as they'll be assessed on their indirect 'Scope 3' emissions, which includes emissions from use of sold projects and, significantly, goods and services they've bought.²⁰ As a result, large firms keen to show they're complying with the science-based targets necessary to meet the ambition of limiting global warming to 1.5 degrees will increasingly look at the emissions of the SMEs in their supply chain.

Modern consumers are increasingly likely to shop with businesses that adopt socially and environmentally conscious practices, but often SMEs struggle to communicate to consumers what they're doing. There are a range of private certification schemes – such as B Corp Certification, Good Business Charter, Good Shopping Guide and UKAS – which can signal to consumers that a business is engaged in efforts to improve its impact on the environment and trade in a socially responsible way. However, over half of SMEs aren't aware of any of the schemes, while most that are aware don't believe they will benefit from certification.

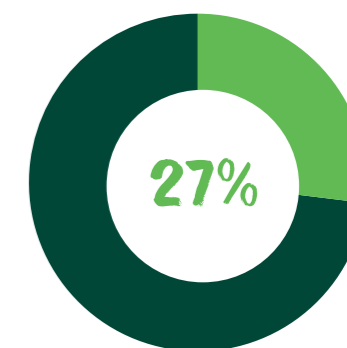
JUST ONE THIRD OF BUSINESSES TRACK THEIR ENVIRONMENTAL AND SOCIAL IMPACTS.



OVERALL
AS A BUSINESS, WE TRY TO TRACK OUR ENVIRONMENTAL AND SOCIAL IMPACT



RETAIL AND WHOLESALE
AS A BUSINESS, WE TRY TO TRACK OUR ENVIRONMENTAL AND SOCIAL IMPACT



TRANSPORT
AS A BUSINESS, WE TRY TO TRACK OUR ENVIRONMENTAL AND SOCIAL IMPACT

19. Cabinet Office, Green Paper: Transforming public procurement.
20. Carbon Trust, What are Scope 3 Emissions.

CONCLUSION AND RECOMMENDATIONS

The insights from our polling provide clear guidance on how to support and encourage SMEs to take environmental action.

The prominence and popularity of climate action presents businesses and governments with both a challenge and an opportunity. Businesses need to do their part in contributing to environmental issues such as sustainability and biodiversity, but the government can assist them in doing so.

A key finding of this report was that across all sectors surveyed, businesses don't believe the government is providing enough support for them to put more environmentally friendly measures in place. If SMEs are to decarbonise and meet other key environmental priorities, more must be done to provide access to finance, information about potential solutions, and incentives to track impact and innovate. A problem as big as climate change will require everyone to play a role, from consumers and SMEs to large businesses and the government.

Importantly, support from the government and from larger businesses must understand that SMEs face specific challenges. They often face constraints on their time. As a result, they find it difficult to learn about the range of environmental solutions and will be unlikely to actively track their environmental impact. However, SMEs on the whole want to make a positive impact through business. The vast majority have objectives and goals beyond making more profit.

With that in mind, support must come in three ways.

1.

SMEs need clear communication from the government and larger businesses over the long-term direction of policy to plan investments in skills, technology, and organisational change.

- The Get Ready for Brexit campaign and website is a useful model for communicating a wide range of changes to businesses in an easily accessible way. The government should actively investigate whether a similar Get Ready for Net Zero campaign could work to set out key regulatory changes and expectations in advance. A key advantage of the Get Ready for Brexit campaign is that it allowed people to get information tailored to their sector and size of business. This would ideally prevent situations where an entire sector is unaware of a major initiative such as the Heat and Buildings Strategy.
- Initiatives such as Peer Networks should be used to communicate practical environmental changes businesses can make and raise awareness of existing corporate schemes to help SMEs decarbonise.

2.

SMEs should be financially supported and rewarded for adopting green solutions.

- At the last Budget, the Chancellor announced that eligible plant and machinery used to generation and store renewable energy on site will be exempt from business rates until 2035. The Treasury could investigate expanding this relief to a wider range of investments that enhance energy efficiency.
- The super-deduction allows businesses to write off 130% of expenditure on qualifying plant and machinery investments until 2023. Instead of expiring entirely in 2023, the allowance could be extended for SMEs that invest in approved environmentally friendly technologies.
- The government should also look at extending the relief to investment in green skills by introducing a new training relief. Large businesses should also be granted more flexibility to use their Apprenticeship Levy funds on green skills training within their supply chain.
- It's welcome that outside the European Union, the UK Global Tariff (UKGT) increased the number of green products which no longer attract tariffs at all, such as LED lamps and thermostats. However, tariffs remain on a range of green goods such as bicycles and hybrid-electric vehicles. The government should support SMEs to make the transition to net zero by removing remaining tariffs on green goods entirely.

3.

SMEs that do the right thing should be championed by business leaders, the media and government.

- The government can use its convening power to highlight businesses that have made practical and scalable changes to improve their impact on the environment. The Exporting is Great Campaign, which highlighted SMEs that have made efforts to trade internationally, should be seen as a blueprint.
- The government could actively engage those SMEs that are aiming to innovate around the most pressing sustainability challenges. This would serve two purposes:
 - i. SMEs would see that the government recognises they have a major role to play in decarbonisation.
 - ii. SME innovators would be able to identify issues relating to finance and regulation and communicate them directly to responsible ministers.

The strengths of ingenuity, enterprise and innovation will be crucial in meeting the challenge of climate change, allowing the UK to meet the needs of the future without compromising the standards of living it's achieved in the present. It's time to give British business of all sizes the power to make real and impactful changes, and solidify the UK's position as the world leader on climate change.

CASE STUDY

AZTEC FARMS

By placing sustainability at its core, Christofer Fisher of Manchester-based vertical farming start-up Aztec Farms believes his business can meet the demands of eco-minded consumers.

"Vertical farms use 95% less land and water than traditional farms, as well as using zero pesticides or any other harmful chemicals. Growing food inside of cities means you can reduce the 'food miles' travelled, which improves food quality and decreases greenhouse gas emissions."

For Aztec Farms, sustainability needs to be at the heart of everything it does. As well as growing crops in an environmentally friendly way, it has also changed how it packages its products and presents them to consumers.

"We've recently switched our packaging to exclusively biodegradable solutions. From market research and engaging with our customers, we concluded that even though it would increase the price of our products it was something that was very important to our customers and our own beliefs."

"IN A POST COP26 WORLD IT IS EVIDENT THAT CHANGE NEEDS TO COME FROM EVERY BUSINESS TO MAKE THE WORLD A MORE SUSTAINABLE PLACE; WE CAN'T RELY ON JUST THE BIG PLAYERS TO MAKE THE SLOW MOVES."

Aztec Farms' consumers have welcomed the change and Christofer believes it can set the business apart from its competition.

"We got excellent feedback and were able to achieve a deeper connection to our eco-minded customers who spread the word to their friends and family. I'd recommend making sustainable changes to any business no matter their size. By setting an example to customers and other businesses alike, we can stand out from the crowd and be recognised as leaders of change. Customers want businesses that are aimed at tackling climate change."

To make progress on decarbonising SMEs, Christofer wants to see greater recognition for Britain's green SMEs from government and the private sector.

Although our polling has shown that not all businesses would recommend making green changes, Christofer believes it's essential that every business acts to stop climate change.

CASE STUDY

BOILERCERT

BoilerCert is a growing, ambitious plumbing and heating business based in Nottingham. It works closely with Nottingham estate agents to maintain their tenanted properties, as well as specialising in plumbing and heating repairs and maintenance, gas and oil boiler service and installations.

The company has grown year-on-year and manages its future expansion by recruiting and training its own apprentices to meet growing customer demand. Charlie Keightley launched the East Bridgford Business Park-based business in 2008.

Director Lyndsey Keightley says the 20-strong firm is expecting huge change in the industry and has prioritised the next six months for tentatively initiating green change, including making the office paperless. But the challenge for heating firms like BoilerCert is that despite the huge change coming, with the Heat and Buildings Strategy paving the way for renewable domestic energy, there's no time to research and implement green change – and little incentive.

"Being green is really important. We're looking into what we can do over the next six months, but we're driving this, not the government and not really our customers.

"It's also driven by our staff. We take on ambitious young people and they can see the future, the potential for the industry. When we recruit, we have to offer them a career and that means investing in renewable heating training.

"It's so hard to find the information you need and this technology is changing all the time. We have to rely on word of mouth. We depend on suppliers, boiler manufacturers and training providers for information. There has been nothing coming out of government that we can work with."

The firm has a fleet of vans that its qualified engineers use, but so far there's no electric equivalent.

"We've looked into it and would really like to invest in electric vehicles. But because the equipment that our engineers carry is so heavy, it drains the charge. The infrastructure of charging points isn't yet established in the East Midlands, it would be impossible. The engineers would have to travel back to the office to charge, and we cover miles. It wouldn't work at the moment."

Another barrier is knowledge. At the moment, customers get the benefit of gas engineers with years of knowledge. Bringing on renewable engineers with the same level of skills to advise and make recommendations to customers will take years.

"OUR CUSTOMERS RELY ON US FOR OUR EXCELLENT KNOWLEDGE. WE'RE QUICK AND EFFICIENT, WHICH KEEPS PRICES DOWN. AT THE MOMENT, THERE'S LITTLE DEMAND FOR RENEWABLE BOILERS, THEY'RE EXPENSIVE. WE NEED A FINANCIAL INCENTIVE TO KICKSTART CONSUMER DEMAND, MORE READILY AVAILABLE TRAINING AND A MUCH BETTER FLOW OF WORKABLE INFORMATION."





“THIS IS OUR MISSION, THAT’S WHY WE EXIST, BUT IT’S ALSO IMPORTANT TO BE ABLE TO QUANTIFY THIS TO IMPACT INVESTORS.”



CASE STUDY XERO-E

On-demand, emission-free delivery firm Xero-E landed half a million pounds – most of which was impact investment – to help launch its unique distribution solution in 25 UK cities over the next few years.

Initially, the funding came via Bethnal Green Ventures’ (BGV, owned by impact investment firm Connected Asset Management) accelerator programme. A further round arrived in 2020/21 through a mix of equity investors including BGV, Bristol and Bath Regional Capital, the Startup Funding Club and impact-focused angel investors.

While securing funding for any founder of a busy small firm is a challenge, the stakes can be even higher when looking to secure impact investment.

But Xero-E founder and CEO Steve Evans said the process, while time-consuming, was not significantly different to normal investment rounds. However, the firm – whose platform has launched in London, Bath, Bristol, Manchester, Birmingham, Leeds, Oxford and Nottingham so far – was able to demonstrate its environmental impact thanks to a sustainability reporting algorithm it developed with Imperial College London.

Steve said: “If you’ve only got a few people running the business day-to-day, securing investment can take up all your time. You’re thinking about it and waiting for investors to get back to you, then waiting for lawyers to go through it line by line. It can be frustrating, but now we’ve done it, we’ve learned lessons that will help take us onto the next series.”

Xero-E is the first UK platform to aggregate zero emission delivery vehicles in one place, offering its customers the ability to book on demand, while making a positive impact on the planet.

Steve added: “Because of our algorithm, we’re able to exactly quantify our impact in human lifetime days. That includes not just the important savings in carbon dioxide (CO₂), nitrous oxide (NO_x) and fine particulates (PM_{2.5}) we make by using cycles, cargo bikes, electric scooters, cars and vans for all our deliveries, but also the NHS costs we save.

ABOUT THE AUTHOR

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