compass
BUSINESS FINANCE

Mitigating the Energy Crisis

Practical Steps and Ideas for your Business

September 2022

Mitigating the Energy Crisis

The energy crisis is causing many businesses to enter survival mode once again, requiring them to take urgent action to mitigate rising costs and navigate their way through a whole host of critical issues. Businesses are being faced with a number of macro-economic challenges that are directly causing or contributing to the energy issue, however, all is not lost.

In the following pages, you'll find some practical steps that you can take to manage your business through the crisis and help towards your sustainability goals, including two examples to bring this to life.

Current State of the Crisis

The world economy has suffered many an energy crises before, with the usual culprits (as today) being war, fuel shortages and market pressures or manipulation. Today, the UK may be less exposed than its European counterparts, with some countries, such as Germany facing energy rationing, however, despite the government's short term support plans, businesses are facing considerable uncertainty.

Feedback from the market shows that business owners who were previously paying 10-12p per kWh for electricity, were facing costs more than 70p per kWh from 1st October, with some prices over of £1 per kWh from November.

79% of SMEs say that the current economic climate is worse than during the pandemic

SME Confidence Tracker Survey

As an example, a customer of ours with a £13m turnover recently reported an increase of £60,000 per month in energy costs alone, as well as the increases in other raw materials, to be accounted for at the same time.

The temporary non-domestic support from government is equivalent to a cap of about 21p per kWh and 75p per kWh for gas, however, the absolute level of individual bills will continue to vary. Businesses whose current rate is above the cap, can expect to see discounts of 30-40% of the difference dependant the on type and date of contract they have. For further information or clarification visit [https://www.gov.uk/guidance/energy-bill-relief-scheme-help-for-businesses-and-other-non-domestic-customers.](https://www.gov.uk/guidance/energy-bill-relief-scheme-help-for-businesses-and-other-non-domestic-customers)

Businesses are understandably concerned about what happens after this 6-month intervention, but then it's difficult for the government to forecast the economic requirements in such a changeable landscape.

There are many moving parts in the economy at present, all of which are interrelated, and are contributing to the perfect (or nightmare-like) storm that we currently find ourselves in. If the cost-of-living continues to increase, then consumer confidence and consumer expenditure will be forced down; driving down demand for goods and services.

Even with the domestic cap in place for two years from this October, it is still well above the caps in place since 2018. The energy crisis along with supply issues are propping up inflation, requiring the Bank of England to continue raising interest rates to control money supply, in turn, driving up the cost of domestic and business debt.

The Manufacturers' Association, Make UK, have reported that the energy crisis is forcing manufacturers to consider cutting production or closing down altogether. Their study shows firms were warning that their energy costs have already "spiralled out of control" (BusinessLive, 5th Sept 2022).

"As energy bills spiral out of control, manufacturers are working tirelessly to find ways to reduce consumption, putting in place as much as they can afford in terms of building improvements and installing renewable sources of energy".

Stephen Phipson, CEO, Make UK

Around half of the 200 companies surveyed said their electricity bills have shot up by more than 100% in the past 12-months and half expect the same fate in the coming year. Around one in eight of those polled said they have already made job cuts as a result of increased energy bills, and admit that more drastic action such as full shutdowns and wider redundancies will be needed if expected price hikes materialise in the next 12-months.

Make UK notes that the high prices are a concern for manufacturers of all sizes and sectors and that 58% of respondents have sought to reduce energy consumption through insulation and better heating systems. Manufacturers are also looking to secure their own energy supplies, with 27% now exploring funding options for onsite generation.

Key Considerations

With survival being of utmost importance, there are, as shown by the above research, some important considerations to be made. Businesses are reviewing their machinery to see if there are more sustainable, efficient and lower energy options, whilst also looking at further energy saving actions across their production sites, including whether onsite power generation would make sense for them.

As well as mitigating rising costs, it's equally as important to look at how best to pass on rising costs to buyers, and to review how you could improve your monthly cash headroom through restructuring debt and/or changing finance providers.

Investing for efficiency

During Covid-19 businesses had to manage lower levels of turnover, and reduce headcount accordingly, often funded with loans raised from CBILS (Coronavirus Business Interruption Loan Scheme), introduced by the government at the start of the pandemic. After the initial cashflow help, we supported a large number of businesses seeking to invest in machinery, to support lower levels of sales, at the same time as seeking greater efficiencies ready for the upturn.

Whilst sales levels appear to have returned to pre-Covid levels, the energy crisis and recessionary pressures have brought into focus the need to reduce costs even further.

Examples include, firms replacing two or three older machines with say one newer machine. In some instances the leap in technology, and productivity appears to both cope with the capacity requirements and provide a substantial reduction in combined energy. A reduced line up of machines also reduces associated costs, such as labour and raw material efficiencies, not to mention on-going maintenance costs and downtime.

Now is the time to review manufacturing processes, whilst temporary energy caps, preferable tax incentives and financial support schemes are available. Suppliers of equipment have shown considerable interest in working with customers to assess what changes could be made and we're seeing an increase in solutions that put the long-term survival of the business at the heart of the buying process.

Now is the time to review manufacturing processes, whilst temporary energy caps, preferable tax incentives and financial support schemes are available.

Energy saving actions

The manufacturing sector presents a very strong case for installing solar panels and renewable energy technologies. The higher the use of energy, the higher the savings from solar panels and therefore the greater the available benefit.

Sustainability is becoming increasingly important within the supply chain, with the UK government putting pressure on companies to turn to sustainable solutions. Wholesalers and retailers are now considering green credentials when choosing their suppliers, therefore, installing solar panels not only reduces business overheads, but also has reputational advantages, helping their customers meet their sustainability and net zero targets.

A PV or PhotoVoltaic solar system, either off-grid or grid-tied can provide healthy financial returns with a continually decreasing payback period.

The Feed-in Tariff for solar panels closed in March 2019, however, the cost of manufacturing solar panels has plummeted by c. 80% in the last ten years, according to the International Renewable Energy Agency (IRENA), making them far more attractive option. A PV or PhotoVoltaic solar system, either off-grid or grid-tied can provide healthy financial returns with a continually decreasing payback period.

Additional solutions include, the boiler upgrade scheme (BUS), which can for small businesses, provide up to £5,000 off an air source heat pump and £6,000 off the cost and installation of a ground source heat pump.

The workplace charging scheme (WCS) for electric vehicles, reduces the purchase and installation cost of a new workplace EV charge point by 75% (capped at £500 per socket). A single business can claim up to a maximum of 20 charge points e.g. 20 single socket or 10 double socket charge points. The WCS is available to any business with adequate off-street parking, however must be installed by an OLEV-approved installer.

Financial support

Utilising asset finance for “soft assets” such as, Solar, CHP, LED lighting upgrades, waste compactors, air compressors lines, enables businesses to gain access to funding whilst also preserving cash to support the businesses through the current economic challenges and uncertainties.

Funding can be provided either directly using hire purchase or indirectly through sale and HP back facilities of unencumbered or partly encumbered assets. The financial package will generally be ‘case specific’ depending on the needs of the business at the time. There's also indirect help available in some circumstances through government grants, although they are usually modest in nature, they can help towards the total cost. A list of grants available by area can be found on the government's website (see Useful Resources section).

Assessing this at the earliest opportunity is sensible noting the timeframe set by the government of 6-months before they address further support or withdraw it for certain sectors.

Reducing overheads

It's not surprising that you may have had to increase your debt levels during Covid-19, and with the interest free periods obtained via CBILS ending either last year, or earlier this year, many businesses are experiencing an increase in monthly repayments, just at the time when energy and other business costs are increasing.

There are many ways in which monthly headroom can be improved, for example reviewing your asset position and restructuring your debts to make an affordable profile for the business. In addition, other aspects of your cash position can also be reviewed such as the overdrafts and Invoice Discounting facilities you may have in place.

Debt restructuring can be done in a number of ways. In its simplest form you would provide the details of all of your current plant and machinery, we would get the plant valued and then see if there is a simple extension to term that would reduce monthly repayments. This can often bring additional benefits such as reducing interest rates and removing restrictive covenants that can often take up too much of the management time in reporting. Sometimes these finance agreements are linked to property mortgages and/or Invoice Discounting facilities, these can often be improved as well to bring down the overall monthly burden of repayments. We often find switching providers can be the catalyst for an improvement in flexibility and availability.

Pricing and stock

Manufacturing businesses are juggling a vast array of increases including, energy, raw materials, and labour costs. There is strong evidence of some passing these costs on, but as reported by one customer, 'this is a fine balance and one must be careful not to drive the customer to the point of not ordering at all!'.

One solution has been for businesses to find a way to warehouse raw materials such a paper or substrates. This brings its own challenges but with rises costs being a regular event we've helped companies raise cash to buy additional raw materials in accordance with their forecasts, rather than as immediately required.

Case Studies

The following examples provide an insight into how some of our customers have been working to reduce their energy costs whilst also working towards their sustainability goals.

Sustainability and Energy Efficiency at RMC Digital Print

RMC Digital Print is a Hull-based specialist in wide-format digital print, who have recently taken steps to increase efficiency within the business and reduce their overall energy consumption. Owner and MD, Nicole Spencer shared some of their journey with us.

“It became clear that post-covid the business needed investment and our focus was doing this with the latest technology, whilst also saving on energy and improving production efficiencies.”

“One of the first steps we took, was to replace two older wide format machines with a new one. As well as having the same capacity as the two older machines combined, it provided several other benefits, including a £56k saving on support contracts in the first year, followed by £21k per annum in subsequent years. It also uses less ink, saving on costs, and the LED curing means it uses less energy than either of the older ones, on top of which there’s the general power saving of having one less machine. Although we have the finance to pay on the new printer and both other printers were paid off, the savings still outweigh the cost.”

Following the investment in new equipment, RMC began to look at their options for becoming more sustainable, and investing in renewable energy, it soon became clear that alongside their recycling projects, solar was the right choice for them.

Nicole commented, “the solar project cost us around £70k and we were able to get a grant of £15k through the Hull Business Energy Efficiency Scheme (HBEES). At the time, it suited our business best to fund the project using a sale and HP back rather than any green energy funding options and Compass helped us through each step of the process”.

“Our energy costs of this summer were half what the usually are, and although we had originally estimated a 5-year payback, rising energy costs have meant that the return on investment has been much quicker.”

The original investment in more efficient machinery worked out so well for RMC, that they decided to continue this strategy, their latest purchase is another wide format machine, providing greater capacity, faster make readies, cost efficiencies and energy savings. Nicole stated that, “it’s LED curing and can be put into sleep mode or shut down when it’s not in use, which we couldn’t do with the older machine. Our older machine needs to be left on all the time, which means the compressor does too, using a lot of energy”.

Good housekeeping is also important in a greener culture

Speaking about some of RMC’s more general changes, Nicole explained that, “When we moved into the building in 2011, we installed LED lighting throughout. We then installed motion-controlled lighting when we extended the factory.

Good housekeeping is also important in a greener culture i.e. turning off the microwave and other electrical goods when not in use, getting materials in for the day’s production in the morning and making sure you start the working day with a tidy workspace and empty bins so you’re not in and out of the shutters and doors, wasting heat or cool air depending on the time of the year.”

As a final point, Nicole shared that RMC had also benefitted from super deduction tax on the new machines and the solar panels as they were all qualifying assets, saving them about 25p of every pound spent.

For more information about RMC Digital Print visit https://rmclimited.co.uk/

Sustainability and Energy Efficiency at Browns Print

Browns Print was formed in October 2018, following the merger of two already established companies, Browns CTP and Boss Print. Now the North West's largest commercial printer, Browns specialise in delivering high quality print for a wide customer base throughout the UK.

Tim Guest, owner of Guest Investments and chair of Browns Print, shares how he prioritised sustainability and cost cutting measures at their 25,000sqft factory. "From the moment we bought Browns we looked at cutting costs, starting by changing the high bay warehouse lighting in the factory, saving an overall 12 kWh usage. There were 54 light fittings and we reduced this to 48 lights so basically 400w to 200w. The factory was actually brighter and now requires almost no maintenance which would previously have involved costly cleaning and maintenance".

"We then looked at Solar for the factory roof and discovered that we could install 444 solar panels, and we chose to purchase the maximum output panel, to produce the most energy possible. We were governed by the national grid of course, but the solar company did the initial audit and applied to the national grid for approval - this was an easy process. No major changes to the infrastructure of the factory were required and it was painless process. The solar panels are guaranteed for 10 years which is encouraging, and the initial payback was estimated at about 5 years - with the increases this is now looking like less than a year! The whole project only took about 4 weeks from start to finish once we'd placed the order.

With every light in the factory now LED we looked to the office space and by spending just £2,500 we've cut down from 79 to 54 lights, saving us another 7 kWh, equating to a saving of nearly £20,000 annually.

The compressor lines in the factory are also being reviewed, as older compressors can be inefficient. Newer compressors and aluminium compressor lines are likely to contribute to significant savings and is an area not many businesses would consider. Good housekeeping is so important as well, an example of this includes just switching off machines when they're not being used. A guillotine with an air leak is not obvious but without switching it off we estimate it was costing us £300 per year!

When we invest in new machinery, we buy new to ensure we get the longest life possible out of the investment, and to avoid having to replace earlier. We're assured to reduce waste on make readies and with advances in technology, we can reduce energy costs in stopping the machine for routine work and manual operations."

Merger and Acquisition Opportunities

Uncertainty drives opportunity and that's evident through the current level of M&A and MBO activity in market. For some businesses it's a good time to make a profitable exit, whilst for others the disrupted market presents the perfect opportunity to invest. As discussed in this paper, some business owners looking to buy have been able to bring together one or more businesses under the same roof, achieving economies of scale and greater efficiencies to help counterbalance rising costs.

To this end, whether you're looking to buy or sell, the current crisis should not put a stop to healthy discussions to explore your options and possibilities.

The enterprise value, or "worth", of a business is generally calculated against long-term cash flow generation, and so ensuring that the business is in good order before approaching a buyer is important. Some of the steps we've suggested may be appropriate to help with this, and it's important to remember, that restructuring debt doesn't have to mean increasing debt levels.

Whatever you're looking to achieve or mitigate the impact of for your business, we would be happy to discuss your options with you.

Useful Resources

Climate Fit Net Zero Training for SMEs
https://businessclimatehub.org/courses/education/

Energy Saving Grants in Local Regions
https://www.gov.uk/business-finance-support?keywords=energy

Getting help if your business can't afford its energy bills
https://www.ofgem.gov.uk/information-consumers/energy-advice-businesses/getting-help-if-your-business-cant-afford-its-energy-bills

Renewable Energy Directory
https://yougen.co.uk/

Help with practical, emotional, and financial support I The Printing Charity
https://www.theprintingcharity.org.uk/

Compass Business Finance Ltd. is a limited company registered in England and Wales
Registered number 05649414
Registered office Compass House, Medway Wharf Road, Tonbridge, TN9 1GH