



Novuna[®]
Business Finance

Small business perspectives on sustainability

Edition 2: The mandate for support from a new UK Government

**Insight report series prepared by
Novuna Business Finance
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Tomorrow. Together

Introduction



Welcome to our second annual sustainability report – which marks the start of a new journey. This new edition looks at the progress small businesses have made since 2022 in transitioning their businesses – a move that involves putting sustainability at the heart of their business planning. We also look at Net Zero initiatives and green projects.

With a General Election looming in the UK this year, for this issue we look at how small businesses have reacted to policy changes in the last six months and the support they want from a New Government: support to inspire them to become more sustainable enterprises, as well as the help they want from Government to ease the financial burden during an economically challenging time.

Our commitment to conducting ongoing research on sustainability and related topics is born out of our interest in learning more about small business viewpoints on these issues. Too often, the ‘big’ debate circles around big brands and the big influencers, resulting in an urgent need to better understand the small business community’s views. It is crucial for them to

have a chair at the table on the sustainability debate and we hope our research reports gives small business owners a platform to be heard – and their hopes and concerns to be better understood.

In this report, we also share some comments from our new Sustainable Business podcast. We’re excited to be facilitating a series of audio conversations on a range of sustainability topics. I do encourage you to have a listen, share your feedback and we’re always on the lookout for guest interviews if you would like to get involved in this exciting new project.

Novuna Business Finance takes seriously its responsibilities to support society and to making a positive and sustainable difference to people’s lives. The fight against climate change – and the push towards a more sustainable world – are tasks that involve everyone working together. Everyone needs to have their voice heard and to have their positive work recognised. We hope the insight shared in this report contributes towards a better understanding of small businesses, the crucial role they play in supporting sustainability - and the support they need to achieve more.

I hope you enjoy this new report and find the new research data informative and helpful. For 2024 and beyond, we will be preparing and sharing a series of shorter reports, each looking at specific themes and also reacting to major debates at a given point in time.

If you have any discussion points or requests for further information, we would love to hear from you.

Geoff Maleham
Managing Director
Novuna Business Finance



Novuna Business Finance

Novuna Business Finance provides business finance to SMEs and bigger corporations across the UK. This includes asset finance, stocking, block discounting and sustainable project finance provided through brokers, vendor organisations, manufacturers and direct to the business community.

With an asset portfolio of more than £1.7bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Leasing and Asset Finance Provider at the 2023 Business Moneyfacts Awards.

The business' Sustainable Project Finance team is also supporting the development and construction of sustainable energy and transport projects, which are critical to the decarbonisation of the UK's infrastructure.

Novuna Business Finance is a trading style of Mitsubishi HC Capital UK PLC, part of Mitsubishi HC Capital Inc., one of the world's largest and most diversified financial groups, with over £60bn of assets.

About Novuna

Novuna is a trading style of Mitsubishi HC Capital UK PLC, a leading financial services company, authorised and regulated by the

Financial Conduct Authority (FCA). We have over 2,200 employees, £7.6bn of net earning assets and nearly 1.3 million customers across five business divisions; Novuna Consumer Finance, Novuna Vehicle Solutions, Novuna Business Finance, Novuna Business Cash Flow and our European division specialising in Vendor Finance. For over 40 years, formerly as Hitachi Capital (UK) PLC, we have worked with consumers and small to medium enterprises (SMEs) as well as corporate multinationals in the UK and mainland Europe, enabling millions of consumers and businesses to achieve their ambitions.

We are a wholly owned subsidiary of Mitsubishi HC Capital Inc., strengthening our relationship with one of the world's largest and most diversified financial groups with over £60bn of assets.

Methodology

The research for this quarterly report was conducted by Sago research in February 2024 among a national representative sample of 1,078 small business owners.

Past editions of Novuna Business Finance's annual research reports on sustainability are available on request.

The research was conducted online.

1. A sustainability transformation

In the last two years, there has been seismic change with small businesses positively embracing sustainability and Net Zero. In February 2022, 58% of UK small businesses said they were working on sustainability initiatives for the year ahead. By February 2024 this figure had soared to 92% - with the average small business working on 3.2 sustainability initiatives concurrently and 20% of enterprises working on five or more projects.

At a time when the climate debate is heavily focused on targeting major brands as change agents, and when none of the major UK political parties even mention small businesses within their climate change pledges - it is time for everyone to redouble the focus on the small business community and the role they can play in influencing change in the supply chain. In turn, making a positive difference to local communities, and forging strategic and financial plans that have sustainability at the heart of their business.

The importance of focusing on small businesses as sustainability change agents cannot be under-estimated. In 2023, SME employment in the UK stood at 16.7 million. This figure represents a 1.7% rise from 2022 and accounts for 61% of all private sector jobs. This means SMEs account for more than three in every five people employed in the UK private sector.

Looking at the sustainability project areas where small businesses were looking to make improvements in 2024, the most common initiatives comprised of; reviewing energy usage of the premises (31%), having a positive environmental impact on my immediate community (29%), improving policies towards packaging and waste/recycling for products and services (28%) and switching to greener forms of transport (cycling schemes, electric vehicles, public transport).

Sustainability isn't just about climate protection and Net Zero, businesses also have to consider financial and people factors. As part of their bid to be more sustainable in 2024, creating jobs in the local community (30%) was a big priority – as was ensuring suitable working conditions and contracts for all employees (27%).

The significant finding from the 2024 data is the extent to which the commitment to sustainability has risen - no mean feat given the challenging economic context, with rising interest rates, soaring energy prices, skilled labour shortages and, in many sectors, pressure on wages. In some cases, the forced need to adapt, tackle inefficiencies and manage costs has made many small businesses see the medium and long term economic benefit of embracing sustainable practices.

Nationally, the percentage of small businesses investing in new equipment and sustainable infrastructure more than doubled in two years, as did the desire to be part of an ethical supply chain – whilst there has been an almost fourfold increase in the percentage of small businesses that prioritised monitoring and reducing their harmful impact on the community (for example through, toxins in water, waste and pollution).

From the Sustainable Business Podcast

"Our research indicates that only around 40% of small businesses said that they would be looking to appoint a head of sustainability in the next few years. Despite that, small businesses are really passionate about making positive changes. Our Sustainable Business Podcast will explore in more detail how and when they plan to take these steps forward."

Jo Morris : Head of Insight

Table 1: The various areas of sustainability where small businesses are working on initiatives to improve this year: Two-year comparison

	Feb 2024	Feb 2022
Reviewing energy usage of the premises (water use, heating, renewable energy)	31%	25%
Creating jobs locally	30%	15%
Having a positive environmental impact on my immediate community	29%	14%
Improving policies towards packaging and waste/recycling for products and services	28%	18%
Switching to greener forms of transport (cycling schemes, electric vehicles, public transport)	28%	12%
Ensuring suitable working conditions and contracts for all employees (treating employees fairly)	27%	19%
Invest in local suppliers/contractors	27%	15%
Being part of an ethical supply chain	24%	12%
Monitoring and reducing our harmful impact on the community (toxins in water etc.)	23%	6%
Investing in new equipment and sustainable infrastructure	23%	9%
Improving governance, accountability and risk management	21%	7%
Investing in markets with the strongest profitability opportunity	16%	5%
Other	2%	4%
Net % working on/ looking to improve any areas of sustainability this year	92%	58%

As a consequence of these sustainability projects, UK small businesses start 2024 with a progressive business view on the importance of sustainability as a core value to their business - the way it thinks, grows and operates. When asked to describe their enterprises' overall approach to sustainability, 65% of small business owners said that they saw it as an opportunity to diversify and grow their business. In addition, 29% of respondents said they didn't currently make any money from being sustainable, but they were prepared to invest money into projects and operations in order to do the right thing. Across the board, the picture in 2024 suggests small businesses acknowledge the importance of sustainability, see it as an issue they need to do more on – and many see it as culturally central to their strategic thinking as a business.

Across nine industry sectors, around two in three business owners believed sustainability was an opportunity to diversify and grow their business – and this was most pronounced in agriculture, manufacturing, leisure and IT.

Table 2: Percentage of businesses that say sustainability was an opportunity to diversify and grow their business – by sector

	Feb 2024
Agriculture	92%
IT and Telecoms	77%
Manufacturing	74%
leisure and hospitality	74%
Finance and accounting	71%
Transport and distribution	70%
Construction	68%
Media and marketing	68%
Retail	65%
Medical	59%
Real estate	57%
Legal	53%
Education	51%
Scientific and technical	32%

2. The impact of U-turns on forward momentum

Whilst great progress had been made by small businesses in becoming more sustainable enterprises, the research also suggests many smaller enterprises look for government and international bodies to set a lead they can follow. Last year's research by Novuna revealed that given their relatively small size, only around 40% of small businesses had a colleague who was responsible for sustainability. Unlike big PLC's and multi-nationals, many small businesses don't have the resources to dedicate departments to manage sustainable projects. And that in turn means they probably rely more on clear policy guidelines from national policy makers.

With a General Election looming, the last six months has seen a number of policy U-turns from the major political parties. In September 2023, The Government announced a major U-turn on its climate commitments including the move to push back the deadline for selling new petrol and diesel cars in the UK and the phasing out of gas boilers – moves that caused furious condemnation from the automobile and energy sectors.

In recent weeks, the Labour Party announced it was ditching its £28bn a year green investment pledge.

Given the context of these widely publicised green U-turns by the major political parties ahead of this year's General Election, Novuna's new research asked small business owners what their reaction was to the UK Government's U-turns on net zero policies, and the wide ranging media comments that followed.

On first glance, the most common response from small businesses (25%) was to say the Government U-turns hadn't had an effect, and their enterprises were pushing on with their plans as usual. This perhaps also is a reflection

of the commitment many small businesses have made to sustainable projects in the last two years.

Yet on reflection, there were various ways that small businesses were impacted by last year's U-turns and some of the fears could risk derailing the solid progress that has been made in recent years.

- Nationally, 23% of small businesses said they were less confident about getting grants and funding to go green since the U-turn. This issue was strongly felt in the agriculture (31%), medical (30%), retail (26%) and transport (26%) sectors.
- More than one in five small businesses (21%) said they will also look to adopt green and sustainable measures at a slower pace, following the lead of the major parties who seem to be removing the once trumpeted urgency of the issues. This view was strongest in the IT/telecoms (30%) and agriculture (31%) sectors.
- Of concern, some small businesses translate the U-turns as a green light to take green issues less seriously: 14% saying they will become less of a priority to the business if it's clearly not a priority for the government – and 12% saying more directly "If the government doesn't take it seriously, why should I."
- In addition, there was evidence of a significant and unresolved issue for some enterprises. Nationally, 21% of small businesses thought the government has focussed too much on consumers at the expense of small businesses. Energy prices may well have been front of mind here – a crippling issue for many small businesses who have not had the price cap benefits enjoyed by consumers.



Table 3: How small businesses have reacted to the UK Government's U-turns on Net Zero policies

It has had no effect, we are pushing on as usual	25%
The government has missed the point, going green can save you money.	23%
I'm less confident about getting grants and funding to go green since the U-turn.	23%
I will also look to adopt green and sustainable measures at a slower pace.	21%
The government has focussed too much on consumers at the expense of small businesses.	21%
It has become less of a priority to the business if it's clearly not a priority for the government.	14%
If the government doesn't take it seriously, why should I.	12%
I wasn't aware that government had made u-turns	5%

The consequence of these feelings plays out with small businesses being committed to Net Zero projects but also being cautious. Whilst around one in four business owners will take a long term view on the value (and the economic payback), around two thirds will be measured about committing to projects if there is a short-turn financial exposure.

Table 4: Small business leader's approach to backing sustainability projects in 2024

We will do it provided there is no short-term impact on profits	31%
We will do it provided it is cost neutral	30%
We will take a longer-term view on recovering short-term costs	27%
We will not make significant changes independently of the sector or competition	8%

Table 5: Small business leader's approach to backing sustainability projects in 2024

	No short term impact on profits	Long term payback
Long term focus		
Wales	27%	33%
Scotland	30%	32%
Short term focus		
London	34%	28%
South West	39%	24%
West Midlands	40%	24%

3. A new government and the call for leadership

With an election looming, we asked small business owners which policies from a new Government would encourage them as an enterprise to take green issues more seriously. Past or present policy pledges from all the major parties were included in the mix and this question was an opportunity for us to listen to small business owners – notable at a time when not one of the major parties mention small businesses in their round up of green commitments.

The responses to this question are emphatic. There are so many potential policies where around two thirds of businesses say a firm Government position would inspire them to take green issues in general more seriously. This not just a question about which policies are the most popular, its more about which commitments would be the catalyst to make small businesses do more and invest more in a range of green initiatives themselves.

Table 6: Small business reaction to a range of potential green policies by a New Government: For each, the percentage of small businesses that say policies would inspire them to take green issues more seriously

Stepping up the commitment to reduce single use plastic waste, increase recycling and reduce littering	75%
Investing more in renewable power so the vast majority of the UK's electricity is generated from renewables by 2030	73%
If they made a substantial investment into the green economy	72%
Planting 60 million trees a year to help reach net zero and restore woodland habitats and increase the use of sustainable wood in construction	71%
Increasing investment in sustainable UK farming and animal welfare	69%
Supporting local authorities to cut emissions in their area, and promote community energy, including requiring all new homes to be fitted with solar panels	69%
Raising awareness through schools and with the community to encourage changes in everyday behaviour that benefits the environment and reduces our individual carbon footprint	68%
Setting targets to ensure 50% of all food purchased by the public sector is locally produced or certified to higher environmental production standards	67%
Formulating a clear plan to set out the best way to prevent environmental harms and human rights abuses in supply chains	67%
Bringing forward the timescale for delivering clean electricity and increasing onshore and offshore wind capacity	66%
Bringing forward a plan for introducing low-carbon hydrogen, instead of using fossil fuels, for energy at home	65%
Setting out a long-term plan to turn specific sectors green, with timescales for net zero production e.g. Green Steel	64%
Making a significantly bigger investment into the infrastructure supporting the roll out of charging points for electric vehicles	64%
Setting out a clear plan and timetable for nuclear power	56%
Funding R&D and pilot projects in key emerging technologies such as NETs, Solar Radiation Management and artificial meat	54%
Bringing forward the ban on sale of petrol and diesel cars in the UK	45%

Table 7: Small business reaction to a range of potential green policies by a New Government: For each, the percentage of small businesses that say policies would inspire them to take green issues more seriously (Base: Three small business groups that currently do not take big steps to support sustainability)

	Taking small steps	Don't have the time	Not a priority
Stepping up the commitment to reduce single use plastic waste, increase recycling and reduce littering	77%	73%	49%
Investing more in renewable power so the vast majority of the UK's electricity is generated from renewables by 2030	73%	72%	42%
If they made a substantial investment into the green economy	76%	68%	38%
Planting 60 million trees a year to help reach net zero and restore woodland habitats and increase the use of sustainable wood in construction	74%	67%	44%
Increasing investment in sustainable UK farming and animal welfare	71%	65%	41%
Supporting local authorities to cut emissions in their area, and promote community energy, including requiring all new homes to be fitted with solar panels	73%	65%	35%
Raising awareness through schools and with the community to encourage changes in everyday behaviour that benefits the environment and reduces our individual carbon footprint	71%	62%	38%
Setting targets to ensure 50% of all food purchased by the public sector is locally produced or certified to higher environmental production standards	71%	64%	29%
Formulating a clear plan to set out the best way to prevent environmental harms and human rights abuses in supply chains	69%	62%	34%
Bringing forward the timescale for delivering clean electricity and increasing onshore and offshore wind capacity	69%	61%	36%
Bringing forward a plan for introducing low-carbon hydrogen, instead of using fossil fuels, for energy at home	71%	53%	27%
Setting out a long-term plan to turn specific sectors green, with timescales for net zero production e.g. Green Steel	70%	50%	29%
Making a significantly bigger investment into the infrastructure supporting the roll out of charging points for electric vehicles	68%	63%	26%



Amongst the top responses there's strong support for a Government leading from the front and making some bold policy statements – a major investment in the green economy or a big investment in renewable energy within an urgent timeframe.

Beyond this a lot of the top answers related to things small businesses could see: planting trees, tackling waste and littering, supporting farms, working with schools and doing more to support local authorities. Many small businesses have a close connection with their immediate community even if their client base is national or their online reach is global. Small businesses often hire locally, invest in local community projects and them seeing positive green change in their community probably inspires them to do more themselves.

Overall, the take out from this research question is there is a lot a new Government can do to give a clear message that green issues matter – and if they do this with purpose and conviction, it will inspire small businesses to follow suit.

The power of a new Government to be a catalyst for positive change becomes even more apparent when looking at the power of various policies to inspire small businesses that historically have not taken sustainability so seriously.

For this analysis, we looked at small businesses that:

- acknowledged there are business benefits from sustainability but were only committing to taking small steps
- understand the issues but don't have the time or money available to do as much as they would like
- say sustainability is not a priority for their business

From the tables it is clearly apparent that amongst all three small business groups, a sizeable percentage would react to Government policies by generally making green issues more important to their business. This presents a

From the Sustainable Business Podcast

"It's all about helping small businesses see what the end result will look like. Sustainability is a long-term plan for many businesses and we help them to fulfil their long-term potential. On the podcast I'll reflect on how sustainability makes business and financial sense for the medium and long term."

Richard Thompson



clear measure of a new Government's ability to inspire positive change among others by taking firm positive action on Net Zero and the green agenda.

A regional assessment of the data suggests there is not a nationwide consensus among small businesses on which potential policies from a new Government would be best received. Rather, there is a lot of regional variation - small businesses in different regions are most likely to pick contrasting issues as the thing that would most inspire them to take green issues more seriously.

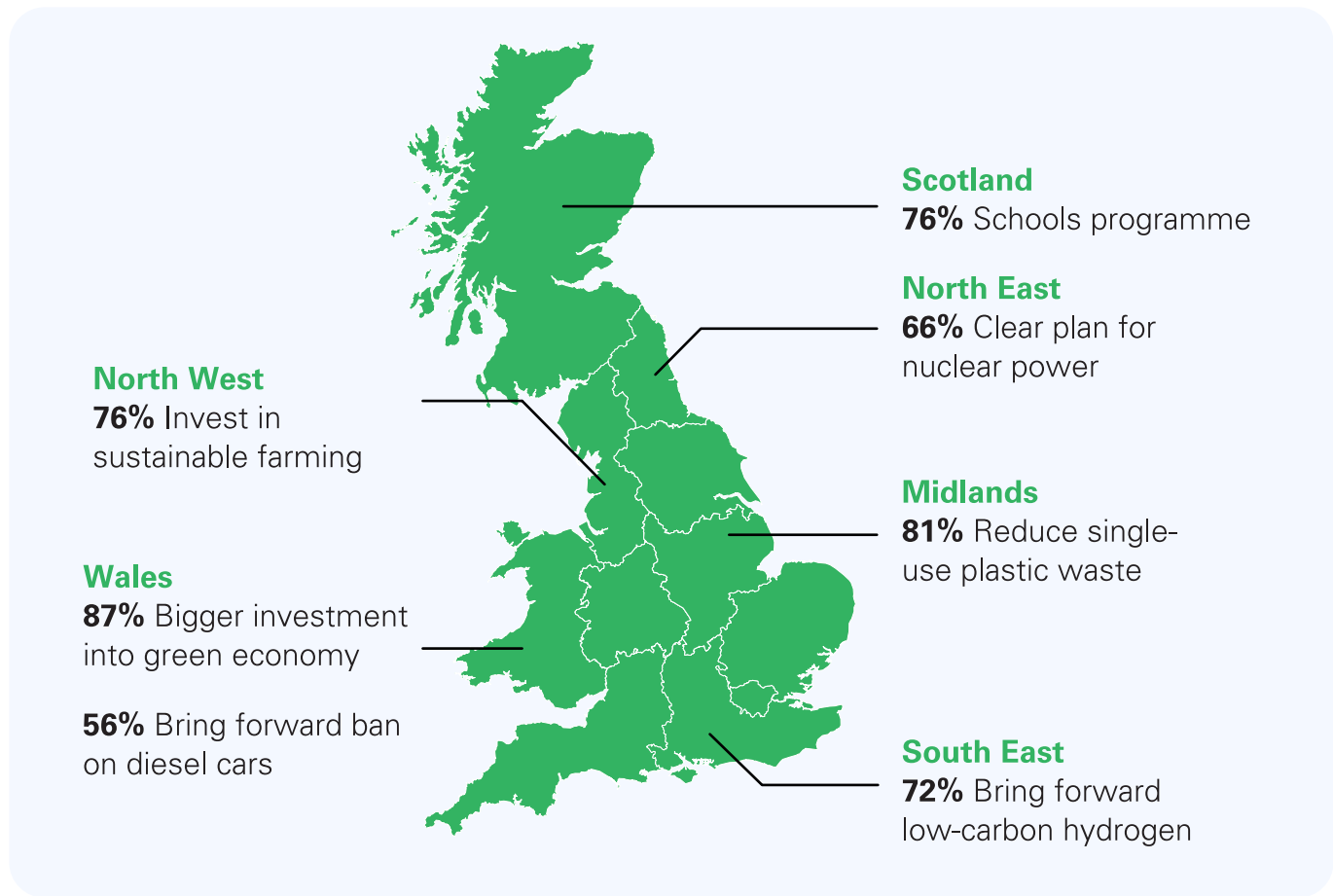
Welsh small businesses do emerge as those that feel most strongly about the biggest number of issues, as the graphic below indicates.

The contrasting views on a range of potential policies from a new Government also played out across different industry sectors.

- In Science and technology, small business owners were most likely to say a substantial Government investment into the green

economy would inspire business owners to take green issues more seriously (84%)

- Bosses in the construction sector would be most likely to accelerate their own green plans if they saw a new Government bringing forward the timescale for delivering clean electricity and increasing onshore and offshore wind capacity (75%)
- Small businesses in agriculture and hospitality, perhaps unsurprisingly, were most likely to place importance on a new Government increasing investment in sustainable UK farming and animal welfare (77% and 76% respectively)
- Manufacturing enterprises were most likely to want to see Government funding and pilot projects in key emerging technologies such as NETs, Solar Radiation Management and artificial meat (65%). Manufacturing businesses would also step up their own green projects if a new government set out clear plans on the best way to prevent environmental harms and human rights abuses in supply chains (73%)



Financial support for small businesses

The findings above indicate how general Government policies on green issues can inspire small businesses to do more themselves. The research also went a step further and asked small business owners what are the specific things that an incoming Government could do to help them become more sustainable as a business. On this question, small business owners did not hold back – 94% could point to specific areas where they needed help and the average business had 3.5 issues they wanted to flag.

All the responses related to finance – whether incentives, rewards for investing in green initiatives or preferable rates for funding.

The most strongly held opinion was that small business owners wanted to see the introduction of a green tax system (38%) – one that rewards enterprises for implementing green initiatives and punishes others for ignoring them. Given many small businesses face concerns over the short term financial impact of investing in green and sustainable projects, it is understandable that many feel they want to be recognised for being early adopters in their sector, or demonstrating leadership.

Linked in with this issue, 37% of businesses said they wanted bigger grants that fully cover the set-up costs of switching to greener energy (such as electric car chargers or solar panels).

A large number of small business owners wanted to see a reduction in business rates for small businesses that switch to green or renewable energy supply. Travel was also an issue – with bosses wanting tax breaks for small businesses that reduce business travel, and greater financial and tax incentives for switching their business vehicles to electric before 2030.

Access to preferential funding for green projects was also mentioned. As Table 8 (p13) shows, many small businesses wanted to see the cap

on energy prices that consumers have enjoyed to be extended to small businesses.

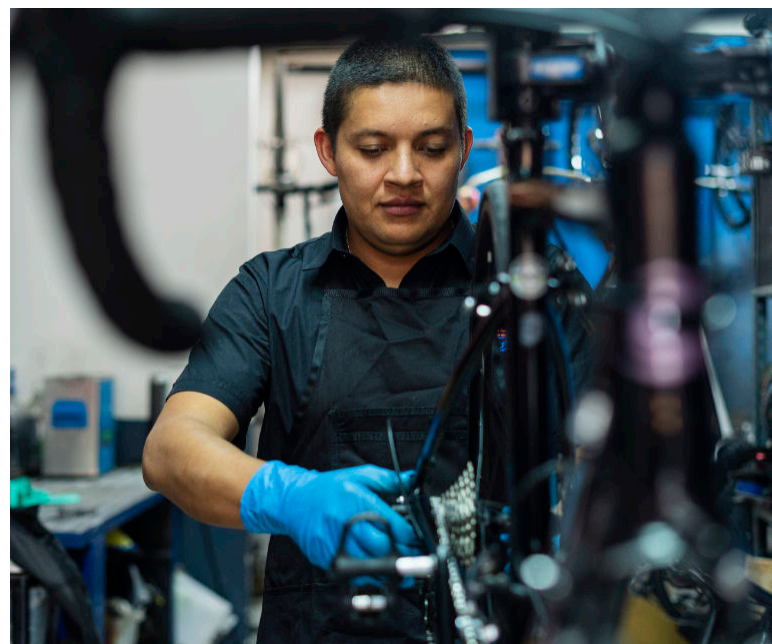
As these findings make clear, small businesses want to be sustainable and they will do more on Net Zero and green issues if the Government takes the lead. But when it comes down to the practicalities of investing in new projects and managing transitions in the way a business operates – virtually all small business want a New Government to give them more financial support and to give them financial rewards for doing the right thing. With corporation tax rising steeply this year, interest rates at a high and many small businesses left exposed to energy price rises – on reflection, it is unsurprising that so many small businesses want a New Government to do more to help them.

From the Sustainable Business Podcast

"The good news is the solutions are already there. They're proven, and therefore, it's relatively easy for the financial services industry to focus in and provide that funding."

Join me on the Novuna podcast to find out how."

Philippe Bazin



The small business manifesto: What they want from a new Government

38%

A **green tax system** that rewards small businesses for implementing green initiatives and penalises others for ignoring them

37%

Bigger grants that fully cover the set-up costs of switching to greener energy (e.g. electric car chargers, solar panels)

Reduction in business rates for small businesses that switch to green or renewable energy supply

33%

Greater financial and tax **incentives** to switch business vehicles to electric **before 2030**

Tax breaks for small businesses that **reduce business travel**

32%

Extending a **cap on energy prices** for small businesses (to give us the same benefits consumers have had for some time)

Preparing a **simple guide** for everything small businesses need to do that can be read in less than an hour

30%

To mandate **cheaper borrowing** for businesses that want to modernise their business and become more sustainable

27%

A **corporation tax reduction** for SMEs who can demonstrate that they have hit net zero as a business

25%

Provide **free retrofits** of business premises for small businesses with a small turnover

23%

Government **cracking down on landlords** that own small business premises rather than targeting small businesses that lease the premises

The fact that 64% of businesses not prioritising sustainability can identify specific areas of government support that would aid their transition towards sustainability highlights the potential for a new government's decisive action to inspire these enterprises to elevate sustainability, Net Zero goals, and green initiatives.

Table 8: The support small businesses want from a new Government – by three SME segments taking small or no steps on sustainability at the moment

	Taking small steps	Don't have the time	Not a priority
A green tax system that rewards small businesses for implementing green initiatives and punishes others for ignoring them	41%	32%	21%
Bigger grants that fully cover the set-up costs of switching to greener energy (e.g. electric car chargers, solar panels)	37%	41%	28%
Reduction in business rates for small businesses that switch to green or renewable energy supply.	37%	39%	21%
Tax breaks for small businesses that reduce business travel.	32%	36%	24%
Greater financial and tax incentives to switch business vehicles to electric before 2030	34%	30%	21%
Extending a cap on energy prices for small businesses (to give us the same benefits consumers have had for some time)	36%	29%	25%
Preparing a simple guide for everything small businesses need to do that can be read in less than an hour.	31%	34%	27%
To mandate cheaper borrowing for businesses that want to modernise their business and become more sustainable.	31%	33%	18%
A corporation tax reduction for SMEs who can demonstrate that they have hit net zero as a business	26%	22%	18%
Provide free retrofits of business premises for small businesses with a small turnover	24%	28%	16%
Government cracking down on landlords that own small business premises rather than targeting small businesses that lease the premises	26%	26%	7%



Conclusion

The findings in this report present a picture of the small business community fully recognising the importance of a wide range of sustainability issues and also acting on the need to become greener. This recognition goes beyond the business itself; many ventures have a strong sense of connection with the communities in which they operate – after all, the health and success of both is often inter-woven. Also, small businesses recognise the importance of tackling sustainability issues in their supply chain, which underscores the long tail of influence small businesses can have on the economy at large.

The forward momentum evidenced between 2022 and 2024 indicates how much progress small business have made on their own – and at a challenging time economically.

The concern is that they need support and they need to be sure the signals they are getting from Government, policy makers and influencers, is both supportive and consistent. The recent green U turns by the major political parties ahead of a General Election seem to have gone down badly with small businesses - if in a silent, unreported way. The research suggests many small businesses may be tempted to delay, water down or even postpone a range of green initiatives since the various U turns were announced.

What all this points to, is the decisions made by a new government may prove decisive. If bold moves are made on various green policies, small businesses say it will inspire them to also do more themselves on a range of green and sustainable initiatives. And more specifically, small business owners want financial support themselves from a new government – whether this takes the form of incentives or rewards for becoming more socially and environmentally

conscious businesses. This is not a flight of fancy; sustainable businesses are also strong businesses and good news for the UK economy.

At Novuna Business Finance we are committed to supporting small businesses on their sustainability journey and to backing established businesses that want to fulfill their potential as resilient, agile sustainable enterprises. We will do further research on the topics we have explored in this report and from the insights we learnt and the data we share will contribute further to a fuller understanding on the journey small businesses are on to become leaders and role models on sustainability.