



Supporting the hair, beauty
and barbering industries

Ofgem non-domestic energy market call for input - NHBF submission, March 2023

Response overview

The National Hair & Beauty Federation (NHBF) has around 5,500 members and is the UK's largest trade body for the hair, beauty and barbering industries.

We confirm that a range of negative practices have been experienced by the sector as outlined by the call for input consultation document, namely; high premiums, high security deposits, up-front payments and some suppliers refusing non-domestic contracts completely. There have also been examples of energy suppliers not passing on the government discounts and reliefs to small and micro businesses.

The Energy Bill Relief Scheme (EBRS) was an important intervention for many of the 48,000 businesses in the sector and we have no doubt that it has saved countless businesses over the last six months. Whilst the NHBF was relieved that the Government would be providing some level of support to sector businesses via the Energy Bill Discount Scheme (EBDS), the reality is that many will see the discount swallowed up soon after April 2023.

In terms of our recommendations to Ofgem for the future:

- As the Energy Bill Discount Scheme gets up and running imminently we call on Ofgem, working with the Government, to be **more proactive about the provision of advice and guidance to businesses** including in how to navigate issues with suppliers and best practice on what they should expect.
- As offered by the Chief Executive of Ofgem in his recent letter to the Chancellor, we welcome Ofgem playing a more proactive role in alleviating pressures for businesses in the short term including **leading discussions with suppliers** around encouraging businesses to pay high bills back over a longer period of time.
- We appreciate that Ofgem is making efforts to reach out to a broader range of business stakeholders; we welcome these **relationships being developed and maintained over time**, through the lifetime of the EBDS and beyond.
- We are calling on the Government to carry out a **review of the impact** of the EBDS after six months and consider reviewing the level of discount and further interventions if a significant number of small businesses have been forced to close due to high energy costs. We welcome Ofgem's role in sharing intelligence about the market in order to inform Government policy.

Background and sector context

It is well recognised that the sector is a stalwart of the high street and has, over time, been a significant provider of apprenticeships, providing skilled work and meaningful careers to young people across the UK. What often gets overlooked is that it is a proud and passionate sector with people at its heart, offering flexible careers to a largely female workforce and packing a punch in terms of its contribution to community wellbeing.

Unfortunately, despite the growth in the number of sector businesses, the latest ONS statistics tell us that its overall contribution and annual turnover shrank from £5.5 billion in 2019/20 to £4.6 billion in 2020/21. Overall consumer spend in the sector totalled a significant £27 billion in 2018 and we believe that once consumer confidence returns and inflation is under control, consumer demand will rise again.

The results from the latest NHBF State of the Industry quarterly survey from January 2023¹ show that the dip in business confidence across a number of indicators in September 2022 has now bedded in. More businesses are making a loss, the trend of raising prices continues along with reliance on government support, uncertainty around survival and stagnant growth aspirations.

Call for input questions

Thank you for the opportunity to put forward our views. We respond only to those questions in the call for input where there is a direct interest for us to do so.

Chapter 1: Pricing and contractual behaviour

1. Do you have evidence of suppliers not being proportionate or reasonable regarding charges necessary to secure a contract, including security deposits? If so, please provide us with details.
2. Do you have suggested solutions to the concerns around high costs requested to secure a contract and manage risk?
3. Do you believe there has been an improvement in terms to contract as market conditions start to show signs of improvement? Please explain your answer.
4. Do you have evidence to support the allegation that suppliers have been inflating prices in response to the introduction of the Energy Bill Relief Scheme? If so, please provide us with details.
5. What issues are you aware of businesses having in relation to deemed contracts?
6. Are there any other matters not discussed above related to pricing and contractual behaviour that you would like us to explore? Please provide details and your reasons.

Escalating energy prices

Hair & beauty businesses are significant users of energy and rely on this to deliver core business services. Energy costs are the first or second largest outgoing for nearly two thirds (64%) of hair and beauty salons and barbershops. Our quarterly State of the Industry survey from September 2022 showed that, for half of businesses, energy costs had increased by over 40%, with some experiencing increases of 300-400% or more. A third of businesses told us that their contracts would come up for renewal over the next 3-6 months and that they risked paying significantly higher prices, despite the fact that wholesale and retail prices were stabilising.

Escalating energy charges²

In September

'Although the energy prices I have given are low my contract will need to be renewed in October and my current suppliers are estimating my bill will increase from around £350 p/m to £900 p/m this will see me lose my business'.

'We have been told to expect monthly payment to increase from £113 to between £600 and £700 - if this is the case we will be turning the lights off as we leave the building and handing the keys back to the landlord'.

¹ <https://www.nhbf.co.uk/news/nhbf-state-of-the-industry-survey-hair-and-beauty-industries/>

² Business quotes from the State of the Industry quarterly survey (September 2022 and January 2023)

'My bills have gone from £360 a month to £850 a month, they said my energy In December will be £2,500 for a month and same for January! We need help from the government to support us'.

In January

'My energy usage has been predicted to go up from £1500 to £5700 per annum. This will take most of our profit along with the staff wage costs and stock rises, I am sure we will be forced to initially get smaller then eventually close, increasing our prices will not fix this'.

'Something has to be done about business energy prices, mine has gone from £700 a month to £1600'.

'Our energy bill has increased by 300% with REDACTED'.

Negative practices by energy suppliers

Over the last few months, sector businesses have raised a number of concerns about energy suppliers through our quarterly survey and through feedback on our social media channels. This feedback was most vocal and peaked in November/December 2022. The issues (similar to those experienced by other sectors as outlined in your call for evidence) include, reports from businesses on the ground where suppliers have:

- raised energy prices significantly above the wholesale or retail price;
- significantly increased daily charges;
- refused or delayed passing on the relief or discount via bills (including a report of Scottish Power claiming that they had to wait for the legislation to be passed in Parliament before they were able to do this).
- refused to offer contracts at all to certain businesses.

Energy costs are a top concern³

In answer to your question 3 about whether there has been an improvement in market conditions, it is clear that energy costs are still at the top of business concerns.

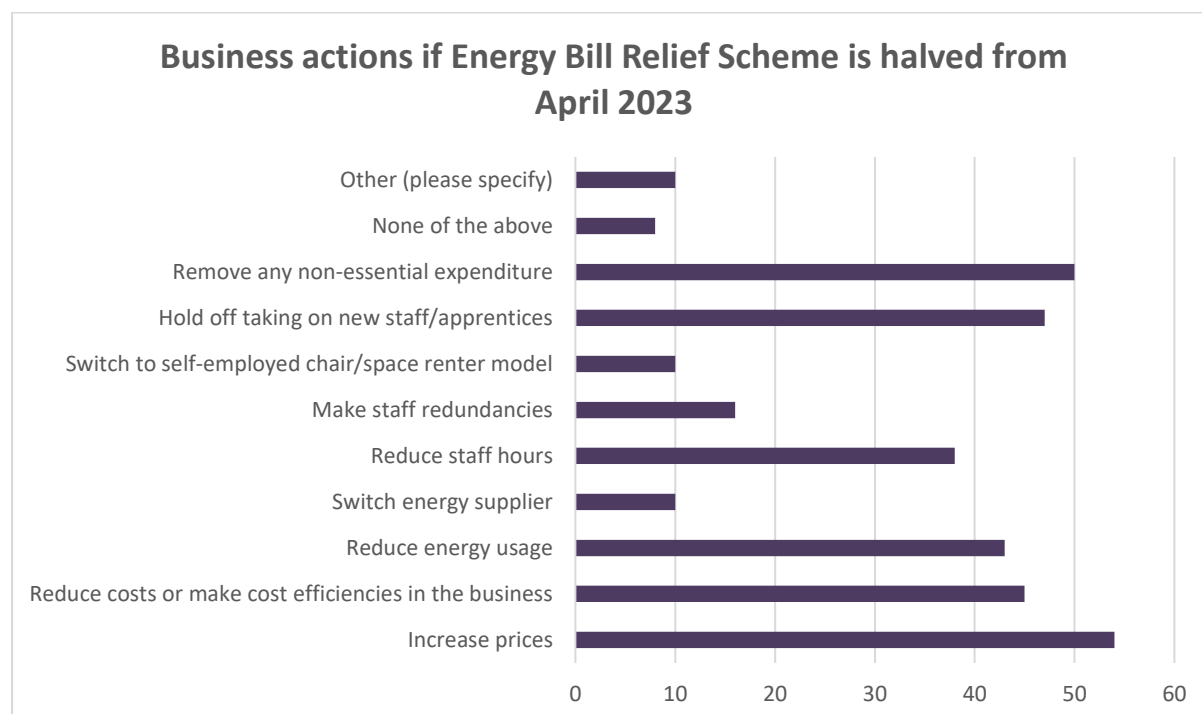
Businesses are experiencing a 'perfect storm' of escalating energy costs and rising supply price inflation and staff costs. In terms of direct impact on the business, the overwhelming concern is about energy costs (86%), increased cost of trade suppliers (66%), increases to National Minimum Wage/National Living Wage (NMW/NLW) (54% increased from 36% in September), increases to National Insurance Contributions (NICs) (23%) and increasing wage expectations (30%).

In response to these rising costs of doing business, the most common actions that businesses are taking include removing any non-essential expenditure (67%), putting up prices (66%), holding off taking on new staff/apprentices 54% (up from 48% in September), reducing costs/making cost efficiencies (49%) and reducing energy usage (46%). Businesses answering 'other' also commented that they are reducing business hours.

In response to the announcement of the Energy Bill Discount Scheme, which will reduce the support offered by more than half from April onwards, businesses say that they will

³ NHBf State of the Industry quarterly survey (January 2023)

mostly increase prices (54%), remove any non-essential expenditure (50%), hold off taking on new staff/apprentices (47%), reduce costs or make cost efficiencies in the business (45%), reduce energy usage (43%) and reduce staff hours (38%). From the 'other' responses, some businesses commented that they did not benefit from support or that they planned to close.



We also know from a previous sector wide energy survey in March 2022⁴, that the vast majority of businesses (82%) are already reducing energy costs and implementing a range of energy efficiency measures in the business. This is not surprising in a low margins business. Energy efficiency measures include; switching off lights, turning down heating, having heating on for less time, timer plugs, draft excluders, insulation, double glazing, using disposable towels to avoid the energy costs of washing and drying, switching to LED or energy saving bulbs, checking the energy efficiency of machines, installing smart meters. A smaller number of businesses have even installed solar panels. Others are opening for fewer hours or days a week.

Views on EBRs/EBDS

The NHBf was pleased with recent Government support for the sector delivered through the 75% retail discount for business rates in England and Wales, freezing the multiplier and transitional relief, in addition to the Energy Bill Discount Scheme until March 2024. However, the energy support for the coming year will represent less than half of the previous benefit and the harsh reality is that it will barely scratch the surface for many.

The sector has ridden the rollercoaster ride of pandemic closures and restrictions and is now battling through the existential challenge of the cost of doing business crisis and recession. The sector has already lost some well-known salon brands and the numbers of businesses planning to close, downsize or hand on the business is increasing.

⁴ Energy prices in the personal care sector survey (March 2022) [Personal Care Sector Calls for Energy Bill Rebate if COVID Recovery is to Succeed - National Hair & Beauty Federation \(nhbf.co.uk\)](https://www.nhbf.co.uk/news/energy-prices-in-the-personal-care-sector-survey-march-2022)

Rising business costs

'In 32 years of trading, this is definitely the most difficult I've experienced'.

'The electric [bills] and VAT is killing me. I employ a small team and I've been in business 16 years and if something doesn't change, I will have to close'.

Chapter 2: Competition in the non-domestic sector

7. Do you believe there has been an increase in offers to contract in the past year as wholesale market conditions improved, or are there are segments of the market that are still struggling to secure contracts?
8. Are suppliers following the best practice steps around debt management and disconnection that we highlighted in our December 2022 letter, or do you think that licence conditions need amending? Please provide evidence for your views and details of any specific examples.
9. Are suppliers' complaints processes easy to find on their websites, or elsewhere? Do you believe we need to strengthen the rules around complaints processes? Please explain the reasons for your response.
10. To what extent do you believe the communication you receive from your nondomestic supplier is clear and transparent? Please provide examples where possible.
11. Do you think the issues around Change of Tenancy/Occupier are significant? What potential solutions would you suggest to address the perceived shortfalls in the existing Change of Tenancy and Change of Occupancy processes, that do not exacerbate the potential for fraud?
12. Are there any other issues you would like to highlight related to competition in the non-domestic supply market? Please provide detailed explanations.

In response to question 7, as we have set out in Chapter 1, anecdotal feedback from members via communications channels including surveys and social media has shown that particularly in Q4 2022 there were still businesses, albeit a minority, that were struggling to secure any kind of contract at all. For example, several examples were given on social media of this situation.

As indicated in the Ofgem Chief Executive's letter to the Chancellor on 14 March 2023, we would very much welcome further action from Ofgem to encourage suppliers to allow businesses to pay bills over a longer period of time although this obviously does not immediately help with the high level of tariffs.

In response to question 10, we are not in a position to comment on individual suppliers' complaints processes but we would very much welcome broader promotion from Ofgem around the options for businesses to use the services of Citizens Advice and the Energy Ombudsman in order to help them resolve issues with suppliers.

Chapter 3: Focused regulatory support for specific customer groups

13. Do you believe there are segments of the non-domestic supply market, other than microbusiness customers, where there is not sufficient market pressure to correct any potential inappropriate supplier behaviours? Please provide detailed descriptions of these customers and evidence to explain your view, including what aspects of harm the regulations would need to help protect against.

14. If you responded yes to question 13, please suggest how these customers could be defined in the supply licence and identified by suppliers and customers.
15. If we expanded the definition of microbusiness customers or created a new class of customers, what are the possible implications and costs of doing this?
16. What additional protections do you think might need to be put in place to protect domestic customers who are supplied via a non-domestic contract? Please provide an explanation or evidence of the areas of harm any new regulation would protect against.
17. Do you agree with the definition of, and clarifications around, what is a domestic customer as described in Appendix A? Are there other areas where further clarification is required?
18. Do you have any further comments about how the non-domestic market is currently segmented?

In response to question 15, we are generally content with the definition of the microbusiness customer. The vast majority (95%) of hair & beauty sector businesses fall into the microbusiness category⁵ and as such should be classified by Ofgem as vulnerable. Less than 1% have a turnover of more than £1m which again means that the vast majority of the sector is covered by the definition.

Number of employees	Number	%
0-4	34,085	73.7%
5-9	8,845	19.1%
10-19	2,035	4.4%
20-49	450	1.0%
50-99	45	negligible
100-249	15	negligible
250+	10	negligible
TOTAL BUSINESSES	46,205	

Notes: *Businesses registered for VAT and/or PAYE. Source: Office for National Statistics

With regard to questions 17 and 18, we would simply here raise your awareness of the issue of home-based salons which have been growing since the pandemic. 'Home salons' are now the most common place of work for self-employed practitioners at 40% of respondents⁶. Businesses have converted garages, garden spaces or a designated room in the home for treatments. Depending on the scale of the business, it may be that some are operating on domestic supply contracts and others under non-domestic supply contracts. By way of background and to give you an idea of the extent of unregistered businesses, an independent report for the NHBF in 2021⁷ set out that around 40% of sector businesses (largely self-employed and micro businesses) are not registered for VAT so the number of sector businesses is actually around 78,000 rather than 46,000.

Finally, we would point out for your information that NHBF launched a partnership with Energy broker Direct Business Solutions (DBS) in order to help businesses find the best possible deal for their business in terms of type of energy tariff and features. In a very challenging market, member businesses have benefitted from this service.

⁵ NHBF Industry Statistics 2021

⁶ Self-employment in the personal care sector report (July 2021) [Self-Employment in the Personal Care Sector Report - National Hair & Beauty Federation \(nhbf.co.uk\)](https://www.nhbf.co.uk/documents/self-employment-in-the-personal-care-sector-report)

⁷ The impact of the pandemic on the hair & beauty sector, Pragmatix Advisory Ltd for NHBF (2021) <https://www.nhbf.co.uk/documents/the-effects-of-the-pandemic-on-the-hair-and-beauty-sector>