SME decarbonisation in the UK: emerging market trends and their implications for government

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About the Institute of Sustainability and Climate Change

The ISCC brings together a community of researchers across the University of Bath delivering world-class research in sustainability that pushes boundaries among disciplines. We solve challenges using a wide-angle, whole-systems approach, complemented by a depth of scientific understanding, and build partnerships that help us keep our focus on real-world problems.

Executive summary

Small and medium-sized enterprises (SMEs) are responsible for approximately half of the UK's business-related greenhouse gas emissions, yet they face persistent and well-documented barriers to decarbonisation. This report investigates the rapidly evolving landscape of private, public, and non-profit sector support for SME decarbonisation, with a particular focus on the role of government in catalysing and shaping this transition. It addresses the question: **How can – and should – government work alongside the private sector to accelerate SME decarbonisation?** This report is based on a six-month research project, involving 30 stakeholder interviews and a review of market trends, policy interventions, and emerging business models.

SMEs are a heterogeneous group, ranging from sole traders to medium-sized firms, and collectively account for roughly half of business energy use. Despite widespread opportunities for energy and emissions reduction, uptake of decarbonisation measures remains low due to limited resources, knowledge and expertise, and access to finance. The recent energy price crisis has heightened the urgency of action, with non-domestic electricity and gas prices rising sharply and business insolvencies increasing. At the same time, declining technology costs and growing supply chain pressures have strengthened the business case for investment in clean energy solutions.

Emerging trends in SME decarbonisation support

The market for SME decarbonisation services has expanded significantly, with a proliferation of products and services spanning awareness-raising, carbon measurement, planning, implementation, and continuous improvement. We mapped 20 key products and services now available to SMEs – from awareness-raising and carbon measurement to planning, implementation, and financial support. These illustrate the breadth of support across the decarbonisation journey and the varying levels of market maturity.

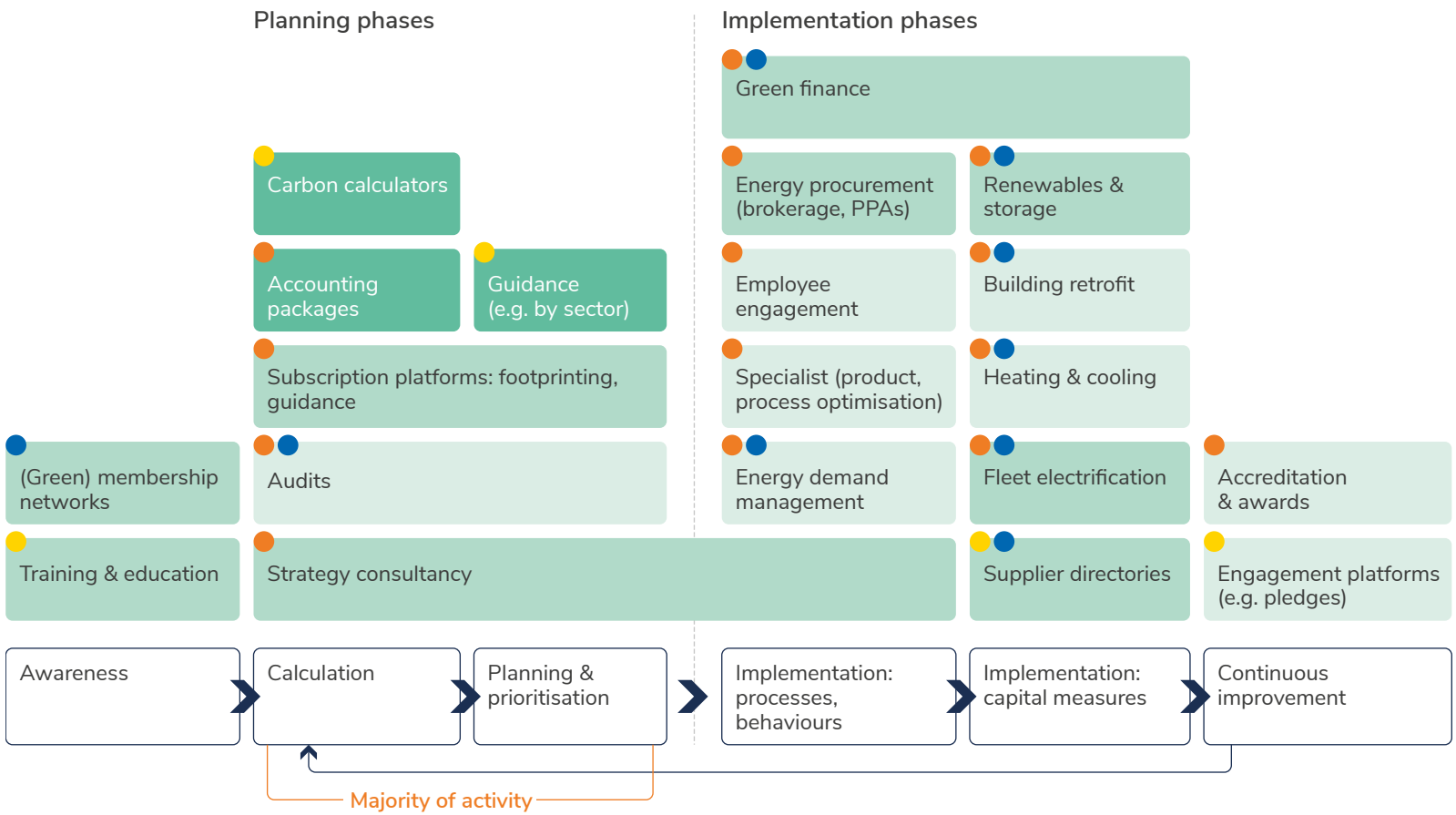


Figure: Products and services to support SMEs' decarbonisation journey

The growth of decarbonisation offers to SMEs is driven by several interrelated trends:

- **Supply chain pressures**. Large organisations increasingly require carbon reporting from SME suppliers, creating robust demand for measurement and reporting services. This compliance-driven market is a key source of momentum, incentivising SMEs to adopt decarbonisation practices to remain competitive. Public sector procurement, especially that of the NHS, is also building market demand.
- **Technological innovation**. Advances in digital tools, particularly artificial intelligence, are lowering entry barriers and enabling the automation of carbon accounting and tailored recommendations. Integration of carbon tracking into mainstream business systems, such as accounting software, is reducing administrative burdens and expanding reach.

> "We help customers understand where they are. The tool had to be suitable for as broad a range of businesses as possible, but of sufficient quality that we can actually use the outputs of it." *Provider*

- **Diverse funding models**. Providers are experimenting with a range of business models, including free or subsidised tools as loss-leaders, platform subscriptions, and data monetisation strategies. Some public sector actors and local authorities have subsidised access to digital platforms, validating new entrants and driving SME engagement.
- **Data as an asset**. The aggregation and analysis of emissions data is emerging as a valuable business model, supporting both market development and policy evaluation.

Despite these positive developments, the market faces significant weaknesses:

- **Imbalance of supply and demand**. While the number of service providers has grown rapidly, actual SME demand – particularly willingness to pay – remains limited, with most SMEs relying on free or subsidised offers.
- **Information deficit**. There is a lack of robust quantitative data on SME uptake, preferences, and the effectiveness of different interventions. This limits the ability to target support and evaluate impact.
- **Trust and quality control**. The absence of universal standards for carbon accounting has led to inconsistent methodologies and outputs, undermining confidence among SMEs and their clients.
- **Reluctance to borrow**. UK SMEs exhibit a pronounced aversion to debt, with a strong preference for internal funding even when preferential loan rates are available. This constrains the uptake of capital-intensive measures.
- **Policy uncertainty**. Inconsistent policy signals and shifting regulatory timelines create hesitancy among both SMEs and service providers, impeding investment and market development.

> “We welcome any amount of government support. Far from crowding out, it means that we have to justify our existence.” *Private sector provider*

Our findings show that uptake of decarbonisation products and services by SMEs remains low. Recent growth in supply-side activity is not yet being matched by demand from smaller businesses, despite growing awareness of the importance of sustainability and its business benefits. Government intervention remains critical to drive uptake, and in most markets, the risk of crowding out private investment is minimal.

Implications for government: strategic roles and policy levers

The creation of the SME Decarbonisation Team within the Department for Energy Security and Net Zero (DESNZ) represents a highly significant and welcome development in the UK’s climate policy landscape. This dedicated team signals a new level of recognition within government of the unique challenges and opportunities facing SMEs in the transition to Net Zero. The evolving market landscape necessitates a more agile, evidence-led, and collaborative approach from government, which the DESNZ team is well-placed to deliver. Key implications include:

- **Targeted public funding**. Direct subsidies should be reserved for less mature, higher-impact technology markets (e.g. for heat pumps, non-domestic retrofit, demand management), while mature markets (such as LED lighting and solar PV) are better supported through information provision, standards, and access to finance rather than direct grants.

> “There’s plenty of finance out in the open market for solar. So why would we be supporting something that’s so well serviced in the in the market already?” *Government stakeholder*

- **Strengthening policy signals**. Setting clear expectations and dates for future standards and requirements, as well as incentives is necessary to reduce uncertainty, enabling SMEs and providers to plan and invest with confidence.
- **Championing and convening**. Building on the Net Zero Council model, Government must act as a strategic convenor, bringing together private, public, and non-profit actors to align efforts, share best practice, and set long-term goals. This includes leveraging established networks and platforms to maximise reach and credibility.
- **Enhancing data quality and standardisation**. Mandating consistent data collection and reporting standards for publicly funded programmes, and supporting professional standards in carbon accounting, are critical for market integrity and policy learning.
- **Facilitating access to finance**. Expanding green loan availability in partnership with the British Business Bank and private lenders, and supporting innovative financing models, can help address capital constraints. Policy must recognise the limited appetite for debt among SMEs and support measures to build demand.

> “Businesses respond well to a sense of information being tailored to them. A sense that a service provider understands their specific needs.” *Government stakeholder*

- **Leveraging procurement and value chain pressures**. Extending models such as the NHS procurement roadmap, which links carbon reporting to ongoing decarbonisation action, can drive demand across supply chains and amplify the impact of public sector leadership.
- **Adopting sector-specific and place-based approaches**. Recognising the heterogeneity of SMEs, government should expand ‘test and learn’ pilots in high-impact sectors and support place-based delivery models that leverage local knowledge and trusted networks, while ensuring national consistency.
- **Embedding decarbonisation in mainstream support**. Integrating decarbonisation into general business advice, leadership training, and digital tools can normalise climate action as a core business concern, rather than a peripheral issue.
- **Ensuring ongoing evaluation and learning**. All publicly funded programmes should be subject to robust evaluation, with data made available for continuous improvement and to avoid repeating past mistakes.

Recommendations to Government

- **Retain the SME Decarbonisation Team in DESNZ**, empowering it with resources and Ministerial support to deliver targeted, evidence-led SME climate policy, and provide strategic leadership, coordination, and advocacy within government and beyond.
- **Target public funding strategically**: Direct subsidies towards less mature, higher-impact technology markets (e.g. for heat pumps, non-domestic retrofit, demand management), and avoid subsidising mature measures where private investment is viable.
- **Strengthen policy signals and regulatory certainty**: Establish a clear, cross-departmental timetable for SME decarbonisation, including minimum energy efficiency standards and future requirements for carbon reporting and emissions reduction.
- **Enhance data quality and standardisation**: Mandate consistent data collection and reporting standards for publicly funded programmes, and support professional standards in carbon accounting.
- **Facilitate access to finance**: Expand green loan availability in partnership with the British Business Bank and private lenders, and support innovative financing models that lower upfront costs. Promote green finance offers to raise awareness amongst SMEs.
- **Leverage procurement and value chain pressures**: Extend models such as the NHS procurement roadmap, linking carbon reporting to ongoing decarbonisation action across the public sector.
- **Adopt sector-specific approaches**: Expand 'test and learn' pilots (e.g. in hospitality sector) in other high-impact sectors, working with trade associations and specialist providers to tailor support.
- **Build on local strengths**: Support place-based delivery models that leverage trusted networks and local knowledge, while ensuring national consistency and coordination.

> "We don't want to be displacing private sector. We don't want to be taking work away." *Government backed delivery body*

- **Embed decarbonisation in business support**: Integrate decarbonisation into mainstream business advice, leadership training, and digital tools, making it a core business concern.
- **Ensure ongoing evaluation and learning**: Require robust evaluation of all publicly funded programmes, with data made available for continuous improvement.

SME decarbonisation is essential for achieving the UK's Net Zero targets and for enhancing the resilience and competitiveness of the business sector. While the private and non-profit sectors are increasingly active, government remains critical as a strategic convenor, market shaper, and guarantor of equity. By adopting a more agile, evidence-led, and collaborative approach – targeting interventions where they are most needed and leveraging the strengths of all actors – the UK can unlock the full potential of its SME sector in the transition to Net Zero.

Introduction

Supporting SMEs to reduce their energy and resource use has been a longstanding policy objective, predating economy-wide decarbonisation targets such as the Net Zero 2050 goal. SMEs collectively use more than half of business energy,[1] and Government intervention has been justified by the existence of an energy efficiency 'gap' and associated market failures. A government study found that SMEs could make energy savings of up to 25% through cost-effective efficiency measures,[2] yet many SMEs fail to realise these savings due to persistent barriers including limited financial resources, expertise, and access to finance.

Decarbonising the SME sector offers substantial environmental benefits as well as economic advantages, including reduced operational costs, increased resilience to energy price volatility, and enhanced competitiveness. Typically exempt from energy and climate regulations, SMEs have been the focus of government policies that primarily provide incentives such as advice, guidance, audits, loans, and grants.

However, recent years have witnessed growing concern among the public and business communities regarding climate change, accompanied by an increased willingness to reduce environmental impacts. The British Business Bank reports that 94% of UK SMEs are taking at least one action to reduce their carbon emissions, and 47% identify decarbonisation as a business priority.[3] Drivers include the energy price crisis, which has significantly increased operational costs for SMEs, leading to financial strain and business closures. Average non-domestic electricity prices increased by over 75% between 2021 and 2024,[4] while gas prices have more than doubled. This has contributed to high rates of business failure: in June 2024, company insolvencies were 17% higher than in June 2023, reaching the third highest monthly total since 2000.

Another driver for clean energy adoption is that the business case for investing in key technologies – such as solar panels, battery storage, smart energy management systems, and low-energy appliances – has strengthened as technology costs decline and energy prices remain high.

1 BEIS (2018) Energy efficiency scheme for small and medium sized businesses: Call for evidence. Department for Business, Energy and Industrial Strategy.

2 DECC (2014) Research to assess the barriers and drivers to energy efficiency in small and medium sized enterprises. Department of Energy & Climate Change.

3 British Business Bank (2021) Small businesses and the transition to net zero.

4 The Insolvency Service (2024) Company Insolvency Statistics, September 2024.

In response, a diverse range of stakeholders from the private and non-profit sectors have intensified their activities related to clean energy and climate action. This trend reflects a broader shift from government-led initiatives to multi-actor governance of environmental mitigation, where an increasing number and variety of actors engage in accelerating SME decarbonisation.[5]

This evolution has significant implications for the role of government. If non-governmental actors can drive significant emissions reduction from the UK's 5.5m SMEs, then this reduces the burden on the state to fund building energy audits and subsidise clean energy measures. This scenario would also change the role(s) that government must play, including championing, guiding, and establishing long-term strategic goals.

This report, building on a 6-month research project at the University of Bath, assesses the current landscape of non-governmental provision for SME decarbonisation, highlighting emerging trends and implications for policy. It addresses the question: **How can – and should – government work alongside the private and non-profit sector to accelerate SME decarbonisation?**

The primary audiences for this report are central, devolved and local governments. Other stakeholders including business representative organisations (BROs), financial institutions and low carbon solution providers may also find value in the insights generated by this research.

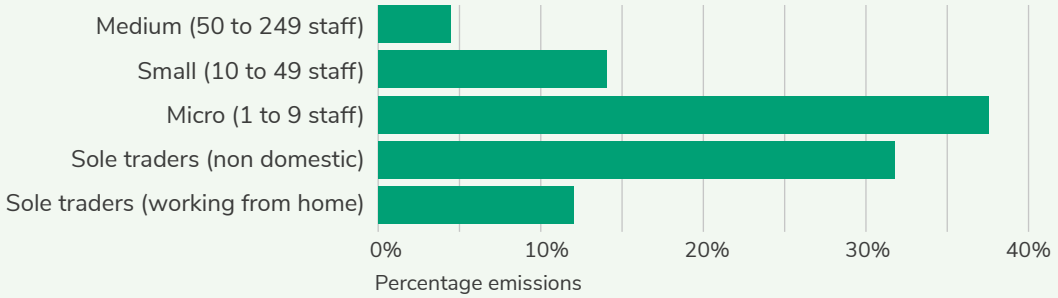
5 Bulkeley, H., & Kern, K. (2006) Local Government and the governing of climate change in Germany and the UK. *Urban Studies*, 43(12), 2237–2259.

SME Statistics

The vast majority of SMEs employ fewer than 10 staff, or none at all. Of the 5.55m SMEs in the UK in 2023, just over 4m were sole traders, around 1.1m were micros (1-9 staff), 233,000 were small (10-49) and only 37,000 were medium sized (50-249).[6] Nearly 60% of sole traders operate from domestic premises.[7]

Energy use and emissions data for SMEs is notoriously poor, being unclearly allocated and often misapplied. Estimates of SME emissions as a proportion of all business emissions range from 43-53%.[8] Figure 1 combines multiple sources to break down the share of SME emissions by size of business.

Figure 1: Emissions from electricity and gas use, by size of SME. Excludes transport fuels. Sources: DBT (2024a, 2024b), Bionics (2025), DESNZ-Defra, Ofgem (2025).



6 DBT (2023) Business population estimates for the UK and regions 2023.

7 DBT (2024) Small Business Survey 2023: businesses with employees and businesses with no employees.

8 British Business Bank (2021) Small businesses and the transition to net zero.

Policy context

The UK policy landscape for SME decarbonisation has shifted markedly in recent years, shaped by both Brexit, and increased climate ambitions. The end of the European Regional Development Fund (ERDF), a consequence of Brexit, marked the closure of a major funding stream for local and regional SME support.[9] While the UK Shared Prosperity Fund and Community Renewal Fund have since provided some resources for SME-focused projects, these domestic mechanisms have not matched the scale or continuity of ERDF funding.

Nationally, the Net Zero Strategy[10] established for the first time a comprehensive framework for SME decarbonisation, including ambitions for an England-wide support offer. This was supported by the creation of a dedicated SME Decarbonisation Team within the Department for Energy Security and Net Zero (DESNZ), signalling a priority shift within climate policy, as the issue had previously been supported primarily by the Ministry for Housing, Communities and Local Government (MHCLG), as a component of local development policy.

A notable recent initiative is the West Midlands Business Energy Advice Service (BEAS) pilot, delivered by the Combined Authority. This scheme aims to provide 4,000 energy audits, focusing on energy-intensive SMEs and offering match-funded grants for capital measures. DESNZ is now considering how to build on the lessons from this pilot, with a view to developing more innovative interventions that leverage the growing role of private and non-profit actors in SME decarbonisation.

9 Energy Saving Trust (2022) How can policy better support SMEs in the pathway to Net Zero? A report to the Climate Change Committee. Climate Change Committee.

10 HM Government (2021) Net Zero Strategy: Build Back Greener.

About the project

This University of Bath project was funded the Research England Policy Support Fund Grant (ref. RE-P-2024-01). Building on a comprehensive review of carbon reporting services for UK SMEs conducted by Icebreaker One in 2024,[11] this study draws on interviews with 30 stakeholders: 12 from private sector firms supplying decarbonisation solutions to SMEs, 12 intermediaries (including sector associations and business support organisations), and six civil servants from UK and devolved governments. In addition to interviews, the research team have used evidence from a wide range of sources, enabling them to build insights into the market and SME engagement. Sources include desk research into publicly available content within government publications, industry reports, ONS data, academic work and news or blog posts. The project team have also been able to incorporate learnings from previous SME low carbon projects through their unique ERDF Measures Database, and the analysis of ERDF summative assessment reports.

The research was conducted in collaboration with DESNZ's SME Decarbonisation Team, who assisted in shaping research objectives and facilitating access to participants. While DESNZ reviewed drafts, all findings and recommendations are independent. Ethical approval was granted by the University of Bath, with informed consent obtained from all participants.

The report comprises two main sections. Part one explores emerging trends in non-governmental support for SME decarbonisation. Part two considers the implications for government and offers recommendations for maximising public impact.

11 Icebreaker One (2024) Carbon reporting solutions for UK SMEs: A landscape review.

Part 1 – Market momentum: Emerging trends in private sector and non-profit activity for SME decarbonisation

Understanding how government can most effectively collaborate with the private sector to accelerate SME decarbonisation requires a clear assessment of current non-governmental activity in this space. This section is structured into three parts.

Section one: What offers are on the market? This research on carbon reporting solutions for UK SMEs[10] to incorporate a wider **range of products and services available to support SME decarbonisation**. For each of 20 offers, we identify the leading stakeholders, funding models, the *theory of change*, and provide an indication of uptake amongst SMEs.

Section two: Motivation: why might SMEs be willing to pay for decarbonisation services? This discusses when and why SMEs might be willing to pay for decarbonisation services, focusing on emerging trends such as procurement and values-driven **motivations**. This includes factors which influence SMEs to begin or deepen their decarbonisation efforts. *Decarbonisation archetypes* and *routes to influence* are identified.

Section three: Decarbonisation market assessment: Strengths, opportunities and weaknesses. This assesses the **overall health of the SME decarbonisation market** by examining its strengths and weaknesses. This assessment identifies promising innovations on the supply and demand side that could significantly increase the scale, reach, and depth of decarbonisation activity. Insights from stakeholder interviews are used to highlight specific market failures, and calls for government leadership to unlock progress.

What offers are on the market?

Given their heterogeneity and the diverse activities which produce GHG emissions, SME decarbonisation necessarily involves myriads of activities, from awareness raising, calculating impacts, and strategic planning; to process improvement, implementation of capital measures, and reporting on progress.

There is now a wide range of products and services aimed at SMEs in the journey to decarbonisation. Recent years have seen growing activity in the early **planning** phases of decarbonisation, supporting businesses to quantify their environmental impacts. Markets for **implementing** emissions-savings measures are also developing, and some products such as solar and low-energy lighting are reaching maturity. However, other products and service for delivering SME decarbonisation remain niche. For implementation, there is still a reliance on public funding (grants and loans), and those willing to pay tend to be medium-sized enterprises.

Figure 2 represents 20 products and services which have emerged to support SMEs to reduce carbon emissions. These are mapped onto a typical SMEs' *journey* towards zero emissions, and three shades of green depict the level of market maturity (based on the availability of offerings, rather than demand).

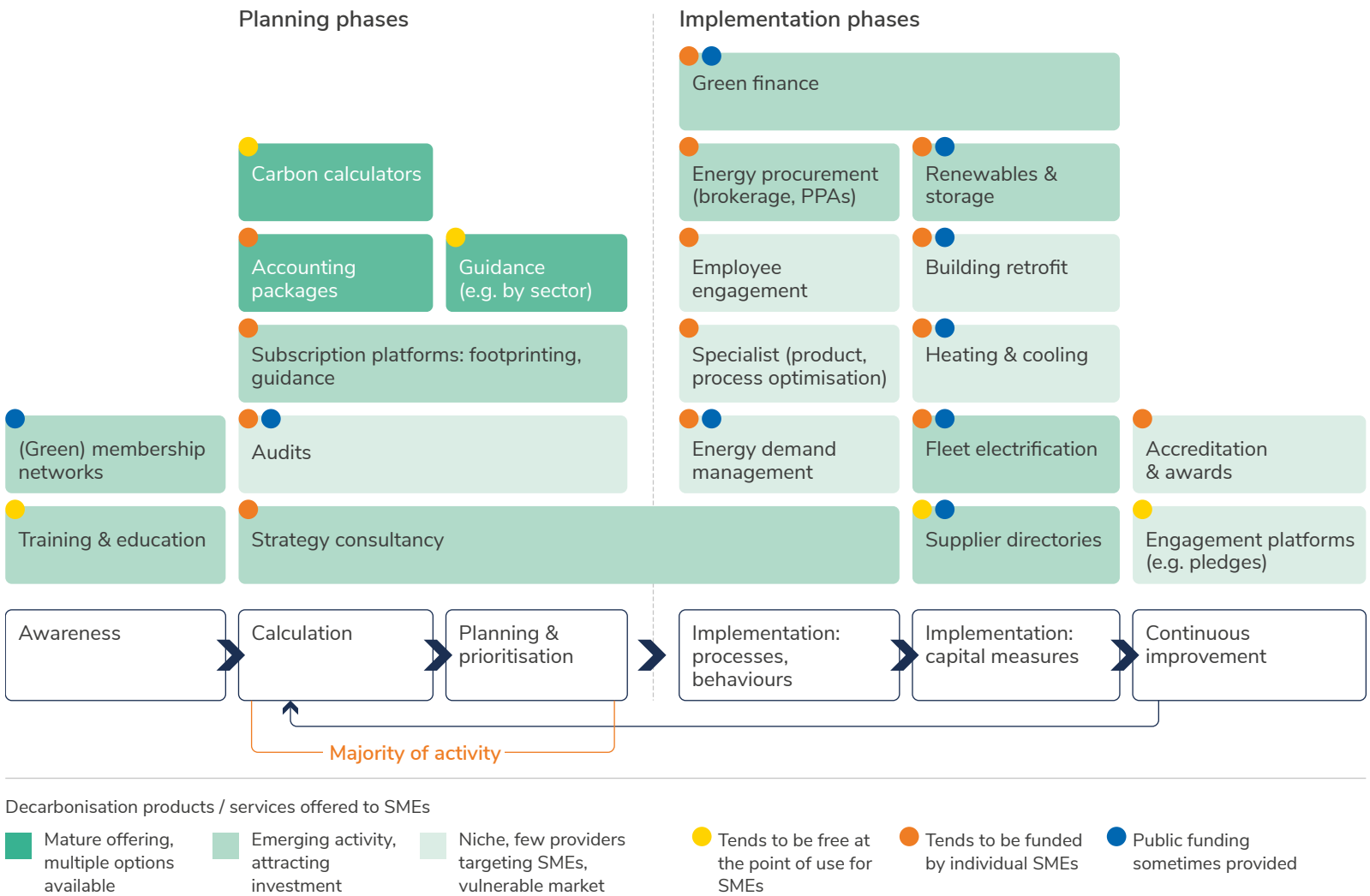


Figure 2: Products and services to support SMEs' decarbonisation journey

In the following section we review each of these elements within the SME journey, offering a short synopsis of our findings. An approximate indication of uptake across the sector, using a star rating based on research estimation, is provided.

Awareness raising

We continue to see a gap between SME climate awareness and the translation of this into business relevance. More than 78% of SME leaders confirmed they understood the term Net Zero and 62% believed that sustainability should be a high priority for government.[12] Yet there is a disconnect between understanding and the impact on their business. Researchers found that 42% of small business did not understand what Net Zero meant for *them*[13] and in Autumn 2024 the proportion of businesses (UK-all) that expressed concern about the impact of climate change on *their business* was only 28%.[14]

Awareness raising amongst SMEs comprises two elements: (1) **Relevance**, identifying the benefits of, and motivations for, decarbonisation; and (2) **Knowledge for action**, producing information and insights about climate change, energy efficiency, and the practical steps required to reduce emissions. Lack of tailored, practical information that helps '*my business*' to decarbonise is consistently identified as a major barrier to action, and both elements are most effective when tailored for businesses based on their size, sector, values, building-type and location.[14]

> "We speak in their language of how construction works... jargon resonates." *Sector organisation*

Information deficit can limit the uptake of cost-saving and carbon-reducing measures, even when financial incentives are available. Publicly funded information campaigns and local projects have aimed to raise awareness amongst businesses about the potential benefits of sustainability. Now, an increasing number of non-profit organisations are seeking to address this barrier, including using AI to develop more tailored information based on business needs. Those offering advice and information explained that developing a reputation for trustworthiness was a high priority, to counter misinformation and help SMEs find reliable information.

> "There's lots of information, but the problem is knowing what is the right information and knowing where the trusted sources are. There's a lot of confusion. If you read the press at the moment, there are a lot of negative stories about heat pumps and a lot of positive stories about heat pumps." *SME advocacy organisation*

12 ONS (2024) Public and business attitudes to the environment and climate change.

13 Roux, S.L., Tuckerman, L. and Vorle, T. (2022) Small business sustainability: Insights & implications, Oxford Brookes Business School & S.B. Britain.

14 FSB (2025) New Growth: How to support small businesses to cut carbon and costs on the road to net zero.

Green Membership Networks

Description: Dedicated sustainability networks, created for SME knowledge exchange, learning, market intel and potential for collaborative working.

Who is leading? NGOs, sector groups or local government. Innovator groups may be University led.

Who is funding? Membership fees, some may have been initiated through ERDF funding.

Examples: Groundworks Suffolk; Cambridgeshire Cleantech; Oxfordshire Greentech.

Uptake: Limited and require management function.

★☆☆☆☆

Theory of change: Peer learning, knowledge exchange – and networks of recommendations of service providers.

Further detail:

Networks are mostly place-based and operate face to face, but increasingly attempts have been made to run online. An example is Small Business Britain's Green Growth network.

Historically, environmental networks have relied on government funding, and there are many examples of these folding when funding runs out. Subscription fees are insufficient to sustain networks alone.

However, this is slowly changing, and there are examples of environmental business networks which have sustained themselves, namely by diversifying income across subscription fees, consultancy services, investor match-making services, and grant funding.

Increasingly, membership groups and sector organisations such as MAKE UK and Hospitality, offer online decarbonisation support as part of their wider guidance in the form of workshops and events for paying members. Special Interest Groups can focus on specific issues (incoming regulation, fleet electrification etc).

Training and education

Description: Facilitated training, access to educational materials, carbon literacy training, thematic guidelines.

Who is leading? NGOs, universities, and independent consultants, professional bodies

Examples: Carbon Literacy Project; Climate Fit; Small99, Small Business Britain, Construction sector's Supply Chain Sustainability School, Institute of Sustainability and Environmental Professionals (ISEP)

Uptake: Growing amongst larger business and public sector, remains niche amongst SMEs

★★☆☆☆

Theory of change: Increasing carbon literacy leads to behaviour change; employee engagement

Further detail:

There is a plethora of advice sites for SMEs, and whilst this may cause confusion it also enables organisations to tailor guidance and support specifically to their audience.

Training is sometimes part- or fully-funded by larger business (i.e. BT's Sustainability for small business), local authorities (e.g. via SPF funding), or sector associations. Not typically available via BRO membership, and little evidence of SMEs paying for training themselves.

Two models have been identified:

Sector developed platforms: large organisations within a sector collaborating and co-funding industry specific training and guidance for SME suppliers. Supporting organisations are engaged in the development of materials, supplier workshops, embedding levels of achievement into procurement requirements and future needs e.g. Supply Chain Sustainability School (construction).

Industry generic platforms: larger companies, often operating within a sectoral context use a decarbonisation platform to offer focused support for their suppliers e.g. Manufacture 2030 and UK retailers.

Neither model utilises public funding.

Professional bodies, CPD related training, primarily webinar-based e.g EMA, ISEP

Services to raise knowledge and awareness of business managers and leaders, and sometimes cascaded as employee engagement as it is a more clear need for SME leaders.

> "...we did the six week programme (Free online) and we had over 1000 businesses sign up for that programme, which was fantastic." *Provider*

Calculating carbon impacts

Basic carbon calculation products have proliferated. Traditionally carbon data has been offered by consultants as a paid for service, often as part of site audits. Information on Scope 1 and Scope 2 energy use is based on primary consumption data and converted to emissions information using DEFRA conversion factors, Scope 3 continues to rely on allocation of carbon based on expenditure. However, today many more generic Scope 1, 2 and 3 carbon impacts are now conveniently available to access through simple online tools, often free to use. Business support organisations, such as the SME Climate Hub, provide a calculator designed to support small companies and these tools are frequently signposted by membership bodies and public sector organisations. There is also an increase in sector tailored footprint tools e.g. construction, hospitality and manufacturing sectors.

With increased availability of simple carbon calculators more consultants are offering carbon footprinting as a 'loss leader'; a tool for marketing and engagement. New entrants to the market are also looking to build marketing databases to support future finanical cross selling and carbon offsets.

Whilst such generic tools may offer SMEs greater insight there are industry concerns that inputting energy data remains difficult for businesses and that outputs may be too generic (or indeed too inaccurate) to support implementation. SMEs may also fail to set baselines to help identify ongoing carbon reduction and calculators may not be linked to effective guidance and decarbonisation support.

Alongside carbon calculators there has also been innovation and growth in online carbon accountancy packages. One notable example is Bristol start up Spherics, whose product is now incorporated into Sage standard accountancy offers. This opens up a major engagement route and rich data acquisition with all sizes of SMEs. General online accounting software is used by over 90% of medium companies, and nearly 80% of registered sole traders.[7]

Basic carbon calculators

Description: basic online tool used to estimate carbon footprint based on user inputs. Usually provided online.

Who is leading? Non-profit organisations, membership bodies, financial institutions (FIs) and smaller providers.

Who is funding? Either sponsored by larger business – and free for SMEs, private companies offering other services as part of a 'loss leaders' strategy, or paid through membership.

Examples: SME Climate Hub; Small99, Zero Carbon Services.

Theory of change: You can't manage what you don't measure.

Uptake: Increasing due to the need to comply with reporting and procurement requirements. Some energy providers are offering them to their customers based on smart-meter readings. The FSB noted 15% use amongst members.[14]

★★☆☆☆

Further detail:

This market is becoming increasingly competitive, with a variety of free calculators, offered by non-profits such as the SME Climate Hub, or sponsored by large corporations looking to support ESG aims or the reduction of supplier or customer Scope 3 emissions.

Many providers incorporate carbon calculators as loss-leaders, seeking to sell add-on services to SMEs such as accounting software, more accurate assessments, benchmarking, or sustainability strategy consulting. Some providers indicated that there could be value in the data generated by users.

Most tools require manual input of data such as annual energy and fuel consumption and even use of refrigerant gases. Some allow SMEs to track Scope 3 emissions such as staff commuting, purchases or downstream emissions. However, data requirements are not standardised across platforms, and some providers raised concerns that some tools require expertise beyond the capabilities of most SMEs. A recent trend is that tool developers are incorporating AI to assist SMEs with data entry and to fill data gaps, but some intermediaries were sceptical of its ability to improve accuracy.

B4NZ and Icebreaker One, through Project Perseus, are creating rules to automate SME emissions reporting. The aim is to enable emissions calculators and accounting software to deliver higher-quality emissions data at scale without requiring SME data entry.

Some tools have been adapted to suit specific sectors. Zero Carbon Services has developed a carbon calculator for hospitality businesses and has been awarded funding from DESNZ to trial its use with 615 SMEs.

Accounting packages

Description: Increased use of technology to scan invoice content and provide automated and up-to-date carbon data at scale. The goal is to provide SMEs with Scope 1,2,3 data based on invoice value. Anticipate increasing cross selling of support packages eg. NHS tender data (Sage).

Who is leading? Private sector online accounting firms

Who is funding? Incorporated in SME accountancy package costs or banks may offer free as part of customer service or to support their own supply chain decarbonisation.

Examples: Sage has integrated Sage Earth, a carbon accounting package, into their standard online accounts offer. NatWest has also worked with Sage to develop a carbon planner.

Uptake: Limited but increasing. Over 75% of SME micros now use online accounting[15]. Sage has approximately 1 million customers in the UK.

★★☆☆☆

Theory of change: Make it easy and automatic to report carbon footprint; raise awareness; provide baseline data to underpin improvements; produce data to reduce barriers to finance.

Further detail:

- These solutions have the potential for wider reach than many others.
- The Carbon Accounting Alliance aims to harmonise methodologies and standards for measuring and reporting on emissions, and is strongly supported by accountancies, including software providers.
- It is anticipated that increased use and AI will increase support and cross selling of targeted decarbonisation offers by third parties.
- Providers are also beginning to consider customer carbon savings as potential carbon offsetting credits.

15 DBT (2024) Longitudinal small business survey tables by nation, Business size and sector.

Planning and prioritising

Although generating formal plans for business development or decarbonisation is not common practice among SMEs – often a function of size, and a more informal, short-term way of working – our interviews suggest that this is changing.

> "Small businesses are not going to produce a carbon reduction plan if they're not here in six months time, you know, let alone six years." *Provider*

Decarbonisation plans are increasingly being requested as part of reporting and procurement within a supply chain context, often referring to a document establishing the current carbon footprint and identifying priorities for action.

This shift has generated demand for tools and services that can help SMEs navigate the planning process effectively. Some platforms use basic carbon calculation data combined with artificial intelligence to provide automated recommendations on actions needed to decarbonise. More commonly, SMEs involve specialists to help develop comprehensive plans, with the focus varying depending on the consultant's background – whether emphasising cost reduction, energy resilience, operational efficiency, or broader environmental, social and governance impact.

Yet significant challenges remain in translating these plans into concrete decarbonisation actions. Plans may be developed specifically to meet tender requirements, then forgotten when other business priorities emerge. The absence of clear standards on what constitutes effective planning has led to inconsistent quality, with some requirements becoming tick-box exercises rather than meaningful strategic documents.

> "They [an SME] were asked for a carbon reduction plan as part of a tendering process and they submitted a blank PDF called carbon reduction template or carbon reduction plan. It never got picked up." *Provider*

These challenges highlight the need for planning and prioritising tools that can bridge the gap between compliance requirements, small business needs and practical implementation. Service providers are responding by exploring business models that can make the most of those two scenarios: quick response to tender applications (supporting a small business gaining new clients) and providing ongoing support to implement and report progress based on plans. In spite of this, our research suggests that there is still a long road ahead in terms the gap between the plans and decarbonisation action. Making the ongoing support affordable for SMEs in a context of other business priorities and costs emerging is a challenge yet to be solved.

Subscription services: Guidance and footprinting

Description: Ongoing support for estimating, managing and tracking progress of decarbonisation. Sometimes involves the support of a consultant.

Who is leading? Private sector consultancy firms. Many new entrants, often using seed investment to build an online offer.

Who is funding? SMEs themselves, sometimes with support of local governments.

Examples: Zellar, Ecologi, Planet Mark, Gopher Zero, Lessr. app, OAK Network.

Theory of change: Low-cost, digitally enabled consulting services with add-on options; identifies commonalities within sectors to deliver semi-bespoke guidance.

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Uptake: Despite a proliferation in recent years, subscription-based services appear to be gaining only limited traction. Medium-sized enterprises are targeted, and many providers seek additional sources of revenue (e.g. innovation funding, local authority sponsorship).

Further detail:

Annual fees range from £199 for sole traders to several thousand pounds for larger SMEs, offering ongoing carbon measurement, support with tender applications, benchmarking, and access to trusted supplier networks. Decarbonisation performance is measured on an ongoing basis, which spreads the cost over time for the SME, and reduces financial uncertainty for the service provider.

Zellar, one of the most established providers, have moved from an initial focus on direct sales to SMEs and are now working through paying intermediaries such as local authorities or those looking for supply chain support. Some providers, such as Lessr.app and OAK Network, incorporate on-site monitoring devices into their offer, to automatically generate high quality data to support carbon reporting and recommendations.

Strategy & consulting

Description: experts work with SMEs to design bespoke approaches for establishing, monitoring and achieving decarbonisation goals, often mixed with ESG advice. They also provide support with grant applications, procurement tenders and ongoing paperwork.

Who is leading? Private sector consultancy firms. Many have emerged on recent years bringing together experts from sustainability, finance and energy efficiency.

Who is funding? SMEs themselves, sometimes with support of local governments.

Examples: TrueESG, FutureLeap.

Uptake: Regional reach. Consultants work in networks, connecting SMEs, grant providers and clean technology providers.

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Theory of change: Traditional consultancy: in-depth, end-to-end support for decarbonisation

Further detail:

Price is not the only challenge. As it is very uncommon for SMEs to have human resources specialised in decarbonisation, external advisors have to spend a considerable amount of time with different teams to gain a complete grasp of the needs and decarbonisation opportunities of each business. It is common for plans to be developed but then put paused due to conflicting priorities.

An innovation: aggregating regional data in a data trust that can be monetised. In that way, the individual subscription that each business pays is lower, as the costs are greatly covered by the income from the data.

Implementation: processes, behaviour, optimisation

> “It’s getting to the point whereby if you’re a B2B business – especially if some of your customers are larger businesses – it’s unacceptable to say that you don’t care about your impact on the environment.”
> (Provider)

SMEs that move beyond basic carbon measurement show they are serious about reducing emissions and actively look for help to improve how they operate. Guidance from public organisations and non-profits offer SMEs options to start with no and low cost approaches, many of which are linked to changing staff behaviours. These include switching off lights, better management of heating and cooling on site and building teams to engage in the issues. Whilst energy companies may offer some guidance on energy efficiency, intermediaries providing energy brokerage, a key touch point for SMEs, continue to operate primarily on a cost rather than energy reduction model. However many companies lack capacity to drive forward even simple measures and businesses frequently work with consultants and technical experts who help them find ways to use less energy and switch to cleaner energy suppliers, Specilaist consultants can also make SME operations more efficient—such as reducing waste in manufacturing or food businesses.

Providers may also help engage staff and change behaviours to cut energy use in day-to-day activities. Decarbonisation training for staff, often branded as carbon literacy, has become widely available.

At a much more detailed level, manufacturers may undertake LCA based reviews of their products using Environmental Product Declarations (EPDs).These are primarily driven by value chain demands, especially in the built environment. The wide variety of sustainability metrics provided by EPDs can support product and process level decarbonisation.

While some SMEs are prepared to pay for this support themselves, most products and services are targeted at larger companies, and public subsidy continues to be relied on for more specialist support.

Employee engagement and behavioural interventions

Description: Toolkits for staff engagement through education, digital platforms, gamified challenges, and incentives. More tailored options follow an assessment of production processes identifying potential inefficiencies that could be addressed with changes in behaviour or new protocols.

Who is leading? Specialist sustainability tech firms, consultancies, and sector organisations.

Who is funding? SMEs, with some public sector grants and occasional private investment.

Examples: Deedster at Work, eevie, Giki Challenges, Ailuna.

Uptake: Adoption is growing, especially where tools are practical and engaging, but overall SME uptake remains moderate due to lack either lack of relevance to the business or limited awareness of solutions and lack of staff time to implement.

★★☆☆☆

Theory of change: Employee led behaviour change, delivering carbon savings from the ground up

Further detail:

Primarily targeted at large employers, but a rapidly growing offer which may soon expand to target SMEs. Gamification and digital dashboards are common, leveraging competitions, points, and rewards to drive participation. AI is increasingly used to personalise feedback and automate behaviour tracking. Integration with carbon accounting tools is a rising trend, supporting compliance and reporting. Programmes often extend beyond the workplace, encouraging sustainable habits at home and in the supply chain.

> "We often talk about the end game. Essentially, is the environment a stakeholder in your business in the same way as your employees, your customers, your suppliers are? You have to embed the thinking and decision making within your business to include good environmental impact." *Provider*

Most interviewees mentioned behaviours associated to electricity consumption. Furthermore, when behavioural approaches are implemented alongside process optimisation they can yield evident cost reductions.

> "In a manufacturing company, talking with the employees we discovered that an oven was kept on 'just in case' a special product was being produced one day. We started collecting live data and corrected communication channels to help teams working with these kinds of implement to know when these implements should be on, and when they are not needed." *Provider*

Product process optimisation

Description: a service provider that evaluates the carbon footprint of a specific product/service' life-cycle, and suggest improvement strategies.

Who is leading? Private sector service providers. Consultancy and tailored-support seems to be essential.

Who is funding? Usually SMEs themselves, especially those who have embraced sustainability as part of their value proposition from the start, or due to supply chain/ procurement pressures. Regional grants seem to encourage this too.

Examples: Private sector providers of Environmental Product Declarations within the construction products (£10,000 per certificate), Consultants e.g. Green Element, Net Zero Now, Brite Green, Arbor.

Uptake: Very low generally but higher take up within specific sectors e.g. manufacturing or logistics. May also be used by SMEs wanting to demonstrate green credentials.

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Theory of change: Identify and deliver efficiencies or low carbon alternatives throughout value chain and product lifecycle.

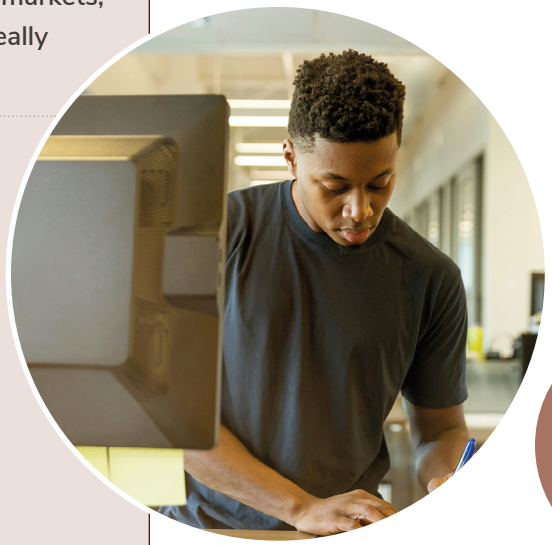
Further detail:

Services include life cycle analysis (LCA), energy audits, and specialist advice on manufacturing equipment, HVAC systems, ovens, drives, and other energy-using appliances.

Some firms specialise in specific sectors or technologies, while others provide broad sustainability and energy management services, including guidance on renewable installations and process optimisation.

Some publicly funded programmes have offered grants for more niche optimisation services, including the West of Engand's Combined Authority's Green Business Grants.

> "The demand is accelerating because more supply chains are expecting it. I think we're reaching the point in most certain sectors are driving it forwards. So, supermarkets, automotive, food and drinks supply chains are really leading this." *Provider*



Low Carbon energy brokerage

Description: Some energy brokers specialise in advising SMEs to procure green energy. They usually have a large buying group portfolio, and charge a commission to the energy supplier when a contract is agreed.

Who is leading? Small number of sustainable brokers, within a well-established model of private sector brokers, including 'online switching' services. Niche but growing offer of demand response e.g. EV Fleet Management.

Who is funding? SMEs: brokers receive commission included in energy price or set fee, or both. For demand response, providers can also receive payment from the Electricity Settlements Company.

Examples: Sustainable Energy First, Sustainable Energy Consortium, Green Energy Advice Bureau. Demand response providers: Flexitricity, Engie. Flexible electric vehicle charging: VEV, Charge Guru, MER.

Uptake: Sustainable Energy First claim to be managing 3.3% of the UKs business carbon footprint. Demand response is limited but growing with the expansion of smart metering.

★★☆☆☆

Theory of change: Brokers might advice SMEs to buy cheaper energy from low carbon providers, even potentially suggesting green tariffs or energy efficiency advice.

Further detail:

In an unregistered market, it is estimated there are 3000 energy brokers in the UK operating as energy intermediaries. Their services are used most by medium-sized businesses (48% in 2024), including manufacturers and hotel chains, compared to around 33% of small and micros.[16] The market is primarily focused on cost savings (per kWh), although many brokers offer add-on services including efficiency and carbon reduction, despite these working against their business model (which may involve a share of energy prices paid).

Numerous instances of overcharging, hidden fees and inappropriate contracts have led the Government to look at market regulation in this sector.

The demand response market for SMEs is nascent but growing, with most participation currently limited to larger, energy-intensive SMEs able to aggregate flexible loads such as refrigeration, HVAC, or EV charging. Widespread SME engagement remains low due to technical, financial, and awareness barriers, though recent smart meter rollouts and targeted aggregator services are beginning to broaden access.

16 IFF-Ofgem (2025) Businesses' experiences of the energy market 2024.

Implementation: capital measures

SME decarbonisation depends on the installation of capital measures including building retrofit, new and upgraded heating systems, machinery, and onsite renewables. Barriers to uptake are well documented in the literature, and help to explain low levels of adoption by SMEs. These include lack of awareness, the landlord-tenant 'split incentive', and accessing finance due to long term burdensome costs. Identifying trustworthy suppliers and obtaining quotes for works is also a significant barrier. Directories and certification schemes, such as those offered by Planet Mark, are emerging to address quality and advice gaps. Supplier certification (e.g. MCS) can help SMEs navigate unknown markets. Octopus Energy have developed their own brand supplier networks delivering heat pump and solar installation. Whilst primarily home owner enquires, over 200,000 people expressed an interest in installing heat pump technology with Octopus in 2024. As these markets grow, it will become easier to find trustworthy, skilled installers, and a wider range of vehicle types, including vans.

Many banks now offer 'green finance' products tailored to SMEs with a) green credentials or b) supporting energy efficiency measures and/or renewable technology. One bank, Lloyds, specifically links a finance package to acquisition of properties, where EPC A or B rated purchases are exempt from an arrangement fee. However, there is a concern that banks remain focused on larger companies.

> "Financial products don't feel like they're necessarily created for SMEs. Sometimes they're a bit complex, and banks don't always lend that much to SMEs because they see them as quite risky." *Advocacy organisation*

Engagement with SMEs also offer FIs the benefit of greater availability and consistency of data on downstream value chain energy use and emissions, both to support with lending assessments, and for their own Scope 3 reporting. One banking institution has developed its own carbon planner targeting SME customers and offers carbon footprinting, cost estimates, and links to financial support.

Green finance

Description: Financial instruments targeted at emissions reduction, including loans, revolving credit funds, and loans linked to carbon audits. Sometimes including preferential rates.

Who is leading? Private traditional banks, public development banks, some of the challenger banks.

Who is funding? Banks sometimes offer small financial 'discount' vs existing loans (lower fees, or rates) or support decarbonisation monitoring.

Examples: Nat West, Barclays, Lloyds' Green Asset Finance, Oxbury (farming sector only), ESCO-in-a-box. Public: British Business Bank, Development Bank of Wales.

Uptake: mainly among medium-sized rather than small enterprises.

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Theory of change: SMEs will borrow to invest in decarbonisation measures.

Further detail:

FIs recognise the opportunity for lending to SMEs for decarbonisation measures. Additionally, many FIs have committed to aligning their lending and investment portfolios with Net Zero, so green finance is core to their wider ESG commitments.

Quality data helps banks to better quantify risks and thus lend to more SMEs, so many FIs are involved in parallel initiatives such as the Carbon Accounting Alliance, or Project Perseus.

Some financial products are oriented to specific technologies. The Growth Guarantee Scheme, run by the British Business Bank works in partnership with Novuna Business Finance to provide funding for smaller business to invest in assets such as Electric Vehicles and heat pumps.

Other financial products and services include leasing of energy efficient machinery, or renting roof space for solar PV installation to reduce upfront capital costs. Energy Service Company (ESCO) business models include linking finance repayments to energy savings, but these have gained little traction in the SME market, even with support from government.[17]

17 DESNZ (2024) Boosting Access for SMEs to Energy Efficiency (BASEE): evaluation of the programme.

Low carbon technology installation

Description: Sale, installation and maintenance of energy-efficient and renewable technologies, including solar PV, heat pump, LED lighting, building retrofit, electric vehicles, and energy management systems.

Who is leading? Private sector manufacturers , specialist installers and energy companies e.g. Octopus Energy.

Who is funding? Primarily SMEs, with grant funding to reduce costs for technologies still not at scale in market e.g. heat pumps, EVs. Solar may be funded through power purchase agreements (PPA) with installers.

Examples: Mostly local suppliers, although increasingly offered by e.g. Octopus Energy, E.On.

Uptake: Varies by product. LED lighting, regulated and now cheap is a mature market. Solar PV is becoming a more compelling investment without subsidy: +250K businesses have installed solar.[18] EVs uptake are supported through subsidy, but cost parity with conventional vehicles is close. Heat pumps remain a niche market with low uptake.

★★☆☆☆

Theory of change: Emissions can be reduced through greater efficiency, fuel switching, and through onsite generation. Removing or reducing the cost barrier makes practical decarbonisation possible.

Further detail:

Mature technology markets exist for LED lighting, and the business case for investing in solar photovoltaics and electric vehicles is becoming stronger. However, while LED lighting is already the default choice for SMEs upgrading light fittings, solar and EVs adoption involve more active choice, and can be hindered by infrastructure constraints (notably grid capacity for solar and limited EV charging points).

> "I've spoken to SMES who have tried to get grants for solar panel installation but are knocked back because they can't connect to the local grid network. What's the point in getting a grant for solar panels which you can't install because the local infrastructure is failing?"
> *Provider*

Financial barriers remain cited by SMEs and stakeholders as a key barrier, although rising energy costs has made the business case for capital investments stronger. Low uptake of clean energy in the context of high bills reveals the importance of non-financial barriers.

Many SMEs rent properties, making landlord engagement crucial, especially for heat electrification and retrofits.

18 DESNZ (2025) Solar photovoltaics deployment statistics.

Continuous improvement

Stakeholders emphasised that from an SME perspective, decarbonisation is fundamentally a journey rather than a destination. This perspective recognises that sustainable transformation requires time, resources, and strategic planning that must be tailored to each business's unique circumstances and operational realities. The iterative nature of this process means that continuous monitoring and improvement is essential for meaningful progress, enabling businesses to build capacity gradually while finding ways of communicating the progress, in addition to responding to evolving market conditions and regulatory requirements.

Two primary mechanisms support SMEs in this journey: formal certification systems and collective advocacy platforms. Certification and accreditation schemes provide structured frameworks for SMEs to track and report emissions reductions systematically. These mechanisms serve dual purposes – offering internal management tools for environmental performance while meeting external expectations from supply chains, customers, and increasingly stringent regulatory frameworks. The growing emphasis on verified reporting reflects broader market shifts toward transparency and accountability in environmental claims. Complementing these emerging standards, recognition mechanisms such as awards create additional incentives for SME participation. These approaches acknowledge that businesses are motivated by diverse factors beyond compliance, including market positioning, operational efficiency gains, and professional recognition within their sectors. The interplay between measurement and recognition creates multiple pathways for SME engagement with decarbonisation objectives.

Finally, collective advocacy represents an emerging dimension of SME climate action. Traditional membership organisations and newer specialist platforms are increasingly positioning themselves as representatives of SME interests in climate policy discussions. This collective voice function serves both to amplify individual business commitments and to influence the broader policy environment that shapes SME decarbonisation opportunities. By aggregating individual actions into visible collective commitments, these platforms demonstrate SME sector engagement while advocating for supportive policy frameworks that recognise the specific challenges and capabilities of smaller businesses.

Certification and awards

Description: Certifications, accreditations and awards are used both by SMEs and service providers as a way to signal their commitment to decarbonisation, and shows that the information provided is up to some external standard. For service providers, this means establishing a level of trust with potential clients.

Who is leading? Private initiatives.

Who is funding? SMEs, with some corporate or sector sponsorship.

Examples: Certification: ISO and PAS Standards, BCorp, GreenMark, Awards: UK Green Business Awards, Green Growth Awards, Ashden Awards.

Uptake : growing, but not widespread.

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Further detail:

Certifications typically require SMEs to assess and improve their environmental practices, undergo external audits, and commit to ongoing reporting and compliance.

While certification can enhance credibility, market access, and operational efficiency, uptake among SMEs is constrained by cost, administrative burden, and the complexity of processes often designed for larger firms.

Certification is increasingly seen as a strategic lever, enabling SMEs to meet client and regulatory expectations, access sustainable finance, and participate in sustainable supply chains.

> "If you're an SME that wants to sell to a BCorp Corp, they will genuinely generally look at another B Corp to purchase from." *Provider*

Awards can produce network effects and peer influence, reinforcing the value and credibility of SME sustainability and driving uptake.

Engagement and advocacy

Description: Representing the 'Voice of SMEs' by consulting, recruiting and calling on SMEs to act; and promote success stories.

Who is leading? NGOs, Sector organisations, professional bodies.

Who is funding? SMEs via membership fees; non-profit fundraising.

Examples: SME Climate Hub, FSB, Hospitality UK, ISEP.

Uptake: Modest, but the voice of even small collectives can be significant, e.g. in government consultations.

★★☆☆☆

Further detail:

Platforms such as the SME Climate Hub invite SMEs to publicly state carbon baselines and pledge to meet targets for emissions reduction.

Membership organisations (e.g. FSB, Chambers, IOD), including professional and sector based bodies (e.g. Institute of Chartered Accountants) can amplify the voice of SMEs, although do not always campaign in favour of decarbonisation as a policy priority.

Modes of influence include consultation responses (e.g. Future Homes and Buildings Standards), and membership of sector councils.

Motivation: why might SMEs be willing to pay for decarbonisation services?

Understanding what motivates SMEs to engage in different decarbonisation activities is essential for designing effective policy. While expected motivators such as cost reduction, regulatory compliance and business owner values remain important, our interviews highlighted the increasing relevance of two emerging motives: meeting tender requirements, and value-driven green business.

Motivation: Meeting tender requirements

Driver: Large organisation procurement requirements

Emerging trend: NHS procurement based on public procurement PPN06/21

Impact on decarbonisation: Limited: Currently 'tick box'

Motivation: Values-driven green business

Driver: 'Walking the talk'

Emerging trend: Business credentials through certification, especially holistic approaches e.g. BCorp.

Impact on decarbonisation: Moderate-High

For SMEs, commercial viability is paramount to survival. This means that decarbonisation investments must be seen either as demonstrating clear business benefits to respond to external pressures or as necessary actions to maintain or achieve market position. However, being motivated is still not strongly aligned with willingness to pay. Whilst over 50% of sole traders and micro businesses have paid for external support,[6] based on our interview findings, SMEs paying for decarbonisation services tend to be medium-sized businesses with 50-249 employees, across various sectors that reflect the broader UK economy.

Crucially, it is not only about financial resources as most SMEs do not have a person or team dedicated to these matters, making it a challenge to sustain decarbonisation efforts when other priorities emerge.

Our analysis identifies **three motivation routes** that drive SME engagement with decarbonisation services, each representing different mechanisms through which the business environment influences SME decision-making. Figure 3 is a summary of those routes highlighting the interaction between SMEs individual choices and the different inputs from the context. These routes are not mutually exclusive, and many SMEs may be influenced by multiple factors simultaneously. However, understanding these distinct pathways helps explain the varied approaches SMEs take to decarbonisation and provides insights for targeted policy interventions beyond intrinsic factors such as energy consumption and sector.

The following sections examine each route in detail, outlining the typical actions SMEs take, stakeholders involved, funding sources, and policy triggers associated with each pathway.

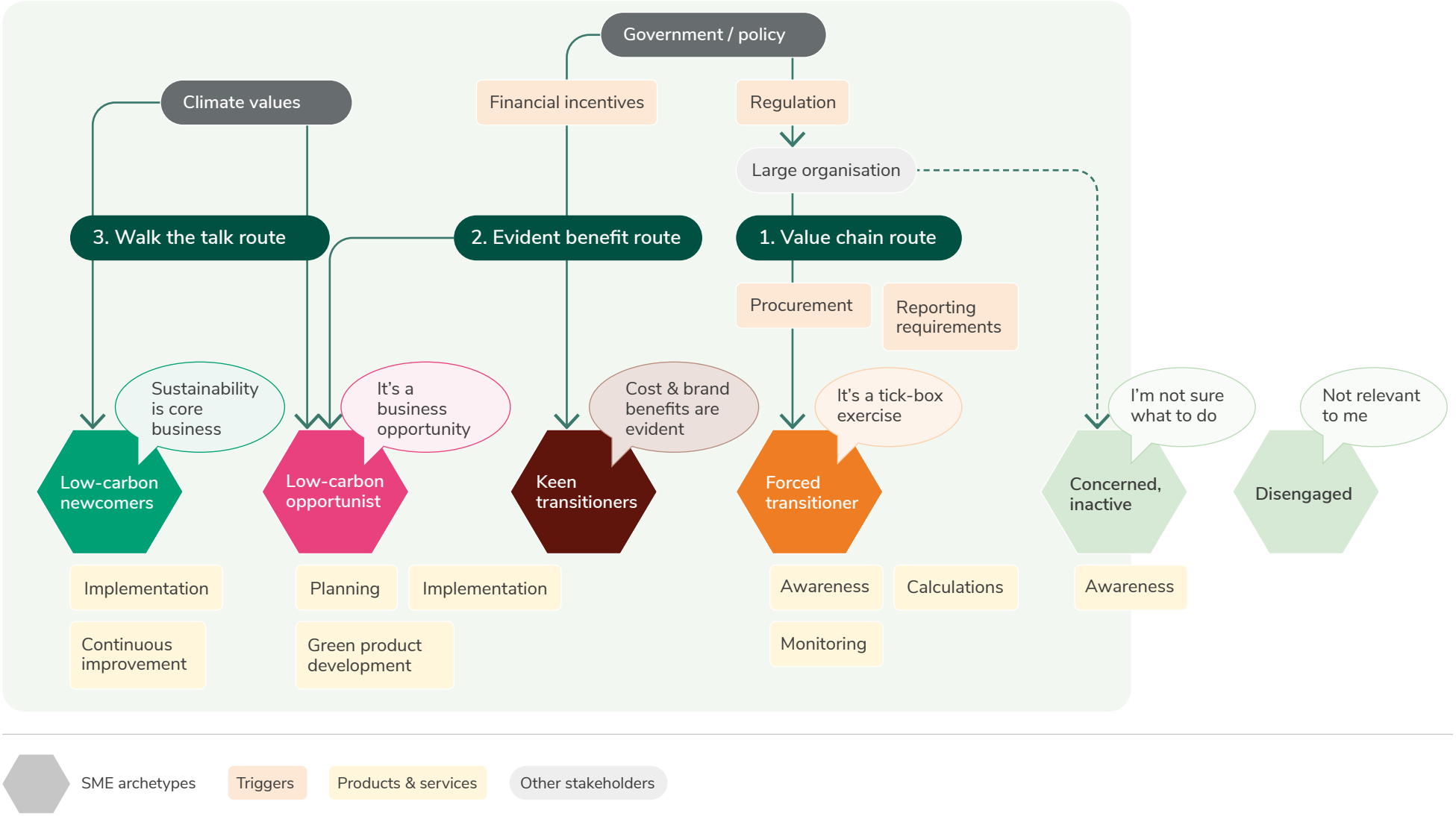

Figure 3: Motivations, routes and SME archetypes

1. The Value Chain Route

Supply chain pressure, both in terms of reporting requirements or tender applications is an emerging driver. In this route SMEs are motivated primarily by requirements placed on them by third parties.

> "99% of all the companies we support are doing it because someone's telling them that they have to and for a small proportion, that's legislation like SCCR or PPN. For the vast majority, it's supply chain." *Provider*

Government procurement policy, particularly the implementation of PPN06/21 requiring suppliers to report Scope 1, 2, and 3 emissions for contracts over £5 million, has created cascading effects throughout supply chains. Such large-scale procurement has also provided impetus for the development of new market-based support for SMEs (See sections on Footprinting and Accounting).

Recent research amongst FSB members indicated 56% had been asked to provide their emissions data to companies they supply to, 32% to UK Government or public bodies and 19% to local authorities. Only 13% had been asked to provide this to FIs.[13] This suggests procurement processes are reaching across the supply chain, far beyond tier 1 companies. Those facing immediate compliance requirements appear most willing to invest in consultancy support, rather than more basic information-based tools.

The Value Chain Route can also involve SMEs receiving additional support and resources, other than via FIs and government. Examples include 'insetting' schemes, whereby corporates fund decarbonisation measures. For instance, Coca Cola provided some SME customers with more energy efficient cooling equipment.

Typical decarbonisation actions:

- Preparing decarbonisation plans (often without implementation requirements)
- Carbon accounting and measurement
- Some practical operational decarbonisation measures

Key Stakeholders:

Government regulators, public sector procurers, large corporate clients, supply chain partners

Funding sources:

Primarily SME self-funded, with occasional corporate client collaboration or intermediary support.

Trigger: (Indirect)

- Government regulations on corporate emissions reporting create cascading effects through supply chains, indirectly compelling SME action.
- Public sector procurement (PN06/21).

2. The Evident Benefit Route

When SMEs can clearly demonstrate positive returns on decarbonisation investments, particularly through cost reduction and operational improvements, motivation can shift. This pathway has been fundamentally transformed by falling technology costs and rising energy prices, making previously marginal investments commercially attractive without external pressure or subsidies.

> "The payback period for solar is now 3-5 years, whereas 10 years ago it was maybe 10 years. So that return on investment is much easier to make at a board level." *Sector association*

This motivation can be remarkably strong if the ROI clear. Regional grant programmes have documented cases where SMEs proceeded with decarbonisation projects even after their grant applications were rejected, indicating that the underlying business case was sufficiently compelling to justify private investment. When benefits are clear, quantifiable, and made salient to decision-makers, SMEs will act independently of government support.

The benefits communicated by service providers extend beyond simple cost savings to include energy resilience, brand recognition, and operational improvements. In the case of certification, especially process led, appear to have value for businesses wishing to signal green credentials with SMEs wishing to be B Corp-certified paying £600 for registration/audit and an annual £1000 membership fee.

This broader value proposition helps justify investments that might not meet traditional payback criteria, particularly for businesses seeking to future-proof their operations against energy price volatility or establish competitive advantages in increasingly environmentally conscious markets. Yet, as the context plays a vital role in shaping the decision-making environment, this route can be very fragile:

> "You're dealing with businesses doing it because they want to do it... But it also means that it's a very easy can to kick down the road when other more business-critical pressures come along." *Provider*

Typical decarbonisation actions:

- Practical decarbonisation using mature technologies (LED lighting, solar photovoltaic systems)
- Self-funded implementation when benefits are sufficiently attractive.
- Product/process optimisation
- Certification

Key stakeholders:

Government agencies, private green finance providers, technology suppliers

Funding sources:

Government grants, tax exemptions, and loans, though SMEs will self-fund when return on investment is compelling. Loans are also an option, although uptake is low.

Trigger:

Market interventions that reduce technology costs or provide financial incentives or open profitable new markets make the business case for decarbonisation compelling

3. The "Walk the Talk" Route

This route is followed by businesses that embed sustainability in their core identity or seek certification and market recognition to enhance competitiveness. However, evidence indicates this motivation remains uncommon.

> "In a distant third is [decarbonising] because it's the right thing to do. You know, almost no companies are waking up saying 'let's make our contribution to save the planet'." *Provider*

Interviewees identified the importance of business leadership values, which highlights the discretionary nature of this route.

> "If you don't have those [business critical drivers], you need somebody within the SME, usually a founder or a CEO, who thinks this is the right thing to do." *Advocacy stakeholder*

Alongside the value route, some providers suggested that SMEs with the intention of recruiting and retaining talent of younger employees need to commit and communicate with sustainable goals in general, and decarbonisation behavioural initiatives are normally welcomed.

Communicating decarbonisation actions and vocal advocacy are central, as businesses seek recognition for being "green" and to demonstrate that low carbon business is possible.

Some interviewees noted the rise of businesses with "sustainability at their core," which are more likely to take holistic action. Many decarbonisation providers are SMEs themselves and emphasise leading by example.

Yet, the discretionary and values-driven nature of this route suggests it is largely self-selecting and dependent on the motivation of owner-managers. It is not easily scalable for mass SME engagement in the short term. Over time, embedding sustainability in business training and support may broaden its impact.

Typical decarbonisation actions:

- Planning
- Product and service optimisation
- Continuous improvement programmes, certification and awards
- Detailed reporting (particularly important for brand positioning)

Key stakeholders:

Customers, brand partners, sustainability consultants, sector associations

Funding sources:

SME self-funded, with some support from sector associations or collaborative programmes

Trigger:

Market demand for sustainable products and services, supported by government sustainability frameworks and certification schemes.

Research indicates that for SMEs, "walking the talk" – implementing substantive sustainability actions – can be easier than "talking the walk," or engaging in extensive formal communication and reporting.[19] SMEs' flatter structures and lower organisational costs allow them to integrate responsible practices more readily than they can develop formal CSR communication strategies, distinguishing their approach from larger firms.

Yet the high discretionary nature of this route and the strong reliance on individuals' knowledge and values suggests that it might be a self-selecting group rather than a scalable pathway for mass SME engagement in the short term. In the long term, this route will benefit from continuous efforts embedding sustainability in business training and business support.

These three motivation *routes* reveal the complex landscape of drivers for SME decarbonisation, where external pressures dominate over internal values and clear financial benefits increasingly drive market engagement. Critically, these routes operate with different intensities across SME populations, combined with factors such as business size, sector characteristics, energy use, property ownership structures, and market positioning. This variation creates distinct patterns of decarbonisation readiness that have significant implications for policy targeting and resource allocation.

19 Wickert, C., Scherer, A.G., & Spence, L.J. (2016). Walking and talking corporate social responsibility: Implications of firm size and organizational cost. *Journal of Management Studies*, 53(7), 1169–1196.

SME decarbonisation archetypes

Understanding why SMEs might engage with decarbonisation provides essential context, but effective policy design requires knowing which businesses are most likely to act and how they can be reached efficiently. Analysis of motivation routes alongside market dynamics reveals that SME responses cluster around five archetypes, each representing different combinations of motivational drivers, capacity constraints, and support requirements.

Low-carbon newcomers

Start-ups and new SMEs that embed sustainability in their core offering or operate in contexts where sustainable practices are expected. These businesses make foundational decisions – energy supply, fleet, operations – at formation, allowing early integration of low-carbon practices rather than retrofitting later.

Low-carbon opportunists

Established SMEs that view decarbonisation as a market or cost-saving opportunity. They are eager to access support and funding but are highly sensitive to the costs of decarbonisation products and services. Likely to act only if external funding is available.

Concerned inactive

Small businesses expressing concern about climate change but not engaging in decarbonisation. This may be due to underestimating their own impact, attributing responsibility elsewhere, or facing severe resource constraints.

Keen transitioners

Established, typically medium-sized SMEs in sectors with flexibility and clear decarbonisation opportunities. Attracted by brand and cost benefits, these firms have the cash flow and understanding to invest in decarbonisation, actively seeking to showcase and leverage their sustainability efforts for competitive advantage.

SME decarbonisation archetypes

Forced transitioners

Medium-sized, established SMEs in high-carbon sectors or with carbon-intensive operations. Often introduce green products in response to market pressures, facing steep learning curves and needing to overhaul existing processes. Decarbonisation remains a secondary priority unless driven by strong external motivators, such as regulation or supply chain demands.

Disengaged

SMEs largely outside the reach of current decarbonisation initiatives – often microbusinesses, sole traders, or home-based firms where business and household emissions are hard to separate. Typically unaware of decarbonisation opportunities and unlikely to act without targeted interventions; will decarbonise only at the pace of broader societal change.

Decarbonisation market assessment: Strengths, opportunities and weaknesses

This section evaluates the current health of the SME decarbonisation market to identify where targeted government intervention could accelerate progress. Analysis reveals a market experiencing rapid growth on the supply side while facing persistent challenges in generating sustained demand from SMEs, although there are several promising trends.

Market strengths

Supply chain requirements are increasingly driving self-sustaining demand for SME decarbonisation. Large organisations now routinely require carbon reporting from their SME suppliers, generating robust demand for measurement and reporting services. This compliance-driven market provides a stable revenue stream for service providers and incentivises SMEs to adopt decarbonisation practices to remain competitive. However, the effectiveness of this dynamic depends on a clear, long-term policy signal that Net Zero is a consolidated and enduring strategy, underpinned by both corporate and regulatory commitments.

A key risk is that such demand may prioritise measurement and reporting over substantive emissions reductions. This can be mitigated by initiatives like the NHS procurement plan, which links supplier engagement to ongoing emissions reductions, thereby ensuring that reporting requirements translate into practical decarbonisation action.

Technological innovation, particularly in **artificial intelligence, is lowering entry barriers and expanding the reach of decarbonisation services**. AI is increasingly used to automate carbon accounting and generate tailored recommendations for SMEs, addressing traditional barriers of cost and complexity:

> “Amazing AI platforms are being made where businesses can input all their [data]... the AI platform will tell them exactly how much they can save.” *Advocacy stakeholder*

The **data generated through decarbonisation activities is itself becoming a valuable asset**. New business models are emerging, such as data trusts that aggregate regional information, reducing individual subscription costs and enabling revenue generation from data insights:

> “A data trust is a vehicle that provides the data integrity and protects access to that data... anyone who wants to access the data will then pay because it will help the whole thing be self-sustaining. Government will buy the data at an aggregated level because they don’t need to know individuals, they need to know an aggregated level.” *Provider*

Integration of carbon tracking into mainstream business systems is advancing. Major accounting software providers are embedding emissions calculation into standard packages, leveraging existing data flows to automate reporting. This reduces the administrative burden on SMEs and creates new revenue streams for software companies:

> "Digital invoicing... helps us get a better understanding of what's going on in the ecosystem, what's being acquired and where... we've got to have richer understanding of what's happening with these small businesses and measuring the environmental impact of them without the SME really having to do much work." *Provider*

Market weaknesses

Critical information gaps. The SME decarbonisation market is hampered by a lack of robust quantitative data on both uptake and preferences, particularly in relation to transport. There is limited evidence on SME willingness to invest in different decarbonisation measures or their preferred financing mechanisms, and the true scale of uptake across private sector services remains unclear. While research suggests a low appetite for borrowing to fund energy efficiency improvements, comprehensive data is lacking. Furthermore, there is insufficient evidence regarding which services actually lead to measurable emissions reductions, as opposed to those that stall at the planning stage.

Trust remains a significant barrier. SMEs are often cautious clients, requiring confidence that service providers will recommend solutions tailored to their circumstances rather than simply seeking to sell products. Research participants noted difficulties connecting SMEs with "trustworthy tech and energy providers at local level," creating a gap between initial measurement services and practical implementation support.

Reluctance to take on debt is pronounced among UK SMEs, who remain far more cautious than their European counterparts.[20] Only 11% use loans to finance decarbonisation, preferring internal funding such as retained cash, even when preferential green finance is available.[7]

20 Treasury Committee (2024) SME Finance.

This debt aversion reflects high legacy borrowing from the pandemic, elevated UK interest rates, and economic uncertainty, all of which discourage further leverage. In contrast, European SMEs benefit from lower financing costs and stronger institutional support, including EU-backed green finance initiatives such as Green Private Credit,[21] which make external borrowing more viable for sustainability investments.

> "All the data suggests that SMEs are particularly reluctant to take on finance. You know, they would prefer to generate it themselves, go to friends and families and so on." *Provider*

> "There are lots of SMEs who just don't want to borrow if they can possibly help it. Even if it's a 5% loan as opposed to an 8% loan. That's nice, but it's still not going to drive huge amounts of borrowing." *Advocacy stakeholder*

Private sector providers and intermediaries question government commitment to long-term decarbonisation goals. Policy uncertainty around Net Zero implementation timelines and support mechanisms makes businesses hesitant to invest heavily in market development. This uncertainty is exacerbated by the perception that business support policy is inconsistent over time, and geographical coverage.

> "All these funding programs we don't know when they're coming. We don't know how long they're going to be there when they are there and actually engaging with them is a real administrative nightmare... We need to know that the funding is coming and we need to know it's going to be there for a significant period of time. It's not worth us upskilling all our guys and spending all this for then a funding stream to just disappear with the next government." *Provider*

> "The moving of goal posts and the uncertainty that is being created in the political sphere at the moment is immensely disruptive. A lot of organisations of all sizes are saying "I think we're just going to wait." *Provider*

> "When government changes deadlines on things like the ZEV mandate, that causes a lack of confidence within the sector. People will say: 'Well, I could have taken out a loan to buy an electric vehicle and been locked into a long payback period with high interest. But the government changed it'." *Sector association*

21 European Investment Fund (2025) Launch of Green Private Credit.

There is a **clear imbalance between the supply decarbonisation services and actual SME demand**. Supply side expansion has been rapid, particularly in measurement and accounting tools. The British Business Bank and Icebreaker One identified over 270 carbon accounting providers targeting SMEs, offering services from basic carbon footprinting to comprehensive decarbonisation strategies. This reflects strong investor confidence, yet market penetration remains limited. While a majority of SMEs report calculating their emissions, only a small fraction pay for these services, with most relying on free tools. Decarbonisation plans, even when developed, are often shelved due to competing business priorities.

> "Businesses are running their business, so unless [decarbonisation] aligns with their core business it might not even sit on their radar." *Provider*

Evidence from multiple sources indicates **limited market penetration**. While 78% of SME Climate Hub survey respondents calculate their emissions, only 17% pay for carbon accounting services – most rely on free tools.[22] Service providers report that decarbonisation plans, once developed, are frequently shelved due to competing business priorities. One energy consultant noted that despite 20 years of offering energy audits – including free services with implementation discounts – "the appetite and change hasn't really changed at all."

> "The challenge that we're facing is that I think our product offering [training] is too expensive. There is so much financial pressure on SMEs that decarbonisation is a nice to have... a lot of SMEs do not need a carbon footprint. They do not need a decarbonisation plan." *Provider*

The rapid expansion of the market has not been matched by adequate **data quality control and standards**. There are no universal qualification requirements for carbon accounting, resulting in inconsistent methodologies and outputs. The absence of professional standards has led to what some describe as a "Wild West" environment.

> "At the moment it is like the Wild West. Cowboys, Cowboys, everywhere! There is no form of qualification required for an individual person to complete a carbon footprint for an organisation of any size." *Provider*

Fragmented standards further burden SMEs, who face multiple and sometimes conflicting reporting requirements from different supply chain partners.

> "Sustainability regulation wasn't written by data scientists. It's not properly metricised. The units are all different, and [providers] are all asking for different data." *Provider*

22 SME Climate Hub Survey 2025.

Efforts are underway in the financial sector to standardise and improve the quality of carbon data, such as Project Perseus, which aims to provide SMEs with GDPR-compliant access to direct carbon data based on energy use. This is seen as crucial for both reducing risk and improving supply chain reporting.

Quality verification remains inconsistent. While large organisations increasingly demand high-quality data for emissions reporting, poor-quality outputs are still sometimes accepted in procurement processes, undermining the credibility of reporting requirements.

> "They weren't doing this out of malice. They were just sort of testing the system. [The SME] was asked for a Carbon Reduction Plan as part of a tendering process and they submitted a blank PDF. It never got picked up." *Provider*

From data to insights. As data collection barriers are reduced with the aid of different technologies (from natural language AI processing to carbon accounting), the next step is to develop cost-effective mechanisms for translating data into actionable insights that drive decarbonisation.

> "We need to move very rapidly from data to analytics to insights, but the insights have to be real... We're getting to the end of that runway – so you have to start thinking about the really smart things like demand response, flex, smart agriculture, smart mobility." *Non-profit stakeholder*

In summary, the SME decarbonisation market is constrained by information deficits, trust and confidence issues, a misalignment between supply and demand, and a lack of quality control and standardisation. Addressing these weaknesses is essential for unlocking the sector's full potential in the transition to net zero.

Part 2: What does this mean for Government? Strategies for maximising impact

The first part of this report has shown that SME decarbonisation activity is increasing, with the private and non-profit sectors playing a larger role than ever before. This shift means that government is no longer the only actor responsible for addressing market failures in SME decarbonisation. Instead, the landscape is becoming more collaborative, with a wider range of organisations – such as industry bodies, local authorities, and non-profits – developing and delivering support for SMEs.

While this brings new opportunities, it also creates greater complexity. Government must now be more agile: able to champion, convene, and support others' initiatives, as well as identify where its own strategic intervention is still needed. This involves recognising and backing effective models of SME support, whether these are based in specific places (such as local authorities or industrial clusters) or led by particular sectors.

It is also essential that government learns from previous and current SME decarbonisation programmes. By gathering evidence on what has worked – and what has not – future interventions can deliver better value for money and avoid duplicating or crowding out private sector activity.

A key part of this is understanding where public funding is still needed, and where the market is already delivering. For example, there are now mature markets for technologies such as LED lighting and, increasingly, smart energy management and solar PV. In these cases, the business case for SMEs to invest is strong, and government's role may be limited to providing information, setting standards, or improving access to finance. For other solutions, especially new or less established technologies, government support may still be required to help them gain traction.

This section sets out the implications of these trends for government, drawing on insights from stakeholder interviews and examples from across the UK. It offers practical recommendations for how government can maximise its impact in this changing context.

Learning from previous and ongoing SME decarbonisation initiatives

Clarifying and prioritising objectives

Effective government intervention in SME decarbonisation begins with a clear understanding and explicit prioritisation of policy objectives, recognising that different departments and programmes may need to balance a range of outcomes according to their specific mandates and the evolving policy landscape.

Historically, government support for SME energy and environmental improvements has been closely aligned with economic development policy, capitalising on the synergies between resource efficiency, productivity, and business growth. This 'win-win' paradigm has underpinned much of the policy discourse, positing that the adoption of clean energy measures by SMEs not only reduces emissions but also delivers cost savings, improved staff wellbeing, reputational benefits, and enhanced business resilience. Closely linked is the ambition to promote eco-innovation and clean technology, sectors in which UK SMEs and start-ups have demonstrated strong growth and leadership.

While these objectives remain important, academic literature and practical experience point to the limitations of the 'win-win' framing.[23] Not all decarbonisation measures offer rapid payback periods.

For example, the electrification of heat and transport often requires longer-term investment, and structural barriers such as short lease agreements can inhibit action. Policies focused primarily on supporting the supply side of eco-innovation are valuable for economic development, and can raise awareness about the benefits of climate action. However, these interventions do not deliver widespread emissions reductions across the broader SME population.

The establishment of the SME Decarbonisation Team within DESNZ reflects a shift in government thinking: reducing emissions from the UK's 5.5m SMEs is now recognised as an essential component of achieving national Net Zero targets. While co-benefits such as productivity and resilience remain relevant, the primary policy objective is emissions reduction at scale.

Government must therefore balance and prioritise multiple objectives when designing interventions. These may include:

- **Energy savings** (kWh), which focus on reducing the absolute amount of energy consumed by SMEs through efficiency measures and operational improvements.
- **Carbon savings** (CO_2e), which encompass reductions in greenhouse gas emissions from all sources – including energy use, fuel switching, self-generation, demand flexibility, and non-energy-related activities.
- Building internal capacity and **carbon capability** within SMEs, to enable sustained action;

23 Williams & Preston (2018) Working with values: An alternative approach to win-win. *International Journal of Corporate Strategy and Social Responsibility*, 1(4), 302–319.

- Ensuring SMEs adopt **optimal measures**, guided by marginal abatement cost curves – potentially through mandating or funding independent audits;
- Maximising **additionality** from public funding, by avoiding support for measures likely to be implemented without intervention;
- Supporting the development and uptake of **new and nascent low carbon technologies**, such as heat pumps;
- Enabling **rapid delivery**, which may at times justify subsidising mature technologies for speed and scale;

Targeting support to specific SME segments – such as high-growth or export-oriented firms, energy-intensive businesses, particular regions (levelling up), voluntary or social enterprises, or sectors vulnerable to climate or market shocks.

As one government interviewee noted, "Like most things that we deliver, we create some winners and some losers and there's a need to do a thought experiment beforehand." Another observed, "It raises questions about whether the role of government here is simply to make sure that an efficiency measure is realised that otherwise might not be, or whether there's a role in government helping to derisk the certainty of payback, particularly looking at longer periods."

Defining and prioritising policy objectives, and being explicit about the trade-offs involved, is therefore critical to effective and efficient government intervention in SME decarbonisation.

Key learnings from publicly funded grant programmes

This section addresses the question: "**What can government learn from previous and ongoing business support mechanisms for accelerating SME decarbonisation?**" Insights are drawn from a review of local and regional projects, data analysis, and stakeholder interviews.

The European Regional Development Fund (ERDF) was the primary source of funding for SME decarbonisation policy in the UK until 2023, when the last ERDF projects concluded following Brexit. Under the 2014–2020 programme, 79 regional projects with a total value of £425 million (£217 million from ERDF) focused on SME energy efficiency through a combination of advice, building energy audits, and grants for capital measures.[24] One of the largest initiatives, LoCASE, engaged over 1,000 SMEs across several funding rounds.[25] Some projects also integrated additional funding sources to support SMEs in developing green products or services alongside reducing energy demand.

24 UK Government (2025) List of beneficiaries of the European Regional Development Fund and European Social Fund.

25 The Insight Works (2024) LoCASE 2 and LoCASE 3 Summative Assessment.

However, research in 2023 indicated that less than 1% of the total SME population received local energy efficiency support.[26] Engaging SMEs remains challenging, even when grant funding is available, with prior knowledge of Net Zero or carbon issues, or a pre-existing motivation for action, being strong predictors of engagement. For example, the REBiz project found that 39% of supported SMEs entered the programme with a project already in mind.

Project evaluations, often required as summative assessments, have been published by government,[27] and typically focus on process and impact metrics such as the number of businesses supported and jobs created or safeguarded. While methodologies for estimating greenhouse gas savings were audited by MHCLG, they varied between projects. No evaluations have yet considered spillover or peer learning effects, though some have noted SME motivations including moral obligation, reputation, market position, cost reduction, and compliance with client or supplier requirements.

Summative assessments generally report positive outcomes for SMEs, including energy savings, business growth, productivity, and job creation. Surveys of beneficiaries also highlight improved working conditions as a co-benefit. A national evaluation comparing satisfaction rates among SME beneficiaries found higher satisfaction for resource and energy efficiency support (92%) compared to competitiveness (85%), start-up (81%), or research and innovation support (83%).[28]

Another co-benefit was the stimulation of local economies, with LoCASE reporting that approximately 50% of SME spending within projects was with local suppliers.

Several projects offering both audits and grants considered **additionality** in their evaluations. All grants required SMEs to provide matched funding of at least 50% of the cost of measures, with typical grant offers ranging from 25–40%. Due to limited funds, relatively few SMEs received capital measure funding.

More SMEs received free or subsidised **audits**, which in some cases led to efficiency improvements without further funding. For instance, the West of England Combined Authority Low Carbon Challenge Fund evaluation noted that 59% of Green Business Grant recipients and 57% of carbon survey participants implemented suggested energy-saving improvements without grant support[29]. An England-wide evaluation found that only 14% of beneficiaries believed they would have achieved the same efficiency outcomes without support.[28]

Unfortunately, national policymakers did not collect data on SME-level audit findings or compile information on clean energy measures undertaken with or without grant support. The absence of national-level evaluation means the characteristics of SME beneficiaries – such as size, sector, or energy intensity – remain unknown.

26 ERC-FSB (2023) The less than 1% Club: Mapping net zero support for small businesses across England.

27 MHCLG (2024) Evaluation of the European Regional Development Fund 2014 to 2020.

28 MHCLG (2021) National evaluation of English ERDF Programme 2014-20: Phase Two Report: Interim impact evaluation. Hatch Regeneris Consulting.

29 West of England Combined Authority (2023) Evidence base and summative assessment – low carbon business in the West of England.

> “There are a number of grants that are government backed, but government can’t even actually tell you whether they’re taken up or, what they’re used for! They’re not monitored thereafter.” *Private provider*

To address this gap, our team contacted eight of the largest ERDF projects to gather **detailed data on audits and grant awards**. As Figure 4 shows, the most commonly funded measure was solar photovoltaic (PV) arrays, followed by LED lighting and process energy / machinery. However, Figure 5 demonstrates that as a proportion of all grants awarded between 2016 and 2020, LED had dominated grant awards, to be overtaken by solar PV in 2022. This reflects the increasingly compelling case for investing in solar, as well as the maturity of the LED lighting market particularly following the phase out of halogen bulbs in 2021. Several intermediaries involved in ERDF delivery also told us of a deliberate decision to move away from awarding grants for LED lighting, as grant panels sought greater additionality from public funding.

Figure 4 also shows that a significant proportion of measures are those which tenants are more likely to carry out, including process energy, lighting and electric vehicles. The well-known barrier of the landlord-tenant split incentive may explain the relatively low take up of building fabric measures, despite the widespread potential for energy savings through efficiency improvements in non-domestic buildings.

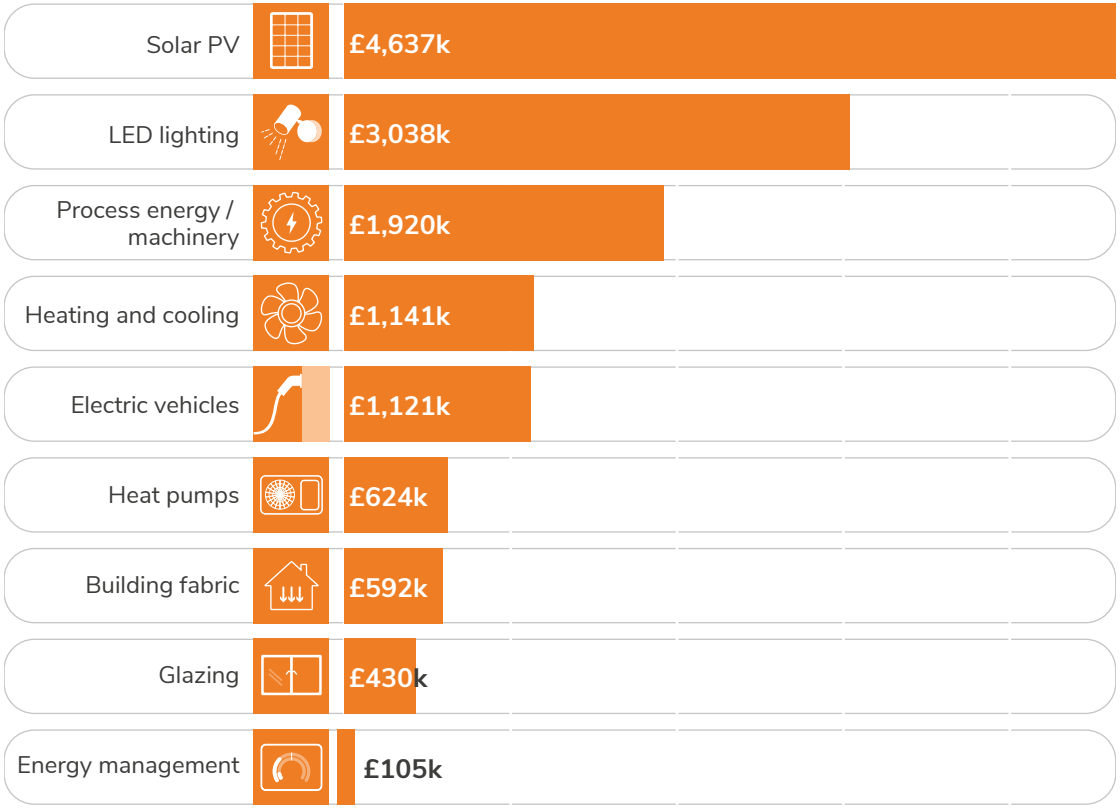

Figure 4: Analysis of £15m grants distributed by eight ERDF projects in England between 2016 and 2023.

These insights have only been made possible through our direct engagement with local projects to obtain granular, project-level data – information that is also inaccessible to central government departments. Several project managers expressed concern that such valuable datasets would not be utilised beyond the life of individual projects and were not being compiled across regions to enable broader learning. The process of collating and reconciling these data was itself resource-intensive, owing to the diversity of governance arrangements and non-standardised reporting formats adopted by local initiatives. Nevertheless, the resulting datasets are of significant value to policymakers seeking to maximise the impact of public investment, as well as to researchers aiming to analyse trends and inform policy both within the UK and internationally.

It is essential that future SME decarbonisation programmes – whether delivered locally, regionally, or nationally – are required to collect data in consistent formats and to make anonymised records of support available to policymakers and researchers. This echoes recommendations made by the Government's own Business Support Evaluation Framework.[30] Establishing such standards and data-sharing requirements cannot be done locally. It is a responsibility that rests with central government and is crucial for ensuring that public funding delivers maximum value and learning.

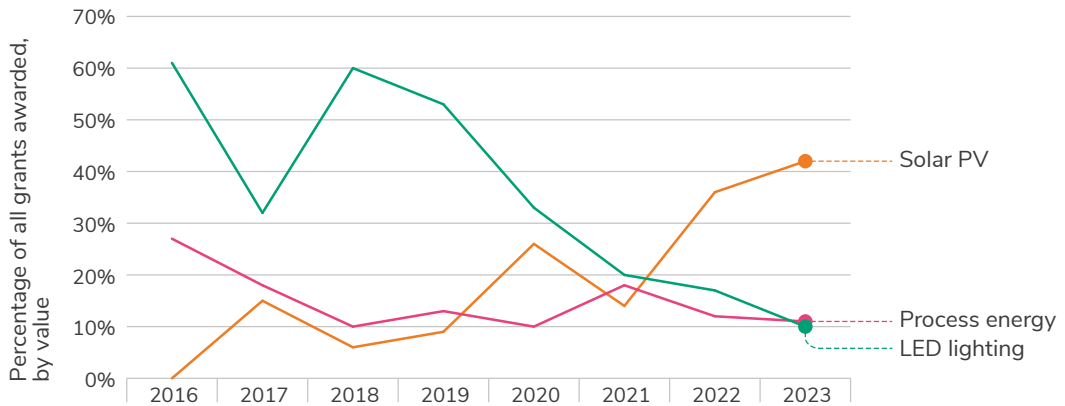

Figure 5: Trends over time for the top three measures supported with capital grants, based on eight ERDF projects in England.

30 BEIS (2019). Business Support Evaluation Framework.

SME Decarbonisation in the UK's Devolved Nations

Approaches to SME decarbonisation have diverged significantly across the UK's devolved administrations, reflecting differing policy priorities, institutional arrangements, and funding choices.

England

England's offer to SMEs has been inconsistent both over time and space. Before 2014, business support was organised regionally, and funding managed by Regional Development Agencies. 39 Local Enterprise Partnerships (LEP) were then created, often with overlapping boundaries. Although some LEPs combined funding to deliver decarbonisation support over larger areas (e.g. LoCASE), many projects in England have been small scale, and short-lived. Shared Prosperity Funding has allowed some support to continue, but inconsistency continues.

Northern Ireland

In Northern Ireland, InvestNI leads SME decarbonisation efforts, focusing primarily on scale-up and export-oriented manufacturing businesses. The scheme offers audits and match-funded grants, with more generous grant rates for smaller firms. Eligibility criteria include a minimum threshold of energy savings and a maximum payback period of eight years. InvestNI's approach is distinguished by its use of framework agreements with local consultancies for delivery, and by the technical expertise embedded within its core team, which enables robust appraisal of applications and tailored advice to businesses. However, recruiting and retaining staff with specialist knowledge remains a persistent challenge.

Scotland

Scotland has maintained a consistent and comprehensive offer of support for SMEs since the early 2000s. Business Energy Scotland, managed by the Energy Saving Trust, provides free energy audits, a dedicated loan scheme, and cashback grants for energy efficiency and low carbon investments. This programme is integrated with domestic energy advice and operates in close partnership with local authorities to raise awareness and drive SME engagement. The Scottish approach is notable for its sustained, centralised delivery and emphasis on both advice and accessible finance. Support is available to SMEs regardless of size or sector.

Wales

In contrast, Wales allocated none of its substantial ERDF 2014–2022 funding (over £1 billion) to SME energy efficiency, instead prioritising transport and renewable energy infrastructure under Priority Axis 4. More recently, the Development Bank of Wales has introduced a discounted loan scheme to incentivise SME investment in clean energy projects, offering discounts of 3–5% depending on the measures adopted and assessed on a case-by-case basis. Since its launch in February 2023, £10 million has been loaned. A 50% grant is also available for energy audits, though uptake has been limited, with most participating businesses already having clear plans for investment.

From technology agnosticism to strategic targeting

A review of ERDF-funded projects in England prompts critical reflection on which non-domestic clean energy measures merit government subsidy, and the criteria that should guide such decisions. Most initiatives have prioritised measures with short payback periods or high returns on investment, seeking to maximise value for money. However, public funding for mature technologies – such as LED lighting, now widely available and cost-effective – risks subsidising actions that SMEs would likely undertake independently, especially as legacy technologies reach end-of-life. The presence of a competitive private market for LED upgrades in non-domestic buildings further weakens the case for continued government intervention.

Stakeholder interviews and grant analysis indicate that a similar dynamic is emerging for solar photovoltaics, which have become increasingly attractive to SMEs due to falling costs or no upfront costs (PPAs), advances in battery storage, and high electricity prices. Comparable trends are seen for electric vehicles and charging infrastructure. As the case for unsubsidised investment in these technologies strengthens, funding bodies must adapt to avoid crowding out private finance and ensure public funds are targeted where they add the greatest value.

Nonetheless, exceptions remain. For some organisations – particularly in the voluntary, charitable, and social enterprise sectors – even technologies with very short payback periods can be out of reach due to acute capital constraints. This justified the inclusion of grant funding for mature, 'no brainer' technologies in the DCMS Energy Efficiency Scheme.

Given these dynamics, there is a strong case for focusing capital grants and public subsidy on strategically important but less mature technologies. Differentiated rates of match funding and loans can be used, with more generous support for technologies such as heat pumps or harder-to-electrify vehicles (e.g. medium and large vans and lorries), where the business case is weaker and market uptake remains limited. While installation costs and payback periods will vary, match-funding can be tailored to reflect these differences. For example, higher grant proportions for heat pumps are justified by the critical importance of electrifying heat for the UK's Net Zero transition.

> "We don't want to be a solar scheme. That's not what we're here to be and there's plenty of finance out in the open market for solar. So why would we be supporting something that's so well serviced in the in the market already?" *Government stakeholder*

This approach does not ignore the continued relevance of mature measures such as LED lighting and solar photovoltaics. Rather, these can be advanced through government-backed guidance, standards, and information campaigns, rather than direct subsidy. In this way, limited public resources are deployed where they are most needed, supporting innovation and accelerating the adoption of crucial low carbon solutions.

Should government fund building energy audits?

Building energy audits can represent an initial step for SMEs aiming to reduce energy consumption and associated carbon emissions. Audits vary in form, ranging from self-conducted assessments using guidance materials – such as those provided by the Carbon Trust[31] – to comprehensive evaluations performed by qualified and accredited experts who conduct site visits and deliver detailed, costed recommendations including return on investment and payback periods. The COVID-19 pandemic has also accelerated the adoption of virtual or remote audits, a hybrid model wherein SMEs supply site-specific data, photographs, or videos, which experts then analyse to offer tailored advice.

Energy audits address a key barrier to SME decarbonisation: a lack of awareness and knowledge regarding the most effective and cost-efficient measures. Beyond identifying capital-intensive technologies, audits can highlight behavioural and procedural changes that require no financial outlay but can yield significant energy savings.

> "Businesses might know that they want to put solar in, but sometimes that bit of extra support in understanding what else they could do is important." *Government stakeholder*

Historically, public funding programmes have often mandated expert audits as a prerequisite for capital grant eligibility. This was the process followed by ERDF projects Low Carbon Workspaces and LoCASE in southeast England, and was the approach subsequently adopted by DCMS' Energy Efficiency Scheme, and DESNZ' West Midlands Business Energy Advice Service pilot. This approach ensures that grant applications are grounded in verified, expert recommendations. This can serve to de-risk public investment, especially where an independent expert visits premises and verifies the need for action. This function is particularly pertinent in light of past misuses of public funds, such as the 'Ash for Cash' scandal involving the Renewable Heat Incentive in Northern Ireland.[32]

31 Carbon Trust. Energy management assessment tool.

32 Renewable Heat Incentive Inquiry (2020)

> "As long as a business has some skin in the game, like with a 50% grant... There's potential, I think, to cut some of that burdensome audit process for smaller businesses." *Government stakeholder*

However, mandatory audits can introduce delays in the installation of subsidised measures and may offer limited value to SMEs already knowledgeable about their decarbonisation needs. Stakeholders in our research cautioned against inflexible blanket policies, noting that match-funded grants inherently encourage SMEs to invest wisely, reducing the risk of ineffective measures.

There is limited willingness among SMEs to pay for audits, even when subsidised. For instance, the Development Bank of Wales' 50% grant for audits has seen minimal uptake over two years, possibly reflecting an expectation shaped by previous programmes offering fully funded audits.

> "We didn't want to be telling customers what they should be doing...A lot of businesses do know what [measures] they want to do, so they're going straight to installation." *Government stakeholder*

Future support schemes might consider optional fully funded audits, allowing SMEs confident in their chosen measures to bypass the audit stage and apply directly for grants, thereby streamlining the process.

Government *alongside* the private sector

This research highlights the expanding range and improving quality of green products and services available to SMEs. Nevertheless, uptake remains limited, underscoring the continued need for government to work in partnership with the private sector to stimulate adoption and foster market competition.

Subsidising platform licences

Strategic public support is increasingly evident through targeted subsidies for digital sustainability platforms. For example, local authorities such as Brighton & Hove City Council and North of Tyne Combined Authority, as well as intermediaries like the East Midlands Chamber and SSE Energy Solutions, have funded SME subscriptions to Zellar's end-to-end sustainability platform. Similarly, Northamptonshire councils have subsidised access to Gopher Zero. This approach provides valuable validation and marketing momentum for these platforms, while offering SMEs a low-risk opportunity to trial services – typically for an initial 12-month period – which may encourage ongoing subscription uptake.

This model addresses persistent challenges faced by local authorities in building internal capacity to deliver SME decarbonisation support. Traditional grant-funded schemes often struggle to recruit skilled teams and establish processes within short funding cycles, resulting in low engagement and underperformance. By subsidising access to established platforms, local authorities can bypass these barriers and deliver support more efficiently.

Finding reliable suppliers

Another area of collaboration involves overcoming procurement barriers for SMEs seeking reliable suppliers of low carbon technologies. The immaturity of many green markets means SMEs often struggle to identify trustworthy providers. Energy Solutions Oxfordshire (ESOx) exemplifies best practice by offering tailored energy assessments, expert guidance, and access to a vetted network of contractors, thereby streamlining procurement. Such comprehensive support remains rare nationally, with most areas lacking dedicated mechanisms to help SMEs navigate the green marketplace. One government stakeholder told us that they consider it a duty to help SMEs with supplier vetting, but that maintaining up-to-date preferred supplier lists is too resource-intensive and risks alienating businesses that are not included. As a result, most schemes have opted to offer informal, case-by-case advice rather than formalised lists.

Setting the standards for procurement-linked reporting

Government's Procurement Policy Note 06/21 (PPN06/21) requires suppliers bidding for central government contracts over £5 million per year to submit a Carbon Reduction Plan. Unusually, there is no exemption based on business size. The Welsh Government and several local authorities have adopted the Note, whilst the NHS has created a long-term carbon roadmap, which over time decreases the threshold value of contracts in scope. Tender and reporting requirements vary by size of contract, encouraging SME engagement.

While no data is available on how many businesses have reported emissions under this public sector requirement, in 2023 Government spent £39.7bn with 123,000 SME suppliers.[33]

Several non-governmental stakeholders cited the influence of PPN06/21 as providing a standardised framework for carbon reporting. Providers of carbon accounting services advertise their services to companies obligated under the scheme, and larger corporates and FIs said that the framework helps them to set their own reporting requirements.

33 British Chambers of Commerce & Tussell (2024) SME Procurement tracker.

Leveraging government influence to improve data quality and availability

Our research has observed increasing activity from the private sector, particularly within finance, seeking to improve the quality and availability of data to support SME decarbonisation. Initiatives include enhanced use of smart meter and expenditure data, and leveraging protocols such as Open Banking to address SMEs' limited analytical capacity. Government can amplify these efforts by linking incentives to data quality and disclosure. For instance, the Development Bank of Wales incorporates smart meter data into its loan assessments. Some intermediaries have proposed tax incentives, modelled on R&D tax credits, to reward measurable, auditable emissions reductions.

Loans as a lower-cost option?

Government-backed loans for clean energy measures have been deployed in Scotland and, more recently, Wales, but remain less common in England. Loans represent a lower-cost alternative to grants for the public purse, though their ultimate cost depends on default rates and demand. Despite positive headlines – such as over 2,000 Scottish projects supported and £65 million in estimated lifetime savings since 2008 – SME demand for loans remains modest, reflecting both risk aversion and limited appetite for debt within the sector.

One radical option proposed by a private provider was that banks and other FIs could be used as delivery bodies for government-supported loans or grants. They already have systems and expertise in place, but in the case of match-funded grant offers, could be well-placed to provide business loans to cover the match-element.

Targeting building type and tenancy

A key policy challenge for government is to address the structural barriers arising from building tenure and business location, which significantly constrain SME decarbonisation. The landlord–tenant split-incentive problem is particularly acute: with 56% of UK commercial property tenanted,[34] many SMEs lack the authority or incentive to implement energy efficiency measures. This challenge is further complicated by the rise of co-working and managed office spaces, where energy costs are bundled into service charges, reducing the direct benefits of efficiency investments for tenants.

34 Barclays (2025) SMEs and built environment.

Simultaneously, a substantial segment of the SME population – especially sole traders and microbusinesses operating from domestic premises – remains beyond the reach of conventional business decarbonisation policy. Around 60% of sole traders work from home[6] and are unlikely to engage with commercial decarbonisation services, instead decarbonising at the pace of the wider domestic sector unless specifically targeted. While it is often assumed that domestic energy policy will suffice for these businesses, this overlooks several unique challenges: home-based businesses typically face blurred boundaries between household and business energy use, are more vulnerable to energy price volatility, and can be excluded from both business and domestic support schemes. Standard domestic retrofit programmes rarely address business-specific needs, and these enterprises may lack access to tailored advice, measurement tools, or infrastructure incentives such as dedicated EV charging. Traditional business support channels often overlook these groups, perpetuating gaps in decarbonisation coverage.

Overcoming these challenges requires government to develop mechanisms that align the interests of tenants and property owners, such as incentives for landlords or regulatory requirements for minimum energy standards in leases. For home-based businesses, policy should ensure that support is not only integrated within domestic energy efficiency programmes, but also tailored to the operational realities of microbusinesses – addressing their heightened energy vulnerability and enabling access to relevant infrastructure and advice.

By adapting policy design to address these structural constraints, government can ensure that interventions reach all segments of the SME population, thereby maximising the impact and equity of the decarbonisation transition.

Collaborating with sectors

Historically, the dominant approach to energy and climate-related business support for SMEs in the UK has been place-based, with government resources channelled through local authorities and non-profit organisations according to geographical boundaries. This model is underpinned by the assumption that SMEs, due to their size and embeddedness in local communities, are most likely to seek support through local networks.

> “A little bakery will have much more in common with their local hairdresser than they will with Gregg’s, even though they’re in the same sector.” *Advocacy body representative*

However, this assumption does not always hold. Many SMEs – particularly those operating in niche markets or integrated into national and international supply chains – may find their principal connections and sources of support within sectoral or peer networks rather than local ones. Relying exclusively on place-based initiatives risks skewing support and potentially missing businesses whose primary affiliations are sectoral.

Furthermore, the technical and operational challenges of decarbonisation are often highly specific, relating to particular machinery, processes, or sourcing opportunities. For these businesses, specialist advice accessed through sectoral channels is likely to be more relevant and impactful than generic, locally delivered support.

> "Businesses respond well to a sense of information being tailored to them. A sense that a service provider understands their specific needs." *Government stakeholder*

The recent proliferation of activity from private providers, industry associations, and non-profit advocacy groups presents new opportunities for government to collaborate on a sectoral basis. By working alongside these actors, government can extend the reach of its interventions and better target support to align with strategic objectives – such as addressing unique sectoral barriers or fostering export-led growth.

A promising example of this approach is the recent DESNZ initiative targeting the **hospitality sector** – a sector dominated by small businesses and characterised by high energy intensity. The hospitality industry, encompassing restaurants, food service, and accommodation providers, has been particularly vulnerable to spikes in energy prices, with recent crises and food inflation pushing many businesses into debt or closure. In response, DESNZ has provided grant funding to Zero Carbon Services, a consultancy specialising in hospitality decarbonisation, to trial a range of support tools, including a carbon calculator, with a sample of 600 SMEs. Other tools include targeted information provision as well as more hands-on support for efficiency measures. This project adopts a 'test and learn' methodology to identify the most effective interventions.

> "With a relatively small amount of grant funding, we stimulated engagement from the sector. The trade association is involved and others will be talking about this project." *Government stakeholder*

The test and learn model demonstrates how government can identify and target support to sectors where it is most needed, and it warrants further experimentation. Each sector will require tailored approaches, reflecting both the activity already underway and the unique challenges faced. For example, in **construction**, the Supply Chain Sustainability School is well-established in boosting green skills, but continued support is needed to help SMEs adapt to new building standards and circular economy practices.

In contrast, the **horticulture** sector lacks strong sustainability leadership, despite SMEs facing acute vulnerability to energy prices, climate impacts, and shifting policy regimes. Moreover, sustainability challenges in horticulture are highly variable, depending on the products grown.

These sector-specific characteristics and challenges necessitate agile, tailored government support. Nevertheless, only a finite number of sectors are likely to warrant specialist SME decarbonisation support. There is therefore potential for government to extend its reach amongst the SME population in a more cost-efficient way than by funding conventional audit and grant programmes. For many service sector businesses, conventional place-based approaches or industry-led initiatives may remain the most effective means of delivering assistance.

It should be noted, however, that the targeting of support to individual sectors is not universally popular. Some BROs have strongly argued that government support should be universal rather than sector-specific.

> "We treat our members equally. Even if it's a micro bakery with four employees, or a company in the chemical supply chain with 200 employees, it wouldn't make a difference." *SME representative organisation*

> "We are of the belief that you can make broad statements about what's going to help that will apply to all businesses." *Advocacy body representative*

To conclude, our research indicates that there is a need for more government support for business sectors. When designed carefully and collaboratively, sector-based interventions can leverage existing and emerging activity from the private and non-profit sectors, adding credibility to their efforts. Moreover, such targeted support can help to address unique and difficult decarbonisation challenges faced in specific sectors and enable government to reach a wider community of SMEs.

Crowding out vs. crowding in – the impact of government intervention on private investment in SME decarbonisation

Crowding out occurs when government subsidies or spending reduce private sector investment, either by competing directly with private finance or by making it less attractive for SMEs to invest their own capital. Poorly targeted or excessive subsidies can create dependency on public funds, and evidence suggests that beyond a certain point, increased public support may actually deter private investment[35].

> "We don't want to be displacing private sector. We don't want to be taking work away." *Government backed delivery body*

In contrast, **crowding in** occurs when well-designed public investment stimulates additional private sector investment by reducing risk, signalling demand, and addressing market gaps. Targeted support can build markets and encourage co-investment, as seen in schemes like the West Midlands Business Energy Advice Service, which anchors providers of low carbon goods and services.

> "Government discounted loans give a shot in the arm to the transition, and I would be supportive of that for sure. But banking strategists would be thinking 'if that is happening, we need to think hard about how we differentiate what we're offering'." *Financial institution*

Stakeholders interviewed for this study did not raise significant concerns about government activity hindering, or crowding out, emerging private sector activity. On the contrary, many suggested that **crowding in was more likely than crowding out**. When government support schemes are available, suppliers of technologies such as LED lighting, solar panels, or other efficiency measures actively promote these, and some even offer support to SMEs to apply for grants. From their perspective, these schemes are akin to offering a discount on their products, without affecting income.

> "This is about putting your values where your mouth is. Most people we work alongside are in this for the right reasons. They want to see solutions to the climate crisis. Could our company scale to support every company in the UK tomorrow? No. Are we suitable for every sector? No." *Provider*

35 Liu, M., Wen, J., Liu, Y., Lv, X., Liu, Q., Lu, J., Qin, Y., & Zhang, L. (2022) An inverted U-shaped relationship? The impact of government subsidies on the R&D investment of new energy companies: Economic policy uncertainty and enterprise heterogeneity perspectives. *Frontiers in Energy Research*, 10.

> "We welcome any amount of government support. Far from crowding out, it means that we have to justify our existence. Because this is not a nice to have, this is a human survival issue. If government wants to play a bigger role in solving that, and that means that parts of our business model become uncompetitive, then we need to focus on other areas of value." *Provider*

However, providers themselves are often unaware of government-backed schemes, or find them administratively burdensome.

> "All these funding programs – we don't know when they're coming. We don't know how long they're going to be there when they are there and actually engaging with them is a real administrative nightmare. It's not worth us upskilling all our guys and spending (money), for a funding stream to just disappear with the next government." *SME support organisation*

Ongoing evaluation is needed to ensure public funds are leveraging, not replacing, private capital. Best practice involves using public investment to de-risk, signal demand, and build capacity – then stepping back as private markets mature.

> "What was needed was to build the momentum in the market both on the supply side and on the demand side. We concluded that there was still a role for government in this space. There is noise from the private sector, but wholehearted support which is exactly what businesses need, isn't available right now." *Government backed delivery body*

Conclusions and recommendations

The imperative for **accelerating SME decarbonisation** is clear: it is estimated that SMEs are responsible for approximately half of UK business emissions, yet face persistent barriers to mitigation, including limited access to finance, poor data quality, and a lack of tailored support. The research underpinning this report demonstrates that while the private and non-profit sectors are increasingly active in providing decarbonisation services, government remains essential in shaping market conditions, ensuring equity, and driving systemic change.

Recommendations for Government

- **Retain the SME Decarbonisation Team in DESNZ**, empowering it with resources and Ministerial support to develop for targeted, evidence-led SME climate policy, and provide strategic leadership, coordination, and advocacy both within government and across the wider policy ecosystem.
- **Target public funding strategically**. Direct public subsidy towards less mature, higher-impact technologies (e.g. heat pumps, non-domestic retrofit, demand management), and avoid subsidising measures (such as LED lighting and solar PV) where market maturity and short payback periods already support private investment. For the voluntary and social enterprise sector, where capital constraints persist even for mature technologies, targeted grant support remains justified.
- **Strengthen policy signals and regulatory certainty**. Establish a clear, cross-departmental regulatory timetable for SME decarbonisation, including minimum energy efficiency standards and future requirements for carbon reporting and emissions reduction. Ensure that all measures are explicitly designed to build demand for decarbonisation – both directly, through enforceable standards and incentives, and indirectly, by signalling long-term policy commitment to the market. Policy stability and demand creation are critical to unlocking private investment and driving SME action.
- **Enhance data quality and standardisation**. Mandate consistent data collection and reporting standards for publicly funded SME decarbonisation programmes, and support professional standards in carbon accounting. Facilitate the aggregation and sharing of anonymised data for policy and market development. Recognise that regulation of larger organisations and public bodies can indirectly drive standardisation across SME supply chains, amplifying the reach and impact of data quality improvements.

- **Facilitate access to finance**. Expand the availability of green loans in partnership with the British Business Bank and private lenders, while recognising that SME demand remains limited. Support the development of innovative financing models that lower upfront costs and better align with SME preferences. Encourage new market entrants and approaches that focus on decarbonisation benefits. Fiscal incentives (e.g. capital allowances, business rates reform) should be aligned with Net Zero objectives.
- **Leverage procurement and value chain pressures**. Extend the NHS procurement model across the public sector, linking carbon reporting to ongoing decarbonisation action and providing guidance to SME suppliers. Consider regulatory approaches such as Green Taxonomy and mandatory Transition Plans to stimulate demand for decarbonisation across supply chains.
- **Adopt sector-specific approaches**. Recognise that technical and operational challenges are often sectoral. Government should expand on innovative models such as the current DESNZ trial in the hospitality sector, where targeted support tools and hands-on assistance are being piloted with 600 SMEs to identify the most effective interventions. This 'test and learn' approach, developed in partnership with trade associations and specialist providers, should be replicated and adapted for other sectors facing acute barriers or high energy intensity. Such sectoral targeting can leverage existing private and non-profit activity, address unique decarbonisation challenges, and achieve greater impact with finite public resources.
- **Build on local strengths**. Place-based interventions remain vital, particularly where local authorities and networks can mobilise SMEs embedded in their communities, including local value-chains. Government should support local delivery models that build on trusted relationships and local knowledge, while ensuring consistency and coordination across regions. Place-based strategies should be informed by robust data and evaluation to maximise impact and avoid duplication.

- **Leverage existing networks for SME engagement**. Government should avoid launching new, short-term projects – whether for grants or advice – that require building brand awareness from scratch among SMEs. Engagement with businesses is the most difficult element of any decarbonisation initiative, and even well-resourced projects struggle to reach SMEs quickly when starting from a new base. Instead, government should prioritise working through established, trusted networks and brands – such as business representative organisations, sector associations, and platforms like the SME Climate Hub – to maximise reach and credibility. Utilising these existing avenues ensures that resources are channelled efficiently, avoids duplication of effort, and accelerates uptake of support and funding offers.
- **Embed decarbonisation in business support**. Integrate decarbonisation into mainstream business advice, leadership training, accounting, and cost-saving services, making it a core business concern rather than a peripheral "nice to have". Leverage AI and digital tools to tailor information and support to different SME segments, ensuring relevance and accessibility.
- **Ensure ongoing evaluation and learning**. Require that all publicly funded programmes are robustly evaluated, with data made available for continuous improvement and to avoid repeating past mistakes.

In summary, government must act as **strategic convenor, market shaper, and guarantor of equity**, building on the success of the Net Zero Council to ensure that the transition to Net Zero is both rapid and inclusive. By adopting a more agile, evidence-led, and collaborative approach – targeting interventions where they are most needed and leveraging the strengths of private and non-profit actors – the UK can unlock the full potential of its SME sector in the decarbonisation transition.


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