



Summary of Results from REA member survey on the impact of supply chain issues and labour market shortages on business

- Written 23rd February, 2023 by Stan Fielding

1. Introduction

The REA has produced surveyed its members to gauge the extent to which recent global and national economic disruptions are affecting their projects and businesses through their supply chains and through the labour market. In addition, the survey asked members on the potential for future projects, should the economic and regulatory barriers they currently faced be removed.

The survey had 16 responses. Respondents represented a broad range of technologies and activities.

2. Supply chains

When asked how significantly global events are causing supply chain issues impacting current projects, respondents ranked issues as follows:

1. Availability of systems or components (4.57/5)
2. Increased supply chain costs (4.50/5)
3. More complicated logistics (3.92/5)
4. Cost of road transport fuels (3.91/5)
5. Availability of feedstocks to operate a project (3.60/5)
6. Demand for new projects (3.43/5)

The figures out of 5 are the weighted average score attributed, based on how significant such an issue is impacting projects, where 1 is very insignificant, 3 is neutral, and 5 is very significant. Notably, for availability of systems or components, 7 out of 9 respondents flagged the issue as having very significant impacts on their projects. Generally, higher ranked issues had a lower standard deviation of responses, indicating that there was more agreement that it had a significant impact, while lower-ranked issues impacted some respondents severely, but other not at all.

When asked to describe how supply chains are being impacted, several respondents mentioned increased costs (primarily of sourcing and of storing components, including critical spare parts at larger quantities than normal, though some members mentioned logistical costs), alongside very long lead times for component delivery. Specific components mentioned included batteries, which are estimated to take 4 – 6 months to arrive, PLC cards, which are flagged as essential to opening new facilities, and cars and

refuse collection vehicles. Respondents have therefore had to order parts far earlier than normal, which is adversely impacting cash flows.

Respondents cited a number of causes for these increased costs and delays, including increased logistical costs post-Brexit, and increased component costs due to Covid-19. These issues have a ripple effect on businesses, and will restrict the ability to expand businesses and comply with existing and upcoming regulations. For example, the increased costs and lead-times for refuse collection vehicles, compounded by the continued shortage and increased costs of HGV drivers, will make it difficult to comply with the mandatory food waste collections regulations, when they come into force. The long lead times also mean that businesses face major cash flow problems.

Of the 9 respondents, there was an even distribution of answers when indicating the degree to which costs have increased; from 0-10% (3), 10-20% (4), 20-30% (2), 30-40% (2), 40-50% (2). The clear message is that costs have risen across the board, and that, on average, prices have increased by more than the rate of inflation as of December 2022.

Most respondents indicated that long-lasting increases in the prices of fuels would make their businesses more competitive, in that it will make their technologies more attractive for customers. However, this makes it more important that barriers to business expansion are removed to take advantage of the predicted increase in demand for renewable energy and clean technology.

3. Labour shortages

85.71% of respondents indicated that their businesses had been impacted by shortages of skilled labour. When asked which jobs were difficult to fill, respondents provided a broad range of responses. Some specified various types of design, installation, and service engineers, as well as specialised engineers and operators, while others indicated that all jobs were affected including low-skilled jobs and management and executive positions. In discussions with members, the REA has noted that the shortages in labour, as well as increasing lead times for new projects and increasing lead times for current projects, has increased the costs of operating existing projects as wages have had to rise as a measure of retaining staff. This has been notably an issue for refuse collection drivers in the waste sector, which continues to impact the ability for members to operate their existing operations, let alone expand to meet the expected increases in green and food waste once regulation on mandatory food waste collections come into force.

This has been limited in part by in-house training programs increased wage offers, increased apprenticeships, and broadening recruitment net to being more lenient on a lack of skills; but all these measures take additional time and increased costs.

Respondents indicated that the gravity of the situation has stopped any growth, and for some members, there is the possibility of closing down existing facilities because of the financial losses sustained by delays. As a consequence of increased pressure on existing staff, there are also increased plant risks as time allocated to preventative maintenance falls.

4. Future projects

In the survey, 9 respondents indicated that their aggregated current pipeline of projects could provide employment for 141 FTEs. If barriers to new projects were overcome, the number of potential new projects per respondent varied widely, from 12 to 150 new projects.

In response to questions on the policy or regulatory changes which would help increase the respondents' pipeline of projects over the next two years, the top three changes were, in order:

1. Rapidly review and increase the UK carbon tax (50%)
2. Rapidly address transmission and distribution grid capacity constraints (50%)
3. Expand the list of Energy Saving Materials to include Energy Storage, securing 0% VAT on such installations (30%)
4. Introduce a rapid, nationwide insulation and energy efficiency retrofit scheme (20%)
5. Given the introduction of the Electricity Generator Levy, provide investment allowances or capital allowances for new low carbon electricity generation projects (20%)
6. Rapidly introduce a hydrogen production route to market (20%)

In open-text responses on any additional policies which would support increasing a pipeline of projects, or other actions that Government should take to tackle problems with supply chains and labour shortages, respondents presented a large number of different proposals, all different from each other. These included: making the import of materials from Europe easier, increased support for biomass heat installations (in new and existing support mechanisms), ensuring that Ofgem has net zero targets in its mandate, accelerating the implementation of the proposals from the Mission Zero – Net Zero Review report, make it obligatory for landowners to ensure a percentage of on-site consumption is sourced from renewable generation, and ensuring transparent and stable prices in the electricity market (for consumers as well as for generators).