



OESG

More jobs, and more taxes: why
British SMEs need to lead the onshore
oil and gas supply chain





We are the trade association that exists to advance the interests of British SMEs in the supply chain that supports onshore oil and gas.

There are three key reasons why small companies can and must play a big role in making shale gas, and other forms of energy extraction, a British success story.

Firstly, job creation. Smaller companies are more likely to recruit and train new people in order to grow and meet increased demand for their products and services.

Secondly, cost. For onshore oil and gas to be commercially viable, well costs need to be kept to a minimum. SMEs offer all the right capabilities but with greater flexibility and lower overall costs.

Thirdly, tax revenues. Smaller British companies, that pay their taxes in Britain, will contribute more to the Exchequer than overseas companies or large British businesses with complex tax structures.

British SMEs in the shale gas supply chain

In our launch paper, published in December 2014, we showed how a supply chain comprised mostly of British SMEs supporting onshore oil and gas could one day be responsible for over **35,000 jobs** and a **spend of over £18 billion**.



+35,000 jobs



£18 billion spend

This ready-made and experienced supply chain already exists.

It includes companies with onshore drilling expertise, planning and permitting know-how, well design and completions expertise, baseline and operational environmental monitoring, drilling fluid supply, extractive waste management, wireline logging and grid connection capabilities amongst many others.

Tax and spend

One of the most compelling reasons for ensuring that small British companies lead the supply chain is the amount of tax it could raise for the public purse.

British SMEs, that pay their taxes in Britain, will contribute more to the Exchequer than overseas rivals or larger UK companies with more complex tax structures.

Those taxes on company profits can be used to fund vital public services.

But it's not just about taxes paid on business profits: it's also about the taxes paid by a mostly British workforce employed by our nation of small companies.

How many jobs?

A report by consultants EY, launched in April 2014, suggests that a mature UK shale gas supply chain could one day be worth £33 billion and employ over 64,000 people.

In our launch paper, we made the case for onshore oil and gas supply chain SMEs to replicate the success of their counterparts in the aerospace sector, and claim 55% of the supply chain prize predicted by EY.

If successful, British supply chain SMEs could therefore be responsible for over 35,000 jobs.

Estimating the scale of employment taxes in an SME workforce

Drawing on the EY report, and an earlier report by the Institute of Directors, it's possible to arrive at a prediction of how those 35,000 jobs would scale-up during the life of shale gas development.

We've used this to estimate the employment taxes that an SME workforce would be responsible for, year-on-year and in total.

In doing so, we've considered four scenarios:

- Lowest
- Low
- UK Average
- Industry Average

In our **Lowest** scenario, we use an annual income figure based on the National Minimum Wage of £13,182 and apply this to all 35,000 SME job holders.

In our **Low** scenario, we use an annual income figure based on the National Living Wage of £15,919.

Our **UK Average** scenario assumes that all 35,000 SME job holders earn the UK Average Wage of £26,500.

And in our **Industry Average** scenario, we have used the typical salary ranges given in the Hays Global Oil & Gas Salary Guide 2013 found on page 18 of the EY report.

So, just how much income tax and National Insurance Contributions could an SME workforce be responsible for?

Even our **Lowest** scenario would see a total of over £70 million raised in employment taxes at peak.

But this isn't a very realistic picture.

In practice, supply chain roles in onshore oil and gas much more likely to command significant **Industry Average** salaries, raising over £1.33 billion.



In reaching these estimates, we've assumed that shale gas development will scale-up as predicted in the Institute of Directors report "Getting Shale Gas Working" and that the supply chain jobs will scale as predicted by EY from 1,533 in 2016 to peak at 64,879 in 2024, with 55% of these in SMEs.

The figures include income tax plus employee and employer National Insurance Contributions, arrived at using the HMRC online tax calculator.

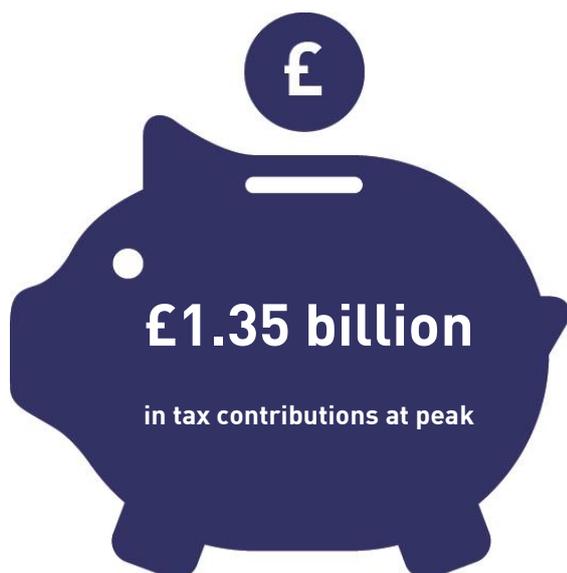
These calculations show that British workers, employed in British SMEs, could contribute a staggering **£1.33 billion in employment taxes to the Treasury in the peak year of 2024.**

What about taxes on Business profits?

Based on HMRC data for Corporation Tax receipts from small businesses, the 2012 SME Business Survey and the most recent BIS Business Population Estimate, we have calculated that, on average, British SMEs generate taxable profits at 4.63% of turnover.

If onshore oil and gas supply chain SMEs are successful in claiming 55% of the prize predicted by EY in 2014, it means they'd be responsible for turnover of £1.83 billion at peak, generating profits of £0.08 billion based on an average 4.63% net profit margin.

Taxed at the small profits rate of 20%, **a thriving SME supply chain could generate a further £0.02 billion in Corporation Tax receipts at peak** for the Treasury.



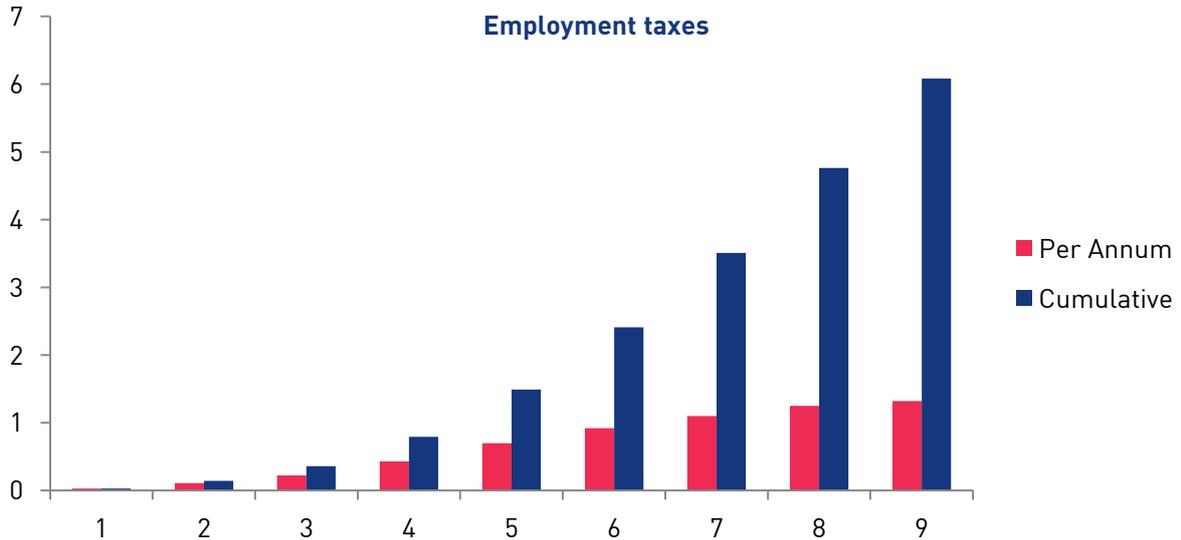
In total, an SME supply chain could generate over £1.35 billion in employment taxes and taxes on business profits at peak.

And, of course, we've made no allowance for Value Added Tax or Business Rates which would further increase the economic contribution of supply chain SMEs.

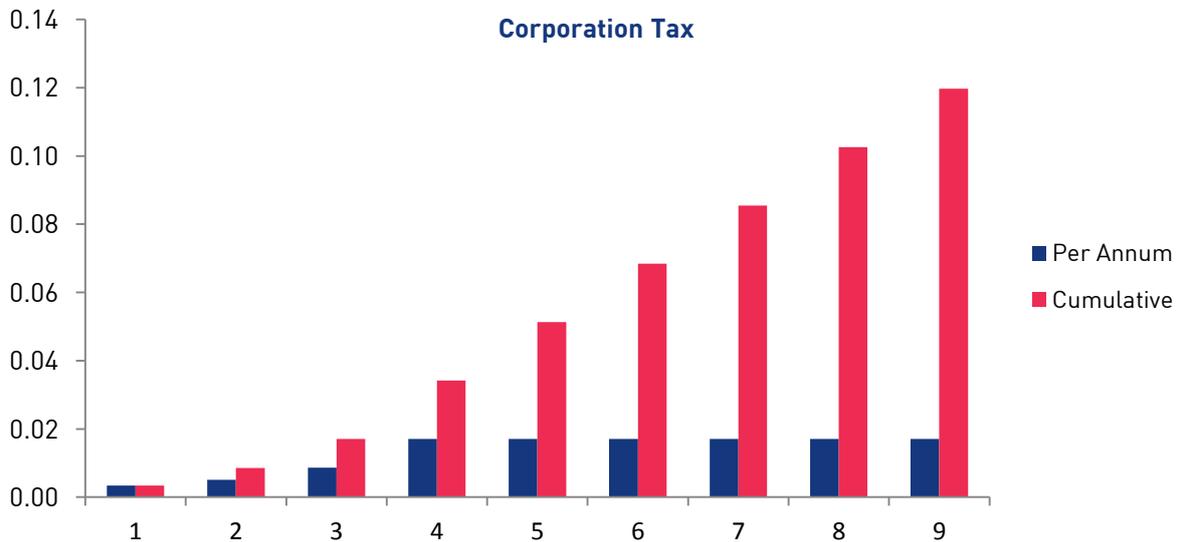
But that's just at peak. What does it look like overall?

Taking the period 2016 to peak at 2024, the numbers look even more significant.

Overall employment taxes exceed **£6 billion** based on our **Industry Average** scenario.



Corporation Tax raises a further **£0.12 billion**.



Funding vital public services

Taxes raised from supply chain SMEs and their employees could be used to fund vital, frontline public services.

In the peak year alone, these taxes could pay for:



**19,543
GPs or...**



**45,006
nurses
or...**

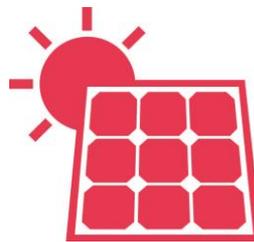


**50,087
teachers**

Supporting renewables

According to the Energy Saving Trust online calculator, a typical 4 kWp domestic solar PV installation will qualify for £457 a year in subsidies at current Feed-In Tariff rates.

In the peak year alone, these taxes could support:



**147,163
domestic
solar PV
installations**

As well as offering greater flexibility, and lower overall costs, onshore oil and gas supply chain SMEs can make a meaningful difference to the British economy by creating jobs and paying taxes.

These small companies can and must play a big role if we're to make shale gas, and other forms of energy extraction, a British success story.

What does the alternative look like?

Without coordinated action, there's a real risk that the supply chain will come to be dominated by large, overseas companies that fly their people and equipment in, and their profits home with them.

Understanding our calculations

Scenario	Salary	Income Tax	Employee NIC	Employer NIC
Lowest	£13,182	£ 634.6	£ 627.1	£ 721.2
Low	£15,919	£ 1182.0	£ 955.56	£ 1,098.8
UK Average	£26,500	£ 3,298.2	£ 2,225.2	£ 2,559.0
Industry Average*	£81,465	£22,209.4	£4,861.32	£10,144.2

* For each job category specified in Figure 12 of the EY report, we first calculated the average of the specified ranges, and then took the average of these.

Doctor's pay was calculated as the average of the range for General Practitioners at <http://www.nhscareers.nhs.uk/explore-by-career/doctors/pay-for-doctors/>

Nurse's pay was calculated as the average of the range specified for Band 6 at <http://www.nhscareers.nhs.uk/working-in-the-nhs/pay-and-benefits/agenda-for-change-pay-rates/>

Teacher's pay was calculated as the average of the range M1 to M6 at <https://www.teachers.org.uk/files/2014-pay-scales-final.doc>

British shale gas supply chain SMEs could one day contribute over £1.35 billion to the Treasury in employment taxes and Corporation Tax

SME taxes could help pay for vital public services, including more doctors, nurses and teachers

Without the right support, small companies could be edged out by larger, multinational rivals

Specific support for onshore oil and gas supply chain SMEs

British SMEs in the supply chain that supports onshore oil and gas need support.

They need access to finance, the ability to recruit ahead of the curve and the confidence to invest - confidence that is undermined by continuing uncertainty.

With the right help from Government, and the right buying commitments from exploration and production companies, the British SME supply chain will grow and thrive, boosting jobs, creating wealth and **helping to produce British energy, for the British people, using British companies.**

The Onshore Energy Services Group specifically calls for:

- the introduction of supply chain action plans, such as those now used in offshore wind as part of the Contracts for Difference (CfD) subsidy regime
- exploration tax breaks linked to British SME supply chain spend
- the introduction of a Government-backed loan guarantee scheme to help capital-intensive supply chain participants access the finance they need to fund new equipment
- help overcoming the perception that smaller companies are a riskier bet
- greater project visibility, and confidence that sufficient onshore shale gas development will take place
- assistance in recruiting and training people across the range of support disciplines so that the people and skills are in place when they're needed
- help enabling UK SME supply chain companies to develop the capabilities needed to meet the requirements of exploration and production companies, and to be able to compete fairly on cost and quality with major overseas and international companies



The Onshore Energy Services Group exists to advance the interests of British SMEs in the supply chain that supports onshore oil and gas so that small companies can play a big role in making shale gas, and other forms of energy extraction, a British success story.

We are a trade association. Membership is open to qualifying SMEs and others that meet our standards for entry.

To learn more, visit www.oesg.org.uk or follow us on Twitter [@wwwOESGorguk](https://twitter.com/OESGorguk)

Please note: this paper has been updated since first publication. We had incorrectly interpreted the EY spend predictions. This has now been addressed, and results in a reduced value for the predicted tax contribution in the peak year of 2024 from £1.49 billion to £1.35 billion.