

# CAN SMALL CONSTRUCTION BUSINESSES LEAD THE CHARGE FOR A GREENER TOMORROW?

## WHY ESG?

Sustainability and environmental preservation are fundamental pillars crucial for the long-term health of our planet. The concept of sustainability revolves around meeting current needs without compromising the ability of future generations to meet theirs. Preserving the environment is necessary as it provides us with essential resources, such as clean air, water, fertile soil and a vast biodiversity. Threats like climate change, habitat destruction, and resource depletion put these resources at risk. Therefore, these challenges need to be dealt with as urgently as possible.

Sustainability isn't just about protecting nature, it also has effects on economic stability and social equity. By prioritising sustainable development and having a responsible consumption pattern, we create opportunities for innovation, opportunities to build resilient communities, and provide future generations with a safe environment to live in.

## WHY SME'S ?

It's crucial for small businesses, particularly in the UK's construction sector, to prioritise environmental initiatives. With sixteen percent of all SME's operating within construction, their collective impact on the environment is substantial.



The average electricity usage a month, ranging from 15,000 kWh to 25,000 kWh, results in emissions between 3,100 kg and 5,200 kg of CO<sub>2</sub>. Considering the vast number of 5.5 million SME's in the UK, the cumulative environmental footprint becomes evident. By integrating sustainable practices, these businesses can significantly reduce their carbon emissions, contributing positively to the environment while also providing long term cost savings.

# ESG CHALLENGES

## ENERGY COSTS

The current state of affairs and conflicts have made energy expenditure highly costly, leaving people struggling to retain heat during colder months. Additionally, extreme heat, often caused by factors such as climate change, deforestation, and industrial emissions, poses a threat to fixed assets. This includes impacting the functionality of machines and robot arms, ultimately shortening their lifecycle and increasing the likelihood of replacements or repairs. Without sustainable measures, construction companies may face higher costs for machine repairs, leading to increased operational expenses in the long term.



## PERCEPTION

The perception of energy usage costs in the construction industry may be skewed as individuals working in manual labor often do not directly feel the impact at their workspace, given the reliance on machines for tasks. Firms may not prioritize sustainability due to the belief that current practices are the norm. There is a need for education to increase awareness. Moreover, the industry faces challenges in incentivizing a shift from established, reliable technologies and specialist tools to newer, green alternatives. Factors such as a potential learning curve, a shortage of technical expertise, and a lack of experienced staff for new technologies, along with deficiencies in training and change management, hinder the adoption of sustainable practices.

## TECH TRANSITION

Small businesses may face issues due to technological investments taking up a high percentage of the revenue pool, which may be too significant of a cost to the businesses to mitigate deforestation and GHG emissions. Currently VAT deductions reduce this cost but it may still be too significant for businesses to opt for the digital approach. But we must consider the long term value that they bring to businesses despite the upfront cost; advising businesses to at least switch to more sustainable capital once their current capital reaches end-of-life would be a good start.



# ESG SOLUTIONS

Given the current and forthcoming regulations and policies, construction companies must implement sustainability practices. This isn't just about benefiting the environment but also about reducing compliance risks and staying at the forefront of sustainable business operations, aligning with international standards like LEED, BREEAM, ISO 14001, the Paris Agreement, and UN SDGs.

## RECOVERY LOAN SCHEME

Businesses can use the Recovery Loan Scheme to fund renewable materials, capital investments such as trucks, specialist vehicles and power tools provided they operate in the UK. This ranges from £25,000 to £2 million loans (£1 million in scope of the Northern Ireland Protocol). All SMEs can use this, in this context, it can act as a short-term finance of all equipment and materials for construction.

Businesses can make use of the Capital Allowances for Plants and Machinery where they can deduct the cost of plants and machinery from their taxable profits to increase their final profits, providing a greater opportunity for investment into greener technologies and energy. It incentivises using greener technology and materials in construction so that the cost is deducted from taxable profit.

The Energy Bills Discount Scheme (EBDS) stands is an initiative designed to regulate the expenses incurred per unit of gas or electricity for non-domestic consumers. Running for a 12-month span from April 1st, 2023, until March 31st, 2024, this scheme is an opportunity for businesses to become greener. The financial aid from the EBDS will have a great effect on these businesses, by capping costs for energy usage. It frees SME's from financial burdens. For instance, eligible businesses will experience a reduction in expenditures on gas and electricity per unit. This in the long term will help businesses pivot toward renewable energy investments while also keeping their costs low. The Business Rates Support for Green Technology will also be a great help for SME's.

It will support green technology, by reducing rates for businesses investing in eco-friendly solutions. For instance, sources of green energy like solar panels and heat pumps are exempt from business rates. Furthermore, the reduction in VAT on energy saving materials, incentivizes businesses to adopt these technologies, while also incentivising the adoption of sustainable energy. This interconnected strategy not only will allow SME's to reduce their financial burdens, but also create long term sustainability within the business.



# ESG SOLUTIONS

## STRUCTURE AND BUILDING ALLOWANCES

The Structures and Buildings Allowance (SBA) offers a significant opportunity for small construction businesses, enabling them to reduce expenditure on constructing or renovating non residential structures and buildings. This allowance allows companies to claim 3% of the qualifying expenditure per year over a period of approximately 33 years against their taxable profits.

For these SME's, the structures and buildings allowance presents a long term benefit, similar to the other two systems put in place by the UK government. It promotes sustainability for these businesses, by reducing their costs and giving them a chance to reinvest these saved expenditures into greener technology and renewable energy.

## FUTURE CONSIDERATIONS

In an ideal world, further financial incentives designed to promote sustainability would help in incentivising the switch to sustainable practices, however these are policies that cannot be expected to happen, nor can they be expected to work alone.



Senior management requires to be educated on matters regarding sustainability due to the compliance risk it poses as well as the overall damage that current practices do to the environment. This can be incentivised through education, however incentives and nudge-tactics are also applicable.

Measurement and reporting on sustainability efforts can be done to not only measure how well the company is doing but also apply pressure to prioritise this goal.

We could also consider partnerships with sustainability-focused organisations to educate employees and employers on relevant practices and leverage collective practices to drive innovation in sustainable business strategy and change.



Involving all workers and employers in a firm can help drive change as everyone is involved and can place their input and expertise in regards to pushing towards sustainability, with employees and employers placing pressure on each other, motivating each other to be more mindful of sustainable practices.

Success stories by other businesses could also be researched by firms to better understand how to succeed as a business while also implementing these strategies.