



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

7 February 2023

National Energy Performance Strategy

Department of Climate Change, Energy, the Environment and Water

John Gorton Building, King Edward Terrace

Parkes ACT 2600

via email: EnergyPerformance@dcceew.gov.au

Dear Sir/Madam,

National Energy Performance Strategy: consultation paper

We welcome the consultation on the *National Energy Performance Strategy* (the strategy). We support the intent of a national strategy that seeks to prioritise, coordinate and harmonise government and industry efforts in improving energy performance across Australia. Energy efficiency and energy productivity measures can provide significant benefits for businesses, particularly small and family businesses, such as cost savings over time and a more healthy indoor environment.¹ While these initiatives have demonstrated benefits, small businesses can struggle to make use of them. This is because small businesses have less capacity, fewer resources and less access to specialist advice than large businesses. Other barriers can include:

- The high upfront cost of energy efficient technology, particularly in circumstances where there are split incentives for owners and renters
- Lack of time and resources to improve awareness of energy efficiency measures or apply for relevant grants
- Lack of appetite to invest in energy efficiency measures owing to competing priorities or other behavioural factors (such as higher aversion to risk).

Further, research suggests that Australian small and family businesses are less likely to assign priority to sustainability measures than their international counterparts. According to PricewaterhouseCoopers (PwC), only 33% of Australian family businesses assign priority to sustainability compared to 49% of family businesses globally. PwC data also shows that only about one-third (36%) of Australian family businesses believe there's an opportunity for Australia to lead the way in sustainable business practices, compared to more than half (55%) globally.²

The opportunity cost of energy inefficiency is high for small businesses. They have less capacity to absorb energy price increases (whether in electricity or petroleum products), invest and deploy more energy efficient technology or switch to alternative fuel sources. That said, policy measures to improve energy efficiency should reinforce competitive pressures to reduce input costs and avoid increasing the compliance burden on businesses, especially small businesses.

We recommend the strategy considers the following priorities.

¹ International Energy Agency, *Multiple Benefits of Energy Efficiency: Energy and wellbeing*, March 2019

² PwC, [Family Business Survey 2021](#)



How can government further empower and assist businesses to realise savings through energy performance measures?

1. Maintain the instant asset write-off for energy efficient products and help raise small business awareness of this option

The Australian Government offers a range of tax incentives targeted to encourage businesses to invest in energy efficient technology.³ The instant asset-write off initiative allows small and medium businesses to immediately deduct the full cost of all new asset purchases. This is intended to improve the cash flow of the business by releasing funds that would otherwise be held up in depreciating assets and encourage additional capital investment.

The Energy Efficiency Council (EEC) provides an example of a dairy farm that used the instant asset write-off to purchase a new refrigeration system that generated an energy saving value of \$30,000 a year.⁴ By multiplying the cost of the new system (\$120,000) by its eligible company tax rate (26%), the dairy farm saved \$31,200 in its annual tax bill and reduced its payback period from four years to just under three years (2.96).

It is apparent from our consultations with the EEC that few small businesses are aware of the energy efficiency benefits that the instant asset-write off scheme can deliver. We recommend that the Australian Government continue to offer the instant asset write-off for energy efficient investment and to help increase awareness of this initiative among small businesses.

2. Create a simple voluntary reporting mechanism and supporting implementation tools to equip small businesses with the capacity to understand their energy and emissions levels

The Australian Government regulates Australia's largest greenhouse gas (GHG) emitters through the Safeguard Mechanism and the National Greenhouse and Energy Reporting scheme. We continue to encourage the Australian Government to avoid imposing additional regulatory or compliance burden on low GHG-emitting entities, most of whom are small businesses, through mandated reporting requirements. However, we recommend the Australian Government considers incentives for low emitting entities to report voluntarily. Providing small businesses with a simpler, 'right-sized' version of voluntary reporting and supporting implementation tools would allow them to better understand their energy use and emissions levels and encourage the adoption of reduction measures. It is critical that this mechanism be accessible, useable and voluntary.

Once a small business has engaged with these voluntary standards, the Australian Government should provide targeted advice and guidance on how it can reduce its energy costs and GHG emissions. Enabling small businesses to communicate their sustainability with potential customers will provide further impetus to energy efficiency.

3. Recognise the 'tenancy dilemma' faced by many small businesses as an impediment to investing in energy efficiency technology at rented commercial properties

Similar to residents' dilemma of split incentives when living at rented dwellings, small and family businesses face impediments to contemplating investing in energy efficiency improvements in the

³ DCCEEW, *Grants and funding*

⁴ EEC, [Leveraging tax incentives to improve energy performance: A guide for Australian businesses investing in smart energy management](#), May 2022, p. 19. *Note:* The payback period with the tax incentive is calculated by subtracting the tax savings from the investment cost and dividing that amount by the annual energy savings.



commercial built environment. The benefits or ‘pay back’ window is constrained by the lease period, assuming the property owner is as supportive of the investment as the small business commercial tenant. Adding to this dilemma is the common feature in commercial leases of having to ‘make good’ the premise (returning it to the situation and condition it was at the time the tenancy commenced) at the end of the lease and at the tenant’s expense, even if the energy efficiency investment is still within its serviceable life.

We consider the San Francisco County and City model a great example of addressing this dilemma and ‘smoothing’ the cost (and benefits) of sustainability investment at rented premises across the ‘serviceable life’ of this investment, potentially for multiple tenants (occupiers). Taxpayer funding incentives were delivered via the municipality and recovered via the municipal rating system. The funding was recorded as a charge against the property, recovered across the serviceable life of the investment by way of an annual charge added to the property rates/tax. This resulted in the tenant paying a proportionate contribution toward the sustainability investment/improvement linked to the actual period of occupancy as a proportion of the expected period of benefit.

Encouragement for small and family businesses, and the owners of commercial properties which they occupy, to invest in energy efficiency would be greatly enhanced by measures to overcome the ‘tenancy dilemma’ to the satisfaction of all parties in commercial leasing relationships.

4. Recognise strong environmental performance by small businesses through a system of micro-credentialling and rewarding pathfinders

We recommend the strategy consider how to ensure greater awareness and uptake of sustainability certifications, such as the Climate Active certification, among small businesses. Climate Active is an ongoing partnership between the Australian Government and Australian businesses to drive voluntary climate action. Sector-specific green certifications and green labels have been demonstrated to increase demand amongst consumers for environmentally friendly businesses.⁵ These labels (for the retail industry) and certifications (for service providers and hospitality businesses) derive their value from the level of trust the consumer has in the certifying body. However, the current certification mechanism is an involved and onerous process that may not be easily accessible to small businesses. It is critical that these certifications are accessible and affordable for small businesses to improve the sector’s energy performance.

Improved performance could be further encouraged through recognition awards, such as awards to small businesses that have demonstrated outstanding sustainability leadership.⁶ Recognising small businesses that act as ‘pathfinders’ for sustainable business practices will help overcome behavioural barriers and assist in the energy transition.

5. Increased value on sustainability in government procurement

As some of the largest spenders in the Australian economy, governments play an important role in signalling the market through their procurement practices. Increased and targeted spending on sustainable products and services is the most direct way governments can drive demand in the market for sustainable solutions. It is essential that the emphasis placed on environmental sustainability when considering value for money, as demonstrated in the 1 July 2022 changes to the Commonwealth Procurement Rules, are accompanied by support for small businesses to sufficiently identify their sustainability practices when writing tender applications. Procuring officials should appropriately factor the size of the business when considering sustainability

⁵ Australian Competition and Consumer Commission, *Speech to Sydney Morning Herald Sustainability Summit*, 20 September 2022

⁶ Note: Several such programs exist already – refer EEC, *Business Awards*



practices to ensure these changes do not form a barrier for small business access to procurement and instead act as an incentive to drive innovation in the sector. To support a national approach to energy performance, we suggest governments at all levels implement consistent approaches in applying sustainability requirements in procurement practices.

How can government support businesses to better utilise digitalisation to improve energy performance?

6. Establishing a grants program to drive small and family business investment in digitalisation

We support digitalisation to improve small businesses' energy performance. Digitalisation offers the potential to increase energy efficiency through technologies such as smart meters and sensors, which gather and analyse businesses' data in their everyday operations and provide insights on optimising their energy use. While we recognise the benefits of digitalisation, small businesses have limited resources to purchase the necessary technology; or may simply be unaware it exists. We suggest that the strategy includes the renewal of the Australian Government-funded Energy Efficient Communities Program (EECP), or an EECP-like grant, to help small businesses invest in digitalisation. Among other things, the EECP was used to help businesses purchase energy monitoring systems to better manage their energy use and to make equipment upgrades that reduced their energy consumption.⁷ This program has been discontinued. We would welcome the reintroduction of this Australia-wide program – or an EECP-like grant – to help small businesses overcome the resourcing barrier. The NSW Government provides submetering grants as part of their Energy Savings Scheme program, which helps businesses improve their energy monitoring and metering systems.⁸ We consider this another great example of a government grant that supports small businesses to invest in digitalisation.

Australian governments currently provide a range of energy efficiency programs to support small businesses.⁹ The Australian Government announced an additional \$62.6 million over 3 years in energy efficiency grants for small and medium sized businesses as part of its October 2022 budget.¹⁰ It is not clear at this stage which programs will receive this funding or how businesses (and whether commercial tenants and landlords) can gain access to it. The strategy should highlight the utility of extending existing energy efficiency programs and provide greater clarity on the availability and coverage of these grants among small businesses.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Mr Lachlan Bayliss on 02 5114 6131 or at lachlan.bayliss@asbfeo.gov.au.

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman

⁷ DCCEEW, *Energy Efficient Communities Program*

⁸ NSW Climate and Energy Action, *Submetering grants*

⁹ Refer DCCEEW, *Grants and funding*

¹⁰ ASBFEO, *October 2022 Budget*, 25 October 2022