

Private Sector Housing: Home Improvement Finance

Guidance Note 1: Research and Literature Review

June 2024





This report has been produced with funding from the Local Government Association's Housing Advisers Programme.

The Housing Advisers Programme is designed to support councils seeking to innovate in meeting the housing needs of their communities. It aims to be simple, flexible and locally-led. In 2022/23, 21 successful projects received money from the programme to promote, facilitate and enhance their role and capacity to meet their local housing need.

The report has been produced by the Financial Inclusion Centre, an independent research and policy innovation think-tank dedicated to reducing financial and social exclusion.

It is based on work undertaken through the Housing Advisers Programme with a number of councils, including Derby City Council, Nottingham City Council, Stoke-on-Trent City Council and the London Borough of Barking and Dagenham, in relation to home improvement finance in the private housing sector.

It is one of four reports, as detailed below, designed to provide councils with a practical toolkit including relevant evidence, good practice and learning on the effective development and delivery of home improvement finance schemes targeted at non-decent homes, homes requiring adaptations and those with a low level of energy efficiency.

- Guidance Note 1: Research and Literature Review
- Guidance Note 2: Building the Business Case
- Guidance Note 3: Case Studies
- Guidance Note 4: Financing Options
- Guidance Note 5: Local Authority Survey Results

Written by: Matt Earnshaw, Gareth Evans and Mick McAteer.

Contact: Gareth Evans – gareth.evans@inclusioncentre.org.uk

Website: www.inclusioncentre.org.uk

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1. Research and literature review

This report summarises headline findings from relevant national research relating to the provision of home improvement finance with regards to tackling non-decent homes, supporting adaptations and improving energy efficiency.

1.1. The private housing sector

1.1.1. The Private Sector Housing Report

To take the pulse of private sector housing in the UK, specialist lender Lendology CIC engaged the Association of Public Service Excellence (APSE) to survey UK local councils about their progress and plans for housing improvement initiatives, particularly in relation to energy efficiency.

The survey and subsequent report¹ evidenced a mixed approach across the local government sector, with huge variation in approaches to private sector retrofitting among councils. Many local councils recognise the need for supporting the uptake of “retrofit” measures, such as insulation, solar panels and heat pumps, across the private sector and are thus more advanced with their plans. However, some local councils reported that they had not as yet developed plans, or lacked resources to implement plans, whilst others were waiting to see what works and how or holding back due to budgeting pressures and the rising cost of building labour and materials.

The funding challenge:

The report highlights that the biggest barrier local councils encounter in implementing retrofitting schemes is funding. Complex application procedures, not meeting funding criteria, and competing council priorities are the main challenges.

Furthermore, the report suggests that lending through specialised external partners will be a critical piece of the puzzle to help make more of the available public funding to improve poorly insulated properties. It notes that nearly 30% of local councils are considering loans, or a mixture of grants and loans, to incentivise retrofitting, but as the scale of the challenge grows, most councils will need a holistic approach towards financing improvements, that includes lending.

Concerns about in-house lending schemes are also highlighted, with reports that they have been inadequate in the past, with limited scope and resources. Zero respondents in the survey said an internal loan service would be a preferable way to provide loans, whilst over 50% would prefer a partnership with an external organisation providing administrative support, including affordability checks, repayments, and regular reporting. Local councils were equally interested in a full standalone loan service and one that works alongside their housing policy.

¹ <https://www.lendology.org.uk/wp-content/uploads/2023/04/Private-Sector-Housing-across-the-UK-Report.pdf>

Other barriers:

The report highlights other barriers to council progress on the retrofit agenda, including siloing in central and local council departments. As housing covers many areas of council work, a more joined-up approach between housing, environmental, and health and social care functions, to look at issues holistically, could achieve better outcomes.

Additionally, another identified barrier to retrofitting is the scepticism of homeowners about so-called specialists, with the report highlighting, for example, that “people are still dubious about technology such as heat pumps, and whether there will be specialists available to fix and service them.” Part of the solution will therefore need to be the setting up of home improvement hubs, where people can get impartial advice and be signposted to information and advice about repairs, adaptations, retrofitting and finance - some local councils already work with hubs such as the Centre for Sustainable Energy² for example. Implementing this approach would give homeowners more confidence in lenders, contractors, and the long-term benefits of retrofitting.

1.1.2. Financing home improvements (Good Home Inquiry)

The Financing Home Improvements report³, produced by the Centre for Better Ageing as part of the Good Home Inquiry (2021), provides a comprehensive overview of the issues surrounding the provision of home improvement finance.

The finance need:

- Summing up the need for finance, the report highlights that investment requirements can range from small repairs (<£1,000), medium-level adaptation and replacement upgrades (<£10,000) to larger, holistic solutions (£10-£30k) which might incorporate multiple measures or whole-house solutions (some of which could exceed 30k). Whilst some financial support is available for very targeted groups of people (e.g. Disabled Facilities Grant) and other single measures also exist (e.g. Green Homes Grant), most homeowners will need to finance the investment themselves. A variety of innovative financial models will therefore be needed, combining loans, grant and third-party funding.

Finance options:

- A sizeable proportion of people may struggle financially to maintain or repair their homes, particularly given that about 18% of households living in non-decent homes are living in poverty.
- In relation to disability adaptations, many people may wish to adapt their homes in relation to safety and comfort measures which are outside the very specific scope of DFG or care needs. Equally, there will be several owner-occupiers who are not eligible because of their household income and savings. Alternative finance will therefore be needed.

² The Centre for Sustainable Energy is a charity supporting people and organisations across the UK to tackle the climate emergency and end the suffering caused by cold homes. It provides consultancy and research services for organisations like councils as well as direct energy advice for households - <https://www.cse.org.uk>

³ <https://ageing-better.org.uk/sites/default/files/2021-06/Briefing-Financing-home-improvements.pdf>

- Owner occupiers: Whilst younger people are more likely to have used a mortgage to buy their homes, more than half (63%) of owners over 65 own their home outright, equating to 5 million homes. Furthermore, mortgage payments by homeowners over 65 are on average the smallest compared of all age groups. This suggests that taking out a repair or renovation mortgage secured against the asset should be a viable option to improve homes for many older owner-occupiers.
- As an alternative, home repair/improvement loans are available from a range of sources, including: public sector bodies (in some local authority areas), social enterprises, mutuals and private lenders. Most of these loan and mortgage products are available to private landlords as well as owner-occupiers – examples in table below. Some of these lenders also provide loans specifically for energy efficiency upgrades (e.g. Ecology Building Society, Lendology).

Table 1: Available finance offers for repairs, renovations and home improvements – taken from the Financing Home Improvements report (2021)

Lender	Type of lender	Product	Loan value	APR representative
Lendology	Social Enterprise (CIC)	Home Improvement Loan	Max. £20,000	4.2% ⁴
		Energy Efficiency Loan	Max. £20,000	4.2%
Ecology Building Society	Mutual	Renovation Mortgage	Up to 90% of property value	3.8% ⁵
Nationwide Building Society	Mutual	Home Improvement Loan	£7,500 - £25,000	Starting at 2.9% ⁶
BNP Paribas	Investment Bank	Home Improvement Loan	Variable	Variable
Barclays	Investment Bank	Home Improvement Loan	£7,500 - £15,000	5.5% ⁷

- Where loan or mortgage finance is not available because owners cannot afford regular repayments, there might still be other options to finance the repair and maintain the home to a good standard. For properties where residual debt is lower than the property value, a secondary charge could be attached to the property for the value of the

⁴ Loan details for both Lendology products remain correct as of 15.02.24

⁵ As of 15.02.24, the representative APR of Ecology's Renovation Mortgage was 6.3% - <https://www.ecology.co.uk/mortgages/residential-mortgages/renovation/>

⁶ As of 15.02.24, the representative APR of Nationwide's Home Improvement Loan was 6.4% - <https://www.nationwide.co.uk/loans/home-improvement/>

⁷ As of 15.02.24, the representative APR of Barclay's Home Improvement Loan was 5.8% - <https://www.barclays.co.uk/loans/home-improvement-loan/>

repair/maintenance cost (plus applicable interest) which is paid off when the property is sold or becomes part of an estate settlement. As the repair cost is fixed at the time of carrying out the works, this finance option would be more proportionate compared to equity release schemes as it would still allow for repayment without compromising ownership of the asset.

- The biggest challenge remains in privately owned homes. And there are as many solutions for this cohort as there are homeowners. Finance requirements and household income profiles cannot be determined categorically based on statistical data sets but require a case-by-case assessment to identify the best suitable financing option – another core role and argument for a Good Home Agency – (see above).
- There are those who do have sufficient income or assets to be able to afford repairs. This group is restricted not by affordability, but by other issues such as a lack of impartial information and advice, or difficulties in finding trusted tradespeople. A professional intermediary, such as the Good Home Agency, could provide solutions to this ‘able-to-pay’ group of homeowners.

1.2. Disabled Facilities Grants (DFG)

1.2.1. DFGs for home adaptations

Produced as a Commons Library Research Briefing Note in April 2023⁸, this report summarises key challenges regarding future delivery of DFGs. Key points include:

- Research highlights pressures around funding compared to levels of need for disability adaptation works. This can translate into long waits for adaptations. The 2019-20 English Housing Survey report on home adaptations recorded 53% (1 million) households who did not have all the adaptations they needed, an increase from 45% in 2014/15.
- An external review of DFGs commissioned by the Government which reported in December 2018 identified several challenges for DFGs, including:
 - A reduction in local authority contributions meaning increased central government funding hadn’t resulted in as many people being helped;
 - Limited analysis of local needs and demand, and limited advertising of DFGs for fear of stimulating demand;
 - Complexities within the delivery system;
 - Restrictive upper limits on grant. High levels of ‘drop outs’ due to a requirement to contribute;
 - Tenure inequalities – relatively few grants are issued to private sector tenants; and
 - A need for DFGs to evolve in line with changing expectations and advances in information technology to remain relevant.

1.2.2. National trends in Disabled Facilities Grant (DFG) delivery

Foundations, the national body for Disabled Facilities Grants and Home Improvement agencies in England, publish an annual ‘snapshot’ of DFG delivery, based on detailed analysis

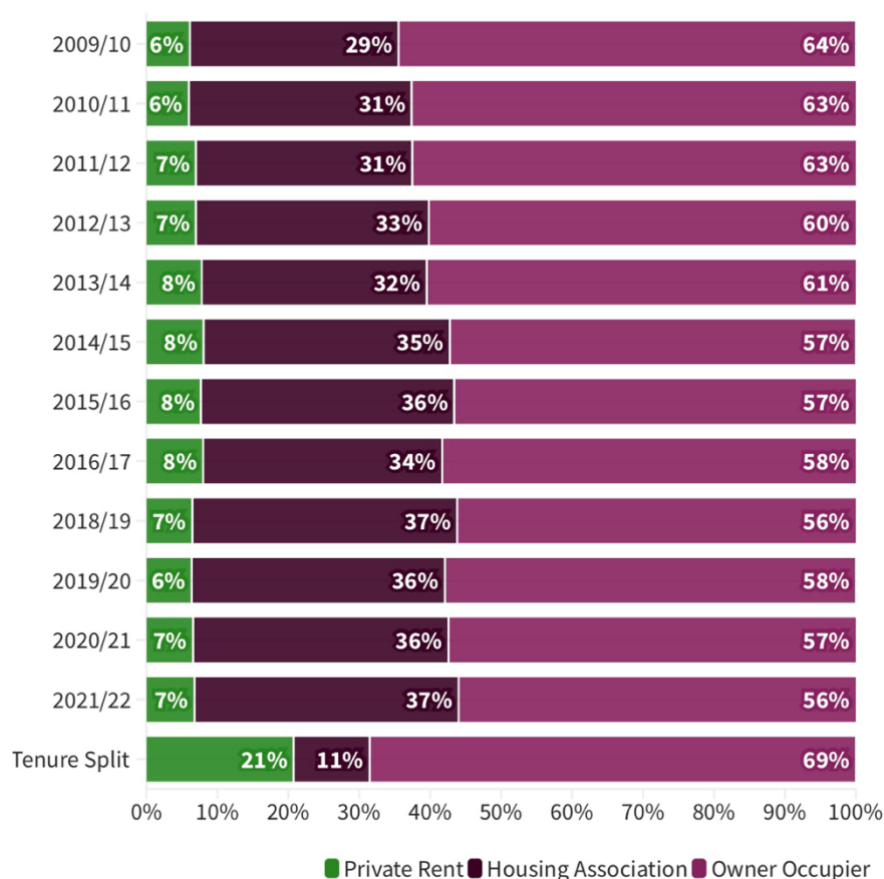
⁸ <https://researchbriefings.files.parliament.uk/documents/SN03011/SN03011.pdf>

of the DFG data returns (DELTA returns) submitted by local authorities. The following are some of the key trends in delivery identified by Foundations in their latest report⁹.

(i) Tenure:

As graph 1 highlights, in 2021/22, most DFG’s (56%) were awarded to owner-occupiers, continuing the trend over recent years. The graph also highlights a significant difference in the numbers receiving help in the private sector compared to those living in social housing, particularly when compared against the national tenure split – for example: whilst private rent accounts for 21% of total housing numbers, only 7% of DFG’s went to private tenants in 2021/22.

Graph 1: Breakdown of DFG by tenure



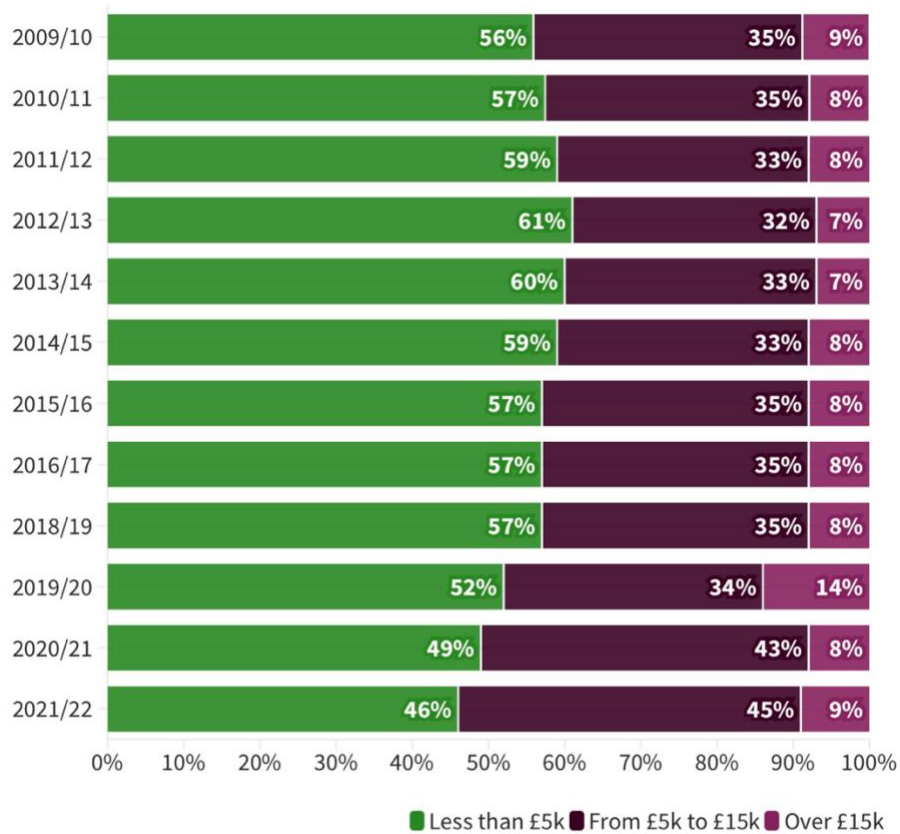
(ii) Amount of grant:

Graph 2 highlights that over the last few years the average cost of DFG’s has grown, with a specific increase in the number of grants awarded between £5,000 to £15,000. In 2021/22, these grants accounted for 45% of completions, compared to 34% in 2019/20, whilst those below £5,000 fell from 52% to 46% during the same time period. This appears to indicate

⁹ <https://wwwFOUNDATIONS.UK.COM/library/dfg-performance/>

an increase in the number of larger complex cases supported by DFG's, although the proportion of the largest grants awarded, over £15,000, has remained relatively static. The most common adaptations continue to be level access showers and stairlifts.

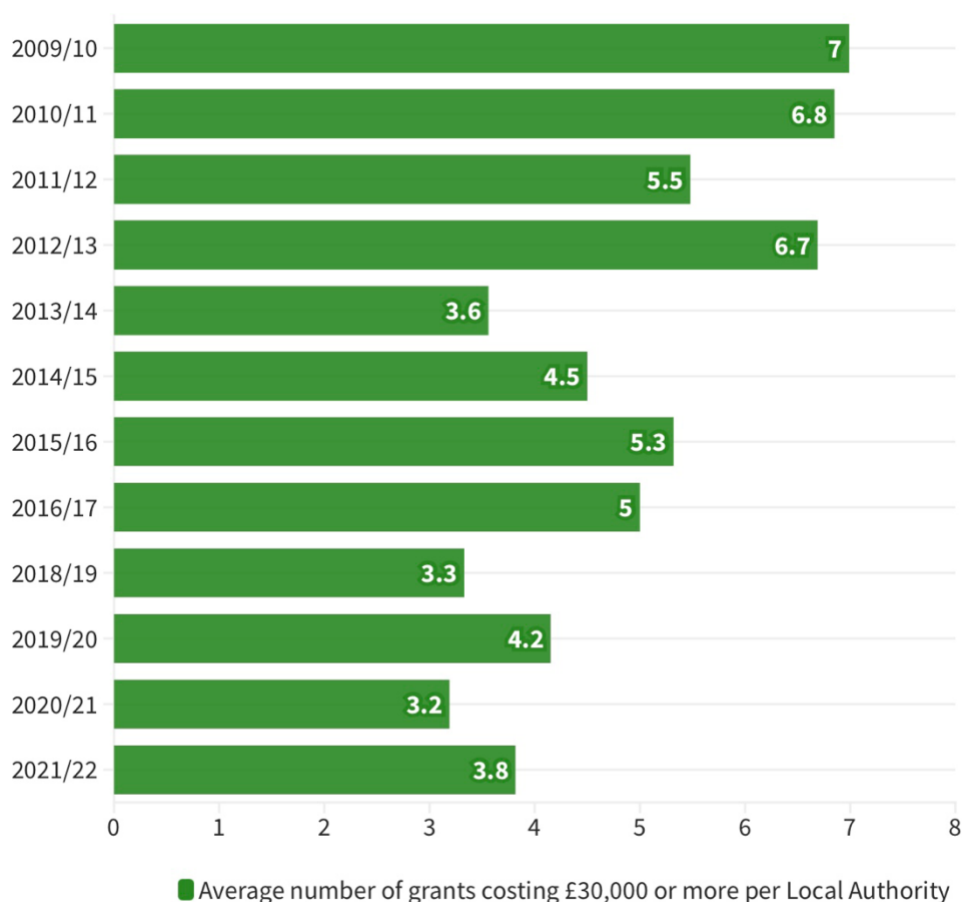
Graph 2: Average cost of DFG's



(iii) Maximum grant

The maximum amount for a DFG is £30,000, with grants of this amount typically funding home extensions to create a ground floor bedroom and shower room for a disabled person who can no longer get safely upstairs. In 2021/22, local authorities awarded an average 3.8 grants at this level, up from 3.2 in 2020/21 – in total, across all authorities, 174 more of these highest level grants were completed in 2021/22, compared to 2020/21. The Foundations report highlights that increases in funding and the use of housing assistance policies are the main reasons behind this rise.

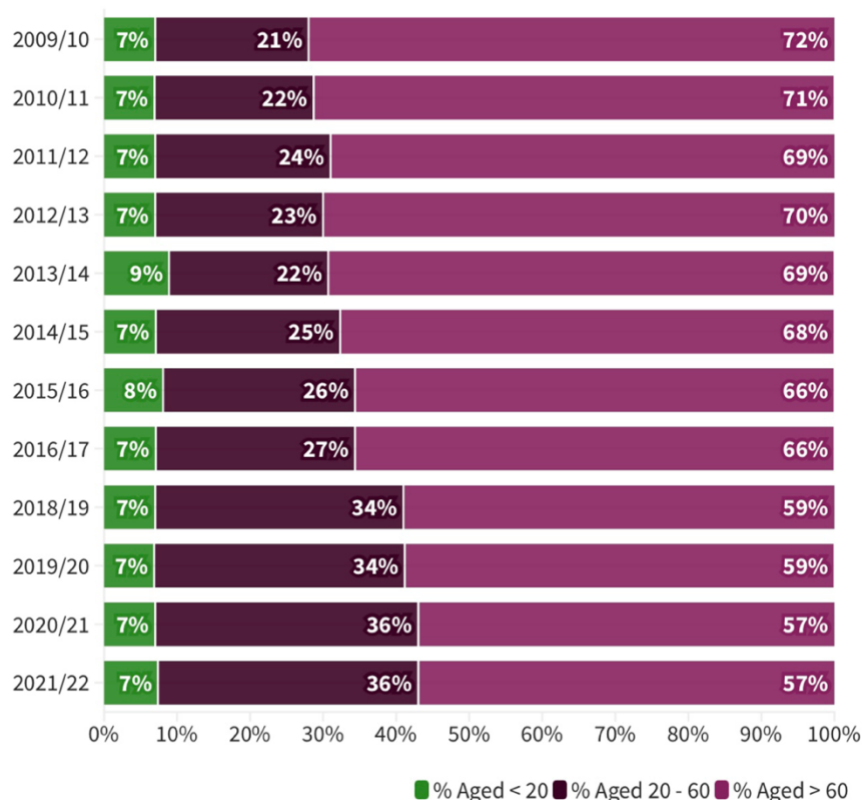
Graph 3: Average number of DFG's costing £30,000 or more



(iv) Age profile

The Foundations report notes that prior to 2018, the DFG data return asked about the number of awards for people under 20; people between 20 and 60; and people over 60. However, since 2018, the age ranges have been revised to now show grants awarded to children under 18, people of working age and people over the state retirement age. Consequently, the number of working age grants has been slightly inflated as it now represents ages 18-65 rather than ages 20-60. Nevertheless, there continues to be a slight downward trend in the proportion of grants awarded to older people with very little change from 2020/21 to 2021/22.

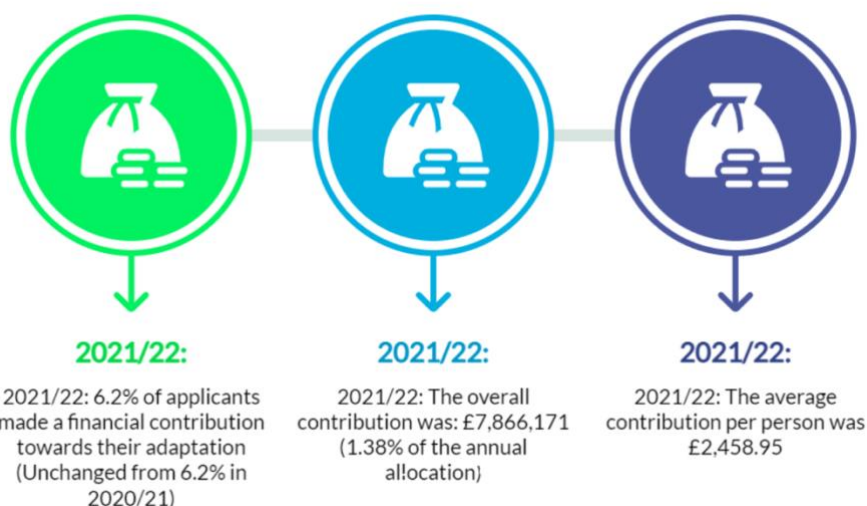
Graph 4: Age profile of DFG recipients



(v) Contributions

For anyone over the age of 18 the DFG is means tested and therefore some applicants are required to make a financial contribution towards the cost of their adaptations. As diagram 1 highlights, in 2021/22, 6.2% of all applicants had to make such a contribution, the same proportion as in 2020/21. The total value of these contributions was £7.9m, with an average contribution per person of just under £2,500.

Diagram 1: Financial contributions by DFG recipients



1.2.3. DFG's: structures and staffing

In December 2019, Foundations produced a detailed study across more than 200 local authorities looking specifically at the processes and administration involved in delivering DFG's¹⁰.

Key findings included:

- The average local authority spent £1.2 million, adapted 110 homes and kept 11 people out of care homes;
- On average, each council had five FTE staff dedicated to administering DFGs, spent £9,750 per DFG and took 116 days from grant application to completing the work;
- Councils that use a home improvement agency, charge a fee to provide additional support and have a Regulatory Reform Order policy in place are 25% more efficient at delivering DFGs; and
- Whilst there was a generally positive correlation between the number of staff employed and the number of homes adapted, bigger is not always better and it often also comes down to the type of staff employed. For example, it highlights that an increasing number of district councils are employing occupational therapists and trusted assessors, with one authority reporting they had cut their backlog of DFG assessments from 450 to 130 within a year because of bringing an OT into the team.

The report also notes that Councils can use DFG more flexibly if they set out their plans in a Housing Assistance Policy. These policies were originally introduced by the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 and are often called "RRO policies". They allow councils to use their discretion to do things like topping up DFGs over and above the upper limit of £30,000, removing means testing for lower cost works or fast-tracking adaptations for hospital discharge. Some 85% of local authorities are now identified as having an RRO policy compared with just 53% in 2016.

1.3. Energy efficiency

This section summarises key learning points from recent national research into consumer attitudes and behaviours around energy efficiency improvements and the use of green finance, by organisations including the Office for National Statistics (ONS), NatWest and the Green Finance Institute (GFI). It also highlights key findings and learning points from similar research undertaken in the Republic of Ireland.

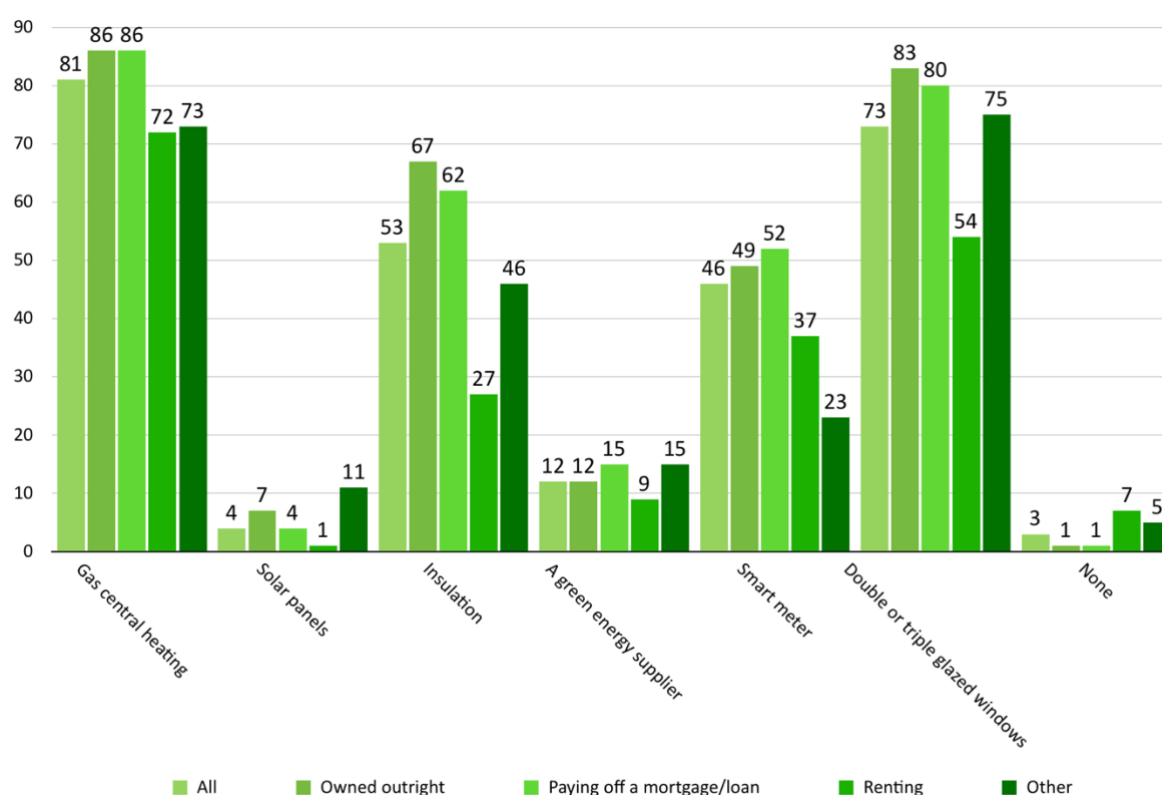
¹⁰ Disabled Facilities Grants: Structures and staffing (Foundations, December 2019) - <https://wwwFOUNDATIONS.uk.com/report-reveals-dfg-impact-on-keeping-people-out-of-care/>

1.3.1. Consumer attitudes and behaviours

(i) Existing energy efficiency measures

Graph 5 highlights ONS data¹¹ regarding the proportion of households across the country with energy efficient building measures already in place. Just under three-quarters of all households (73%) already have double or triple glazed windows in place, whilst just over half (53%) have insulation. Only 4% of all households already have solar panels. The data also illustrates differences across housing tenures, with rented properties significantly less likely to have insulation (27%) and/or double or triple glazing (54%), compared to those owned outright or covered by a mortgage or loan repayment.

Graph 5: Proportion (%) of households (by tenure) with energy efficiency measures already in place (2022)



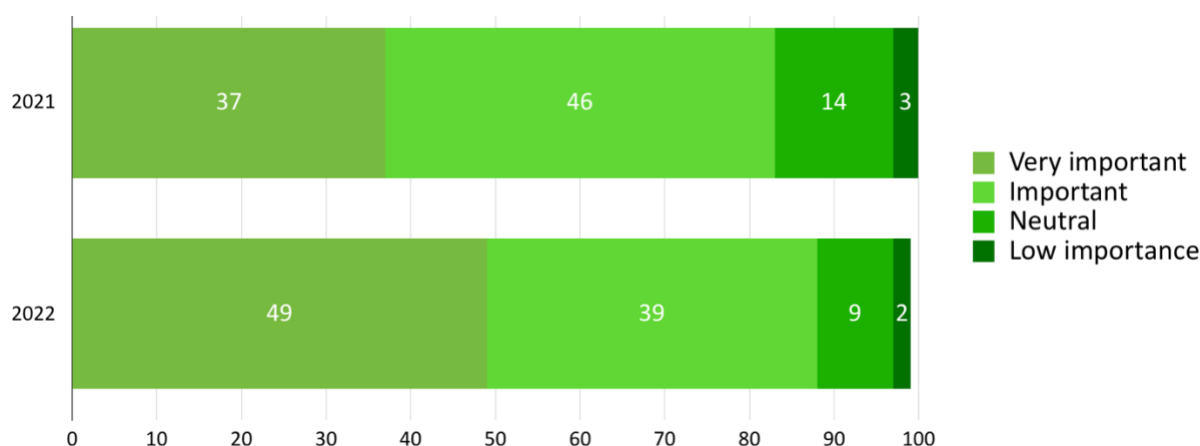
(ii) The importance of energy efficiency

During 2022, almost nine in ten (88%) British homeowners participating in research undertaken by the GFI¹² said that energy efficiency was important to them, an increase of 5% from the previous year - graph 6 below. Many reasons were given for the high deemed importance of energy efficiency; reducing energy bills was the most popular response, though other concerns, including reducing environmental impact, were also high, particularly amongst younger people and landlords.

¹¹ [Attitudes towards improving energy efficiency of homes by housing tenure, Great Britain, 11th May - 5th June 2022 \(Office for National Statistics, July 2022\)](#)

¹² [Property Linked Finance: Rising consumer demand for energy efficiency and the need for financial innovation \(Green Finance Institute, 2022\)](#)

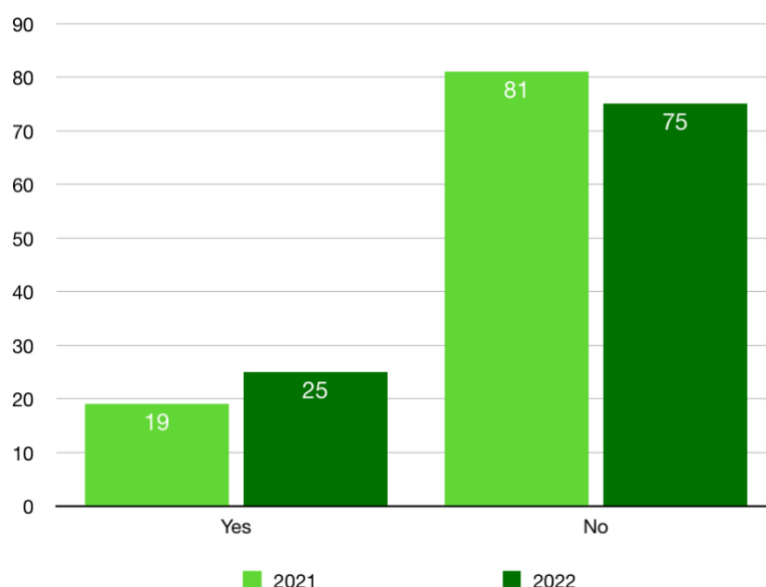
Graph 6: Increasing importance of energy efficiency



(iii) Appetite to make energy efficiency improvements

In terms of the specific appetite to make energy efficiency improvements, data from the ONS¹³ highlights that in 2022 only a quarter of households (all tenures) across the country were considering making changes in their home to improve its energy efficiency, although this was up from 19% in 2021, an increase of almost one-third (32%).

Graph 7: Proportion (%) of households considering making changes to improve energy efficiency in 2021 and 2022¹⁴



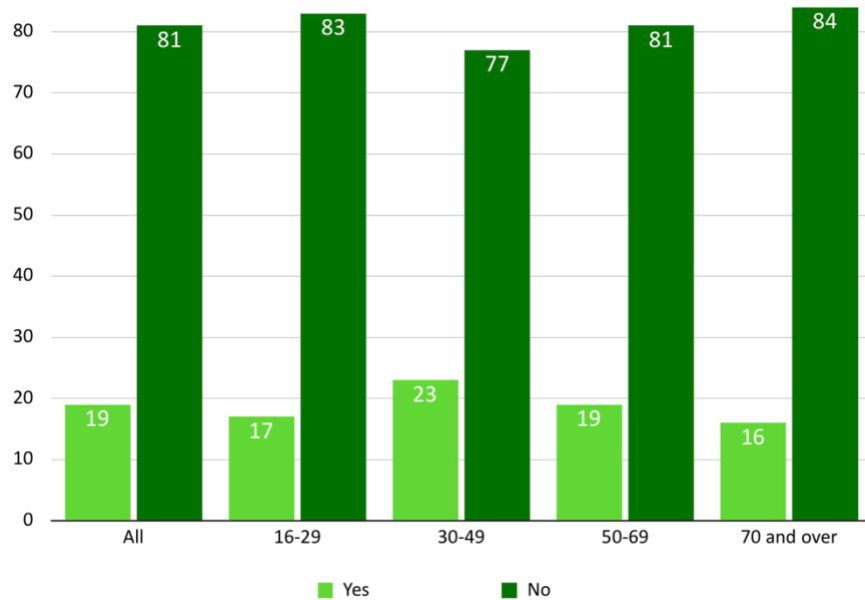
The appetite to make changes does differ across different demographics, including by age (graph 8) and household tenure (graph 9). In terms of age, those aged 30-49 are least likely to consider improvements, whilst those aged 70 and over are most likely, closely followed

¹³ Opinions and lifestyle survey data on domestic energy efficiency in Great Britain (Office for National Statistics, November 2021)

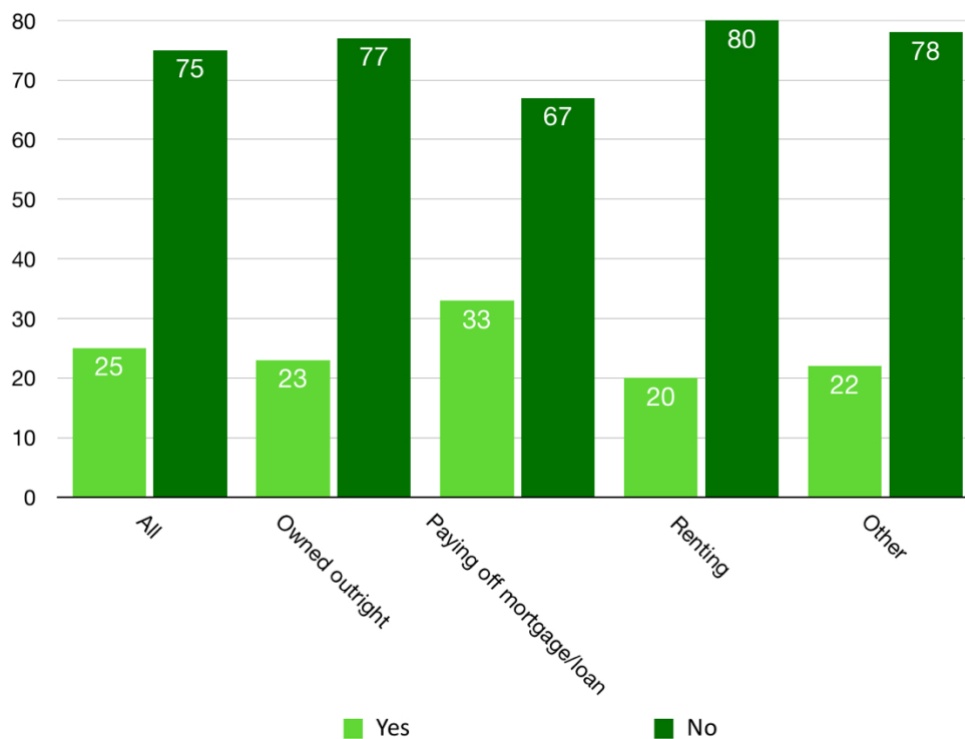
¹⁴ Note: 2021= 22nd September to 3rd October 2021 and 2022 = 11th May to 5th June 2022

by those aged 16-29. In terms of housing tenure, households paying off a mortgage or loan are most likely to consider improvements (33%) and those renting the least likely (20%).

Graph 8: Proportion (%) of households (by age) considering making changes to improve energy efficiency¹⁵



Graph 9: Proportion (%) of households (by housing tenure) considering making changes to improve energy efficiency¹⁶



¹⁵ [Office for National Statistics 2021 data](#)

¹⁶ [Office for National Statistics 2022 data](#)

With specific regards to homeowners, data from NatWest¹⁷ highlights that during the third quarter of 2022, just under seven in ten (68%) home-owned households were planning to make green home improvements within the next decade - up from just over six in ten (63%) in quarter two. The cost of living crisis is a likely driver of this increase, with around half of homeowners explicitly stating that the rise in the cost of living had made them more likely to implement energy saving measures over the next 12 months. It is also worth noting however, that almost one in four (23%) homeowners said they were now less likely to make improvements as a result of the ongoing crisis, which likely reflects concerns about the pressures on household budgets and availability of finance. Interestingly, another potential driver appears to relate to increasing levels of recognition of the importance of energy efficiency amongst prospective homebuyers. 40% say that a property's Energy Performance Certificate (EPC) rating was a 'very important' factor for them in terms of a potential house purchase, up from 30% a year ago, whilst green property features, such as smart meters and rainwater harvesting systems, are increasingly viewed as being essential.

Headlines from the NatWest Greener Homes Attitude Tracker:

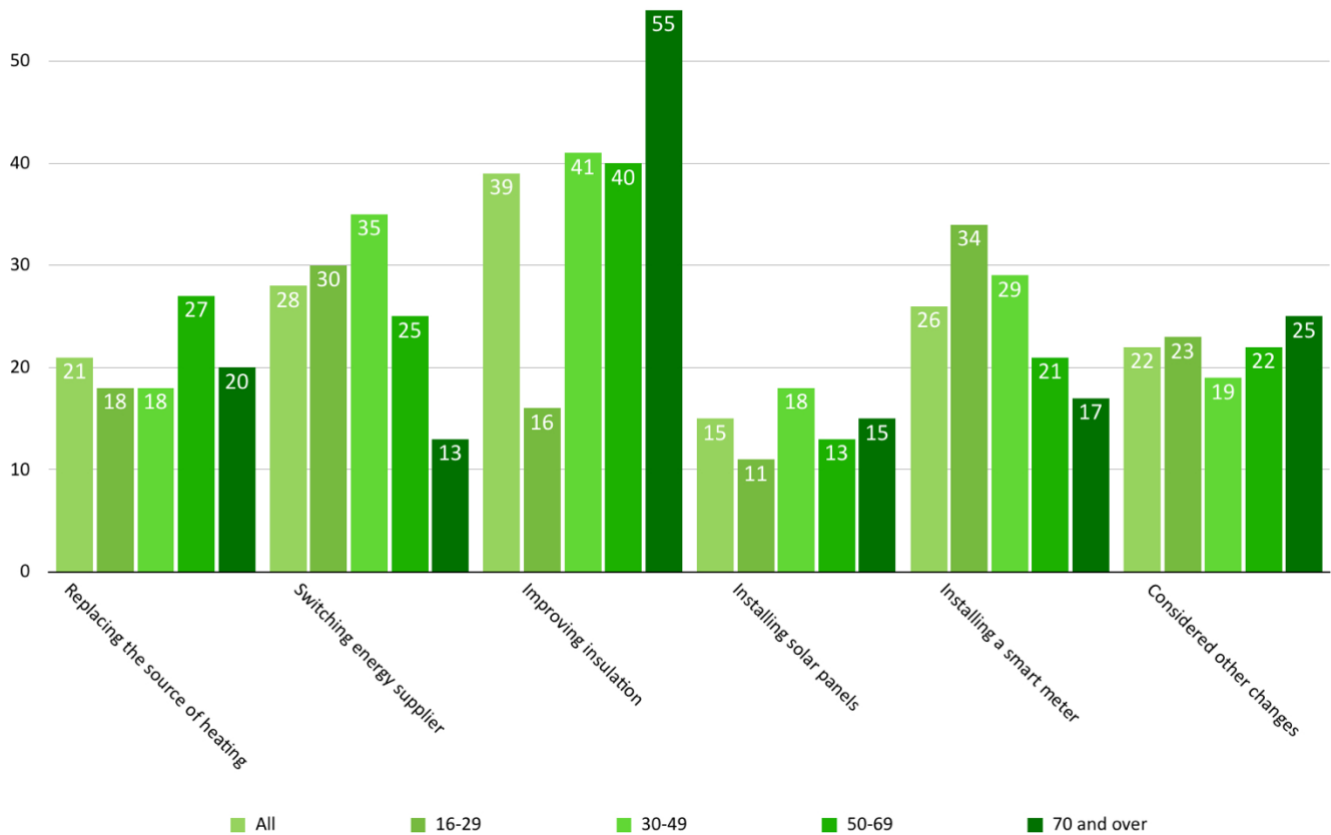
68% of UK homeowners plan to make green home improvements in the next decade - up from 63% in Q2
Around half of homeowners stated the rise in the cost of living had made them more likely to implement energy saving measures over the next 12 months, although 23% said they are now less likely
40% of prospective homebuyers said that a property's EPC rating was a 'very important' factor, up from 30% a year ago

(iv) Type of energy efficiency improvements:

The ONS data in graph 10 shows that among those who said they were considering making energy efficiency improvements to their home, the most popular change being considered was the installation of insulation, whilst the least popular was the installation of solar panels. Insulation was the most popular potential change across all the different age groups, with the exception of those aged 16-29. Perhaps unsurprisingly, the proportion of those aged 70 and over considering the installation of insulation was significantly higher than for all other individual age groups and 41% higher than the figure for all households.

¹⁷ Natwest Greener Homes Attitude Tracker

Graph 10: Potential energy efficiency changes (%) - among those households considering making improvements to their home (ONS data)



(v) Barriers to making energy efficiency improvements:

Identifying barriers

The scale and complexity of the challenge to green our homes is clearly highlighted by Table 2, which summarises a range of behavioural barriers to making household energy efficiency improvements identified through research undertaken by the Behavioural Insights Team (BIT).

Table 2: Behavioural barriers to making household energy efficiency improvements

Adoption of heat pumps or other clean heating solutions	Adoption of household energy efficiency retrofits (insulation), generation (solar) and storage (batteries)	Demand-side response: Acceptance of smart meters, time of use tariffs and shifts in peak energy demand
High upfront cost	High upfront costs loom large. Payback periods are often very long	Distrust of smart meters and other smart technology e.g. relating to data security

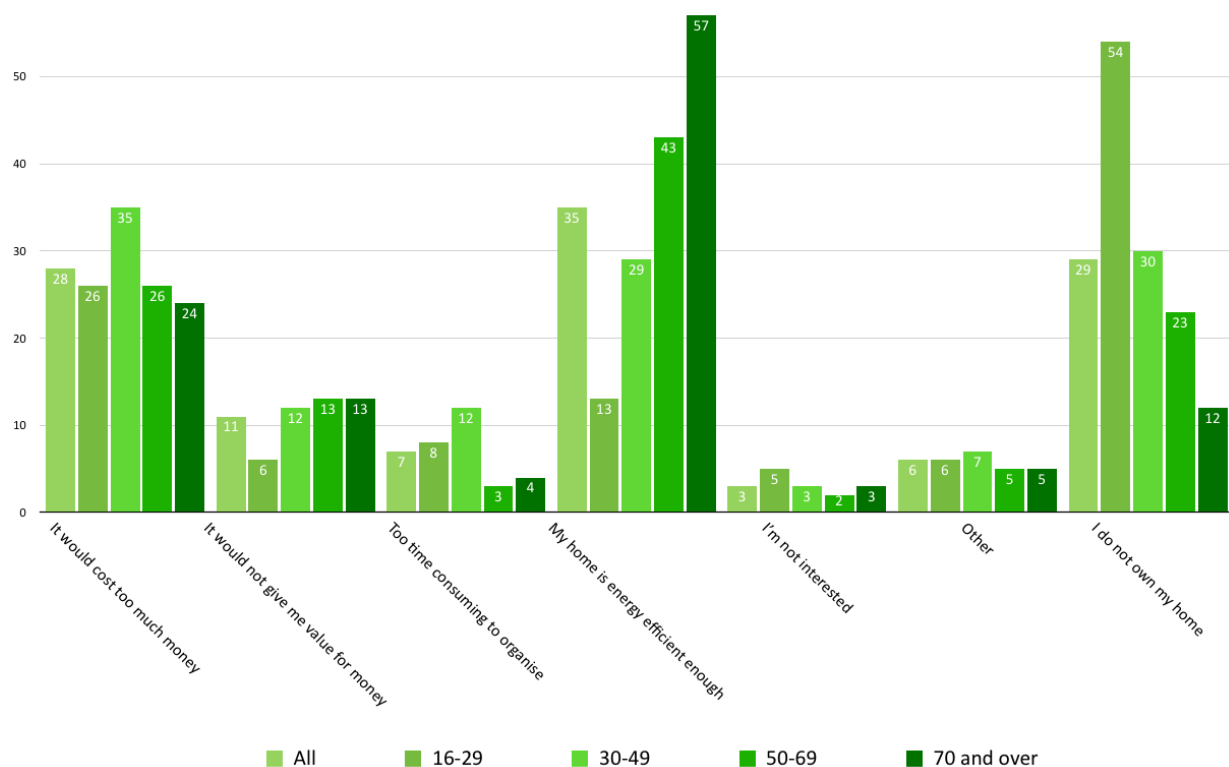
Slightly higher running costs than gas boilers	Installation hassle	Inconvenience and hassles associated with manual demand-side response
Limited grants and finance options at present	Risk aversion and uncertainty (risk of poor-quality install, wrong product, bad price)	Perceived loss of autonomy
Some homes unsuitable (though perception of this is worse than reality)	Limited financial support	Discomfort or fear of time-of-use tariffs costing customers more if behaviour isn't responsive to the incentives
Strong default to replace broken gas boiler with like-for-like	Limited awareness of range of options and poor financial literacy to make investment decision	
Considered ugly and noisy	Shortage of skilled installers	
Lack of outside space for installation	Low hanging fruit' is mostly gone - remaining housing stock requires quite complex and expensive retrofitting	
Very complex and slow installation process, which is off-putting, but particularly problematic when urgently replacing a broken boiler	Retrofits are not visible = lack of social norm	
Relatively unfamiliar technology to use	Split incentives between landlords paying and tenants benefiting	
Some installers and heating engineers do not trust / recommend heat pumps	Procrastination, frictions, and lack of urgency	
Common perceptions that heat pumps do not heat the home effectively		

Further evidence regarding barriers is provided by the ONS and NatWest tracker data. In terms of the ONS data, as graph 11 highlights, of those who were not considering any improvements, the most common reason for this was believing their home was already efficient enough (35%), followed by not owning their own house (29%) and changes costing too much money (28%). The graph does evidence differences in reason between the individual age groups, with those aged 50 and over significantly more likely to highlight that their home was already energy efficient (57% for those 70 and over), compared to those

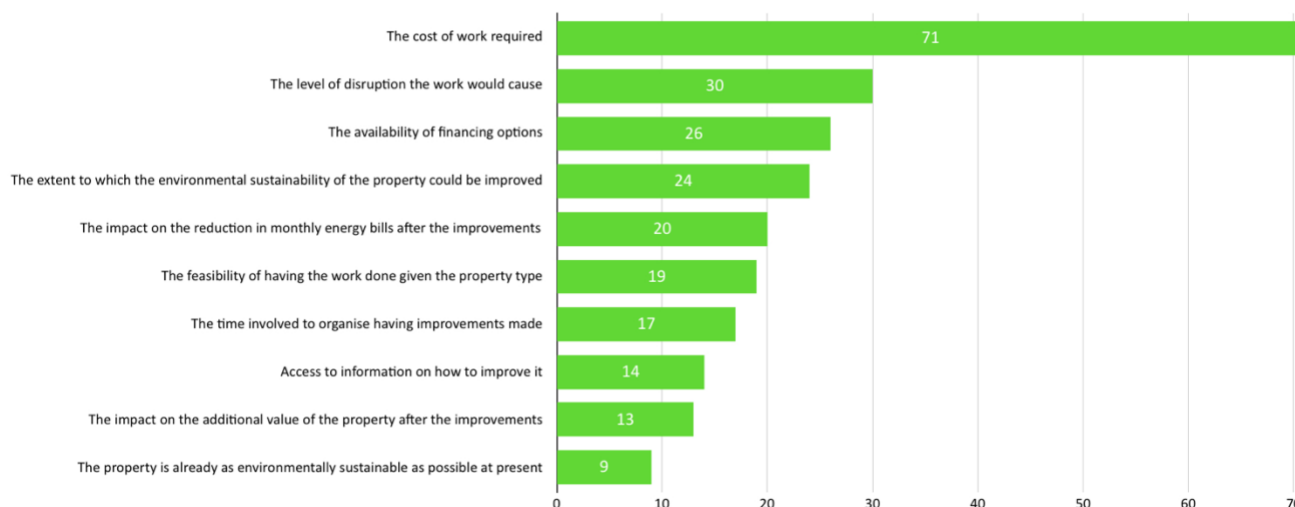
aged between 16-49. For those aged between 16-29, the most common reason was the fact that they did not own their home and the proportion highlighting this reason (54%) was significantly higher than for all other age groups.

The potential cost of improvements as a reason was highlighted by a broadly comparable proportion of each age group, although it was slightly higher for those aged 30-49. Specifically in relation to homeowners, the NatWest tracker data also highlights that for seven out of ten households (71%) not considering making improvements within the next ten years, cost remains the biggest barrier, whilst one in four (26%) cite the lack of available finance options - graph 12.

Graph 11: Barriers to making energy efficiency improvements - among those households not considering making any improvements to their home (%) (ONS data)



Graph 12: Homeowner barriers to energy efficiency improvements (%) (NatWest)



In conclusion, cost is clearly an important issue in the context of the approach detailed above, particularly in terms of making energy efficiency improvements an attractive proposition to undertake. Individual attitudes and beliefs about the costs also play an important role. The research shows that even when people could identify potential environmental and long-term financial benefits of energy efficiency improvements, most would be generally reluctant or unable to act due to the prohibitive upfront cost.

Closely linked to this issue, access to and use of finance to help fund improvement works is also evidenced as a significant barrier. Table 11 confirms the importance of cost and finance related issues, highlighting that they account for approximately one quarter of all the behavioural barriers identified.

Interestingly, once given more information about these technologies, participants generally warmed to them. For example: when told that the average cost of installing solar panels was £4,800, this came as a surprise to many who expected it to be much higher. Additionally, once heat pumps had been explained more thoroughly, they were also viewed more favorably.

1.3.2. Access to and use of finance

i) The attractiveness of finance:

Research by the Green Finance Institute¹⁸ evidences homeowner concerns around the use of traditional finance¹⁹ for energy efficiency upgrades, with just under half of those surveyed saying they were unlikely or very unlikely to use finance, compared to almost a quarter who said they would be likely or very likely.

A variety of reasons were expressed by the first group, including not needing finance or being concerned about using finance. The research also highlights that during the last year, homeowners have become even less likely to consider using third-party finance for energy improvements, a change which has coincided with wider affordability concerns and energy

¹⁸ [Property Linked Finance, The Green Finance Institute](#)

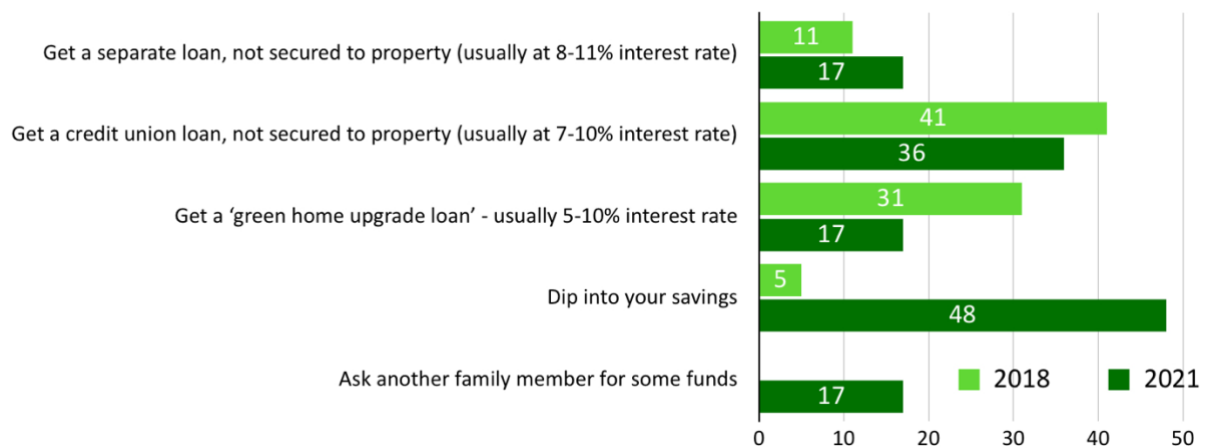
¹⁹ Traditional finance was described in the research as credit card borrowing and personal loans, alongside further advances on a mortgage / increasing a mortgage to release funds.

bill pressures. These findings highlight a key challenge - whilst energy efficiency is increasingly important to consumers, traditional finance may not be desirable for all consumers who wish to upgrade their homes.

Research from the Republic of Ireland²⁰, where there is greater provision of green loans within the credit union sector, also highlights recent changes in the preferred options to fund improvements. For both smaller scale improvements (costing €10,000) and larger scale (costing €30,000), using savings was the preferred funding option in 2021, compared to a credit union loan in 2018 - see graph 13. However, the proportion of people highlighting a loan or equity release as their preferred option has also increased across both levels of works, as has borrowing from a family member. Ultimately, this suggests that a menu of funding options is needed to meet different needs.

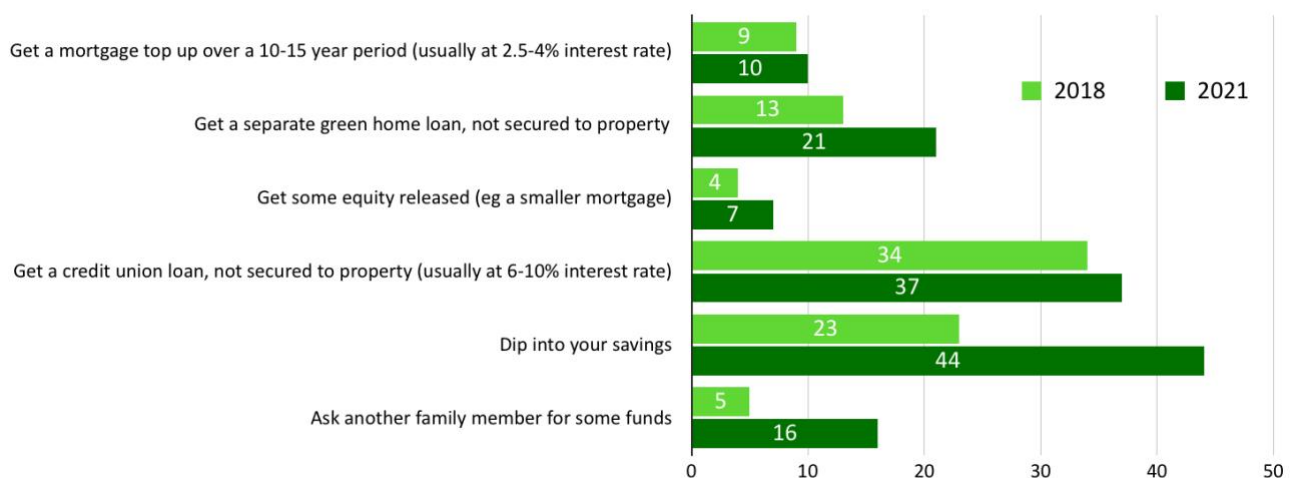
Graph 13: Preferred options to fund energy efficiency improvements in the Republic of Ireland (%)

Improvements costing €10,000



(Note: answer options changed in 2021)

Improvements costing €30,000

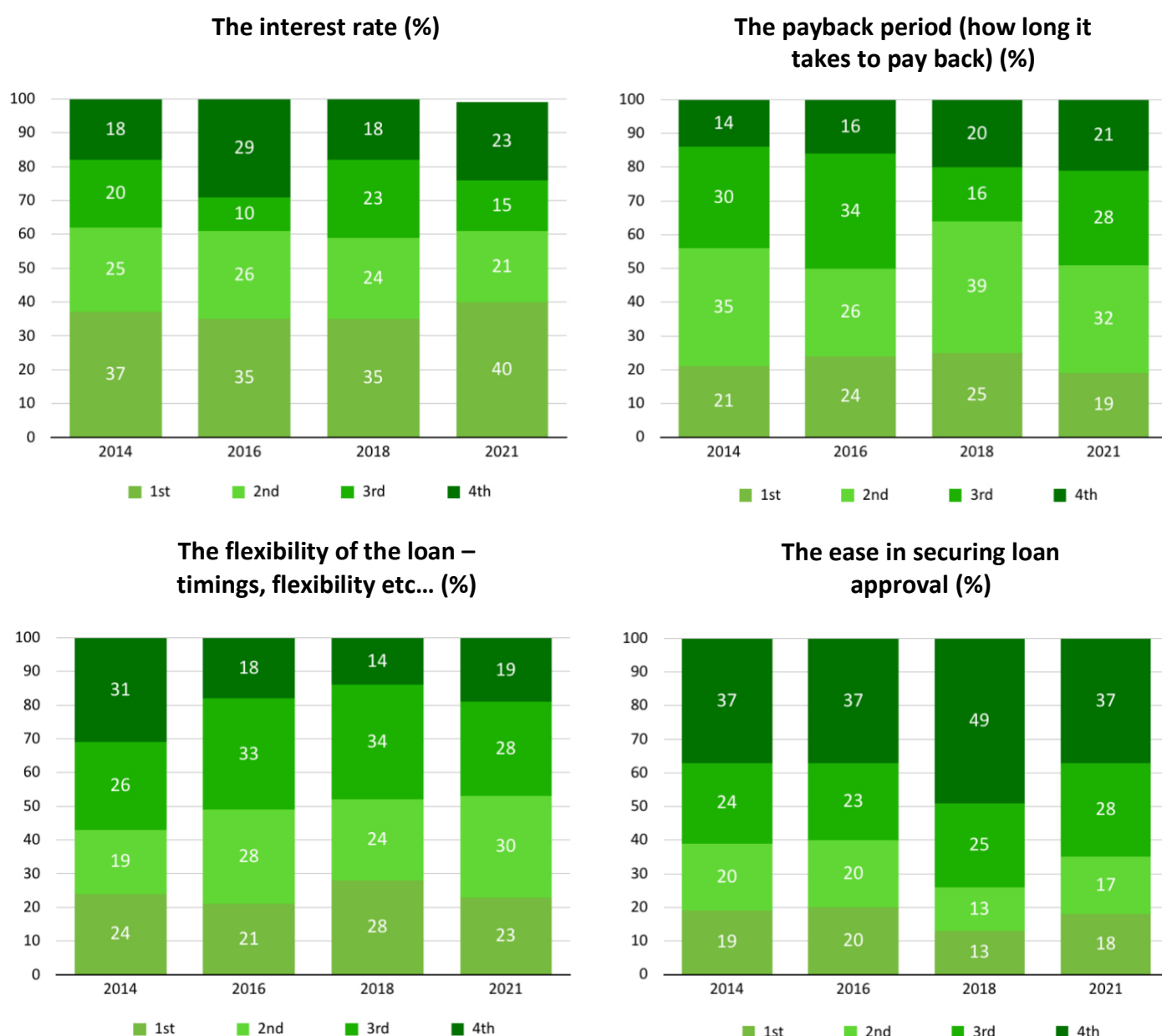


²⁰ <https://swobodacentre.org/wp-content/uploads/2022/05/20220520-Swoboda-Conference-National-Programmes-Josephine-Maguire.pptx>

(ii) Considerations when taking a loan:

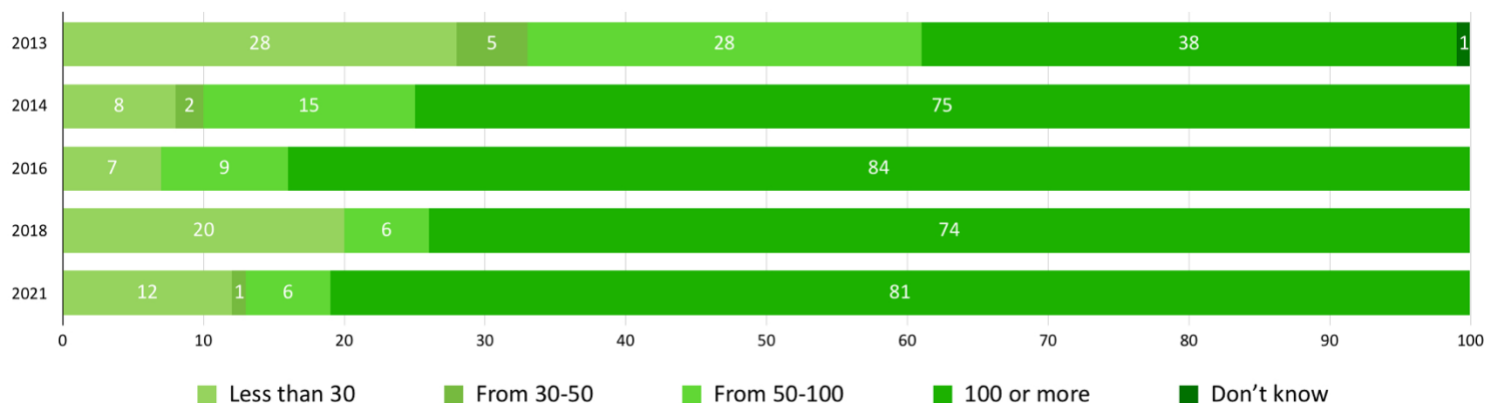
Further research from the Republic of Ireland, undertaken by the Sustainable Energy Authority of Ireland (SEAI) in support of their National Residential Retrofit Programme²¹, highlights some interesting findings relating to the issues considered by people when they are thinking about taking a green loan. As graph 14 illustrates, interest rate remains the most important consideration when getting a loan, whilst payback period and loan flexibility have decreased over recent years. Perhaps unsurprisingly given the economic context, the ease of securing loan approval has increased in importance since 2018. This same research also shows that the average monthly loan repayment households in the Republic of Ireland feel comfortable repaying has continued to increase year-on-year – graph 15.

Graph 14: Considerations when getting a loan ranked in order of importance (Ireland)



²¹ <https://swobodacentre.org/wp-content/uploads/2022/05/20220520-Swoboda-Conference-National-Programmes-Josephine-Maguire.pptx>

Graph 15: Maximum monthly amounts (in euros) that householders feel comfortable repaying for a loan to support energy efficiency improvements



Learning from green home initiatives and wider research

This section summarises key learning points from previous green home initiatives, programmes and research studies that are relevant to the effective design and delivery of a green finance product.

1.3.3. The Green Deal

The Green Deal²² was primarily a finance mechanism enabling householders to borrow money so they could improve the energy efficiency of their homes, which was repaid through their energy bills ('Green Deal finance'). This was complemented by a framework of advice, accreditation and assurance intended to increase homeowners' trust in the supply chain for home improvements. The scheme experienced a range of issues however, and evaluation highlighted several key learning points relevant to the design and development of a green lending product.

Key points:

- A particularly major issue identified was the fact that the Green Deal Finance design was not tested with consumers. A significant number of people were initially put off by the complexity of the process of arranging a loan through the scheme - of those who applied for finance plans, only 50% completed the process of arranging a loan. Ultimately, the scheme was not a sufficiently attractive proposition to generate consumer demand.
- To ensure that the scheme was an attractive proposition for consumers, it should have been designed with insight into the behaviours and motivations of the target groups for the scheme. Predicting behaviours can be difficult, so policies that rely on consumer behaviours normally require testing and adjustments before they are fully implemented, for example by running pilots. When the loan process was simplified part way through the project, uptake of Green Deal finance did subsequently increase.

²² <https://www.gov.uk/government/collections/green-deal-and-eco-evaluation>

- Early marketing for the scheme focused on the financial benefits that could be achieved for households. However, consumer research subsequently showed that people were interested in other benefits and not just financial savings, such as a warmer home.
- Green Deal loans were offered with interest rates ranging from 7% to 10%, however, in previous local schemes consumers had been attracted by offers of interest-free finance.

1.3.4. Green Home Finance Innovation Fund

The aim of the Green Home Finance Innovation Fund was to promote the establishment of green lending products for homeowners for energy performance improvements. To overcome the barrier to innovation posed by high initial development costs in an untapped green finance market, the programme provided funding for the initial development and piloting of a limited number of green home finance products.

One pilot was undertaken by Lloyds Banking Group²³, who focused on piloting an online information hub to help customers understand what energy efficiency improvements they could make to their home, including the launch of an online tool. Development of this approach was based on customer research undertaken by Lloyds which showed that homeowners have a limited knowledge of energy efficiency within the home, how to make improvements and the benefits this can deliver.

The tool, which was built in conjunction with the Energy Savings Trust, was therefore designed to provide customers with a tailored action plan on home improvements that could make their home more sustainable. Evaluation showed that this approach was effective, highlighting strong engagement with the online hubs, with a particular focus on content related to financial incentives and ways to fund energy efficient home improvements driving the most traffic. In total, over 8,300 tailored home action plans were created, demonstrating growing consumer interest in home energy efficiency and the role individuals can play in supporting the Government's carbon emission reduction objectives.

Based on the recommended improvements detailed in the home action plans, the average bill saving per household was estimated at approximately £306, reducing the average CO2 emissions per year by approximately 1.6 tonnes. However, it was also highlighted that this would come at an estimated average cost of £9,300 per household, with an associated payback period of 30 years, providing clear illustration that the customer business case to make retrofit home improvements is challenging. Research found that 18% of homeowners would be willing to spend more than £10,000 and only 19% willing to spend between £5,000-£10,000 on green home improvements.

Ultimately Lloyds concluded that homeowners are more likely to consider retrofit home improvements when they are already considering broader home improvement activity. Targeting homeowners in these circumstances and helping them to think about practical

²³ [Green Home Finance Innovation Fund Project Summary, Lloyds Banking Group](#)

steps they can take to improve their homes and build a plan that fits around changes, such as a loft conversion or replacing a boiler, would therefore mean that energy efficiency is less likely to be viewed as an incremental cost and is instead completed at a time when other work is underway.

1.3.5. Green Home Finance Accelerator

The Green Home Finance Accelerator programme is focused on providing innovation funding for the development of green finance products which can enable uptake of home energy efficiency, low carbon heating and micro-generation retrofit measures. In May 2023, a total of £4.2m grant funding was awarded to 26 projects across the country as part of an initial discovery phase. Following this phase, in October 2023, a further £14m of funding was awarded to 12 of these projects to pilot and test their proposals²⁴, including:

Green Home Hub (Anniston Ltd, trading as Snugg)



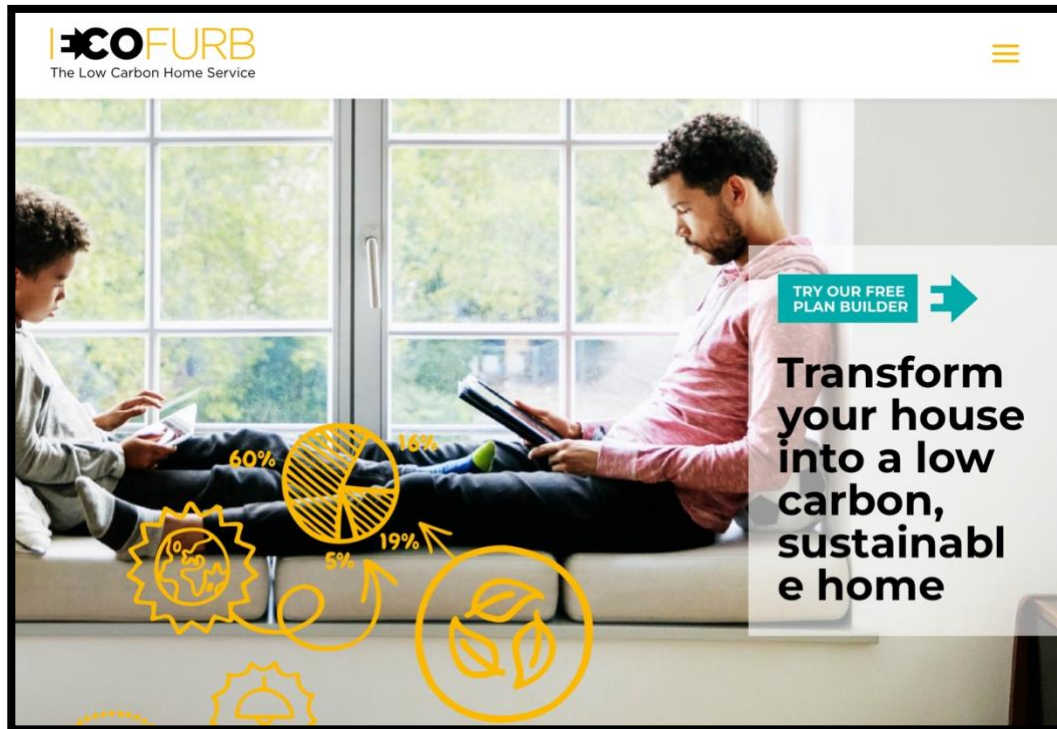
This project will pilot the Green Home Hub (GHH), a highly engaging digital consumer platform that guides and encourages homeowners along a journey of improving the energy efficiency of their home. It is underpinned by data-enabled components that were researched and prototyped during the GHFA Discovery Phase.

The GHH addresses the issues that deter homeowners from taking action: complexity, high costs, long paybacks, confusing grants, the lack of green finance solutions and shortage of reliable installers. The platform provides a highly personalised experience, helping users make appropriate improvements to their home at the right time. It helps users create an accurate and tailored plan, with cost estimates they can trust. The hub points homeowners

²⁴ <https://www.gov.uk/government/publications/green-home-finance-accelerator-discovery-phase-projects/green-home-finance-accelerator-details-of-pilot-phase-projects>

to relevant grants and innovative financial products to finance their improvements, including carbon credits. Finally, it verifies changes and rewards homeowners for the progress made in improving their home's energy efficiency.

Project Empower (Parity Projects)



This project will pilot a One Stop Shop, Ecofurb, with national coverage of advice and quality assurance of retrofit installations. The service will provide free online advice, a range of paid-for advice options to tailor a whole house plan to the home and its residents' needs, free financial advice and competitive quotes.

Through Ecofurb's free online advice service, customers will be able to view and edit the energy performance of their home, and test options for improving their homes' energy or carbon performance according to their budget and priorities. The online planner automatically tests the compatibility of options and calculates their combined cost and carbon benefits.

Once they have a package that they are interested in, the customer can choose whether or not to continue their journey with Ecofurb. They can submit their plan to get free financial advice, where relevant, and book an in-home survey and consultation with an expert advisor. That expert advice includes options from an energy assessment through to architectural drawings, air-pressure testing, 360° walkthrough and drone photography. The pilot will explore the level of advice recommended for different project types.

On completion of the Whole House Plan, customers will be offered the option of inviting Ecofurb's partner installers to quote. If customers take up a quote, Ecofurb will provide quality assurance using its national team of retrofit coordinators.

A credit union one stop shop for retrofit and finance (People Powered Retrofit Ltd)



The project will pilot 2 Credit Union financial products to meet the demand for retrofit measures from households in 2 demographically and geographically distinct pilot markets.

The Green Home Improvement Loan will help householders making incremental upgrades to their homes to maximise the retrofit potential of these improvements using a simple, easily accessible lending product that benefits from appropriate advice and guidance from the Credit Union lender and access to a range of additional advice materials and offers.

The One Stop Shop for Retrofit product targets the early adopter, deep retrofit market, pairing a bespoke lending product with holistic advice and guidance, design and construction quality assurance. This product helps already engaged and committed clients to increase the scope and scale of their retrofit package, maximising energy savings and triggering earlier works. It will involve a seamlessly integrated retrofit and finance one stop shop offer and will be piloted by People Powered Retrofit in Manchester and Loco Homes in Glasgow.

1.4. Private sector landlords research

Research undertaken on behalf of Foundation Home Loans highlights a range of headline findings related to landlord support and financing of home improvements in the private housing sector. Whilst the research was focused on energy efficiency improvements, the results are also considered relevant to wider improvement works and renovations.

Headline findings:

- 80% of landlords have already carried out some remedial works to properties in response to the new energy efficiency requirements, and in anticipation of future Government measures and action in this area.
- Of those, 52% said they had carried out works at the minimum cost required to comply, while nearly two in five (38%) said they had carried out works to maximise the long-term value of their property.
- Research also reveals there has been a drop in the number of landlords saying they would not carry out any works and seek to sell or not re-let – down to 13% from 20% in the last quarter.
- Landlords were also asked what methods of funding they might use to carry out any work:
 - 76% said they would use savings – up from 62% in the previous quarter;
 - 26% would put up rent – down from 30%;
 - 19% would seek a government grant or funding - same as previous quarter;
 - 10% would take out a mortgage – up from 8%; and
 - 10% would take out a loan.