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EXECUTIVE SUMMARY: INVESTING IN GREAT BRITISH HOMES¹

DESIGNING A UK HOME UPGRADE LOAN

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Upgrades that make our homes cheaper and cleaner to run offer tremendous opportunities for British households. Many countries have introduced home upgrade loan schemes to make these retrofits more attractive and accessible. In this report, E3G considers a well-designed and effective government-backed home upgrade loan for the UK.

Upgrading Britain's housing is essential to lower bills, reduce our dependence on fossil gas imports, and get on track to meet carbon targets. Home upgrade loans can form an essential component of the policy mix.

Countries including Germany, France and Canada have all introduced loan schemes via their national development banks, which have been successful in helping hundreds of thousands of households to cut their energy costs. Comparative analysis of schemes in other countries shows how a UK scheme could be set up and designed, seeking to maximise uptake and value for money.

An attractive, consumer-orientated loan scheme can help the UK can turn around its track record on low upgrade delivery rates. Such a scheme should be introduced following consultation and pilots to ensure effective design and deliverability. Supporting measures such as nationwide access to independent energy advice, and regulations to increase energy efficiency standards in the private rented sector, can ensure good awareness and uptake.

Why the UK needs a home upgrade loan scheme

Despite the benefits that energy saving retrofits can offer households, upfront costs can continue to act as a barrier to uptake in the UK. Recent polling found

¹ This is a summary of a report of the same name, available from E3G, July 2024, **Investing in Great British Homes**



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that financing energy efficiency improvements was a key reason given as to why people didn't upgrade their homes' energy efficiency, with over 35% of people stating they couldn't afford the upfront cost.²

Lenders in the UK are increasingly offering products and services which can help customers upgrade their homes, with nearly 60 different offers on the market.³ However, the market has been sluggish; for example, Nationwide's 0% interest home upgrade loan scheme received just 2,000 applications (of which 1,700 were accepted) between 1 June 2023 and 4 April 2024.⁴ The green finance community is calling for a broader, holistic set of policies to drive consumer interest and demand, as well as support the supply chain.⁵

Scheme design recommendations

To be successful, a new home upgrade loan scheme needs to be well designed and long term, with flexibility to course correct as needed to reflect lessons from the market. It needs to be attractive and simple for consumers, lenders and the supply chain to engage in. Loans need to be introduced as part of a wider suite of measures to ensure high take-up, and provide confidence to the public, financiers and supply chains.

Executive Summary Table 1. E3G recommendations for designing a UK home upgrade loan scheme

Principle	Recommendation
Scheme principles	Treasury to provide the UK Infrastructure Bank with a ringfenced, flexible, long-term draw-down fund for lenders, with loans delivered by a range of lenders (retail banks, credit unions, building societies etc.).
	Government must invest in making the retrofit journey consumer-focused and well-advertised, by supporting advice and awareness measures.

² Energy UK, February 2023, **New polling reveals the barriers people face to improve energy efficiency and bring down bills**

³ Green Finance Institute, **Green Mortgages** (webpage, accessed 10/06/2024)

⁴ Nationwide, 2024, **Climate-related Financial Disclosures 2024**

⁵ Green Finance Institute, October 2022, **Financing home energy security: How the government can catalyse green homes for growth**



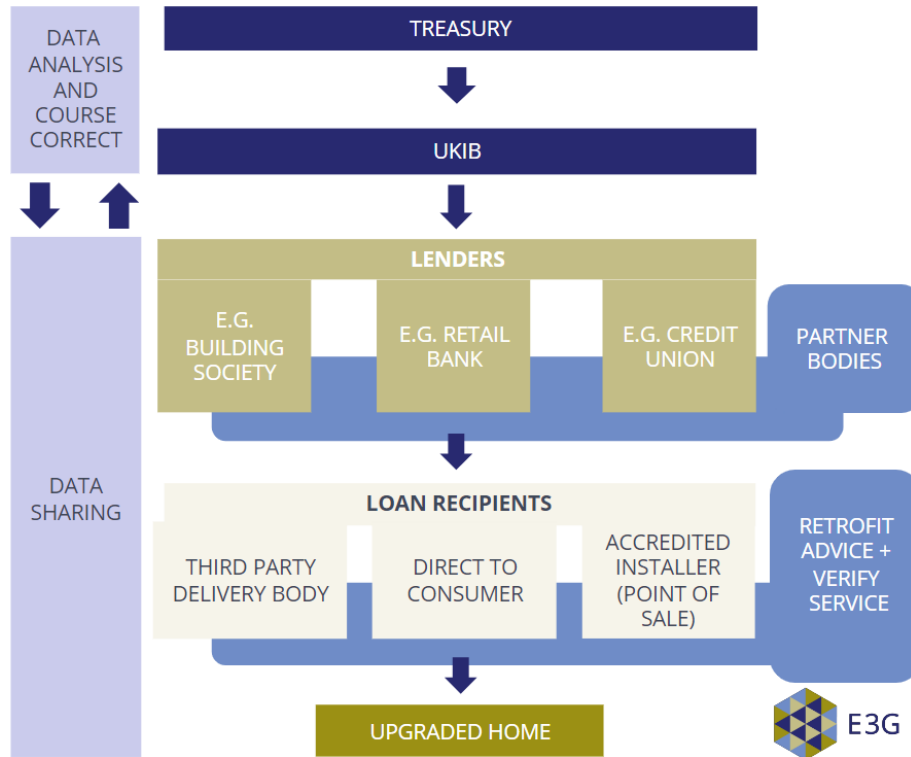
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	<p>Scheme coordinators to implement ongoing data gathering, analysis, evaluation and course-correction to enhance scheme delivery.</p>
Design details	<p>Offer zero and/or reduced concessional interest rates to spur consumer uptake and encourage lender participation.</p>
	<p>Repayment terms are flexible, favourable to the consumer, and follow international best practices. To include the ability to be spread over a longer period and being substantial enough to enable meaningful retrofit.</p>
	<p>Loans offered in tandem with grants fostering a more equitable national retrofit rollout with higher accessibility and uptake.</p>
	<p>Government bears risk without absorbing it completely, with UKIB guaranteeing a significant proportion of loans extended.</p>
Guiding considerations	<p>An attractive and fair offer to consumers which caters to a range of households, including those with lower incomes, those in rural or off-grid areas, and those who may require or benefit from added flexibility.</p>
	<p>Loans introduced in concert with a complimentary and coordinated package of policy and regulation to ensure uptake and participation from lenders, installers and consumers.</p>

We encourage government to establish a pot of draw-down funding at the UK Infrastructure Bank (UKIB) (as well as to underwrite/guarantee a degree of risk) that lenders can access through a series of predetermined allocation phases. Set clear lending parameters with flexibility that will allow banks to offer loans in an optimal way.



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Executive Summary Figure 1. E3G’s illustrative and basic proposed policy design architecture for a UK home upgrade scheme, more detail at Annex 1.⁶

International home upgrade loan schemes

Many countries are supporting loan schemes to help households improve their properties’ energy efficiency and reduce their carbon emissions. Below, we examine the design of these policies and consider their successes, challenges, and outcomes. The eight international programmes examined here each offer insights into best practices and potential areas for development in the UK.

Executive Summary table 2. Key takeaways from international examples

Geography	High-level analysis
Germany	Success factors: long-term loans (well over two decades) that are simple to access; low interest rate; complementary grant finance; the involvement of independent energy experts (advisory component, strengthening trust); motivating consumers at key renovation trigger points; delivery route of concessional finance via retail banks; broad political consensus over the years on the necessity for such a scheme and on the main pillars of the programme.

⁶ Available from E3G, July 2024, [Investing in Great British homes – annexes](#)



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S. Korea	<p>Success factors: data analysis and utilisation; course correction to maintain sustained uptake.</p> <p>Other notes: On a smaller scale than the other schemes reviewed.</p>
Canada	<p>Success factors: gold standard in consumer advice and support; in-built anti-fraud measures; 0% interest rate.</p>
Belgium	<p>Success factors: 0% interest rate; partnerships; well-funded advertising and marketing programme.</p>
France	<p>Success factors: 0% interest rate; complementary means-tested grant.</p> <p>Other notes: Shows how public investment can be delivered via lenders to end consumers, without the need to be overly prescriptive.</p>
Ireland	<p>Distinguishing features: maximum 10-year repayment period; interest rates starting at a relatively high 3.55%; strict minimum limits for loan size and repayment; large €75,000 allowance per property (€18,750 can be for redecoration).</p>
Scotland	<p>Notes: low default rates, but also low uptake despite 0% interest rates and an complementary grant; barriers include scheme complexity and a tough economic environment.</p>
UK Green Deal	<p>Lessons to be learnt: unattractive financial offer; no serious consumer engagement strategy; wishful scheme design.</p>

Conclusion

While there are no silver bullets in home upgrade policy, the introduction of a well-designed government-backed loan scheme can play an important role in boosting uptake of measures, as it has in other countries. The UK should look to the successes of comparable international policy, learn from our own past attempts, and consult with experts to design robust and fair policy. As well as providing a boost to our vital and valuable energy efficiency and green technology industries, a loan scheme can cut energy bills, reduce national reliance on fossil fuels to bolster our energy security, and create jobs.



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About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at www.e3g.org

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