Financing Scotland's Energy Efficiency Programme

A report by Marksman Consulting for the Existing Homes Alliance Scotland

Preface

The Existing Homes Alliance commissioned this report to help inform the debate on how to fund Scotland's Energy Efficiency Programme. This work follows on from our report on SEEP delivery models. In our view, finance is one piece of the jigsaw that must be in place to ensure SEEP's success. However, finance on its own will not create demand for energy efficiency. Demand will need to be driven by a combination of incentives, communication and regulation.

A variety of mechanisms will need to be deployed to attract private finance, such as loans, tax incentives, and partial grants. This report focuses on potential loan programmes that would enable take up of energy efficiency upgrades.

This report is a 'think piece' to encourage exploration of a range of options to suit different householder needs, costs of measures and timescales. It does not represent a position from the Existing Homes Alliance.

We welcome feedback from the government and stakeholders.

Introduction

The Existing Homes Alliance Scotland (EXHA) commissioned Marksman Consulting to carry out research into potential financing approaches for the Scottish National Infrastructure Priority (NIP) on energy efficiency and its foundation programme, Scotland's Energy Efficiency Programme (SEEP). This report provides a summary of the findings and recommendations of this work in support of the main report; *Realising the potential of Scotland's Energy Efficiency Programme: Report for the Existing Homes Alliance Scotland.* (Andrew Faulk. August 2016).

The delivery model is set out in Appendix A. The model considers finance to be a means to achieve a desired outcome, rather than a core driver. The drivers are such things as consumer engagement, strong communications of the benefits, and supporting incentives. Finance pays for the upfront costs when the consumer may not have the funds available. Government intervention is required to overcome the lack of available low cost private sector finance necessary 1) for the actions to make economic sense to the consumer; and/or 2) to be able to support compliance with any regulatory requirements to meet energy efficiency standards.

Executive Summary

EXHA believes the main objective of SEEP should be to raise the vast majority of homes to Energy Performance Certificate band C or above by 2025 (ten years)[1]. The report on a proposed SEEP delivery model to meet this objective, *Realising the potential of SEEP*, found that the total cost would be £6.97bn (excluding advice and support costs).

This report on finance models recommends that a low or zero cost loan programme for the able-to-pay sector funds £4.25b of the £6.97b ten-year programme with the remainder being provided as grants to those in fuel poverty.

[1] EXHA joint statement http://existinghomesalliancescotland.co.uk/policy/no-one-in-scotland-living-in-a-hard-to-treat-draughty-home-by-2025/

The loan programme would be split into £2.03b for unsecured loans financed by local authority borrowing for the smaller measures and £2.22b for solid wall insulation (SWI) funded by the Scottish Government. The SWI insulation loans will require additional grant funding of £0.42b to support a £1.80b 0% on-bill finance programme, with payments recovered through the electricity bill. The 0% loans would be refinanced into the capital markets, returning funds to the Scottish Government, but will require a write-down[2] of £0.54b to ensure that it delivers a market based 5% return for investors[3]. The approach taken for SWI, which is different to that being provided for simpler measures, is driven by the need to address payback periods of up to 30 years.

This will lead to a requirement for £0.32b pa of Scottish Government capital spending as part of, or in addition to the current £1.12b Scottish Government infrastructure budget. This can be delivered through either reducing spending on other areas of the capital programme, or filling the gap left by completed projects. Further options are to requesting the UK government for additional borrowing powers or raising taxes. It will increase the overall size of the local authority prudential borrowing by just over 5%, but with a liability that will be matched by unsecured debt, so not affecting prudential borrowing limits.

The report recommends that the programme should be managed through a single procured entity overseen by the Scottish Government, local authorities and sector experts. £18-£21.5m pa running costs are expected but over half of that is for direct support to consumers. Representations should be made to BEIS for simplification of Green Deal requirements to deliver on-bill finance.

Finance can enable compliance "at zero cost" with regulation of energy performance standards at points of sale and rental. Over time, the use of council tax differentials could be used to encourage take up by those properties that are not changing owners or tenants.

Methodology

Marksman Consulting carried out a background review of SEEP and EXHA documentation and used its own experience on the financing of large-scale energy efficiency programmes to develop a strawman model. Marksman Consulting reviewed this model with market stakeholders including the Scottish Futures Trust, the Green Investment Bank, finance sector companies and the Energy Saving Trust. Authors of reports on which the EXHA have drawn input were also interviewed. A workshop was held with members of EXHA to review the initial findings and recommendations and feedback from that workshop was included in this report.

SEEP financing requirements

EHXA have identified that total investment required in Scottish homes is £6.97b[4] over a ten-year period. Given that 35% of the households are in fuel poverty[5] it is being assumed that this proportion will be required to be 100% grant funded and so the remaining £4.3b will be required to be funded through a subsidised consumer loan programme. This breaks down as follows for the main energy efficiency measures for the able to pay sector.

[2] ie A loss is made on sale to enable a 0% loan become a 5% investment.
[3] This reflects returns that investors might receive on corporate bonds or on renewable energy projects.
[4] Table 2; *Realising the potential of Scotland's Energy Efficiency Programme: Report for the Existing Homes Alliance Scotland.* (Andrew Faulk. August 2016). .
[5] SHCS 2014

	Loans (£m)
Loft	128
CWI	316
SWI	2,220
Boilers	1,586
	4,250

As a rule, it has been seen as important for energy efficiency measures in loan schemes to be self-financing within their lifetime and even to achieve zero net cost within the first year. By doing this there should be no resistance from householders on economic grounds. However, given the low cost of loft insulation and the inherent benefits of cavity wall insulation (CWI) and boiler upgrades, the real financing challenge is with solid wall insulation (SWI).

Householders wishing to upgrade loft, cavity wall and boilers (assuming that this is done faster than the natural boiler replacement rate), whilst able to be financed by the private sector, can be incentivised by a programme that offers low cost finance at the cost of public sector borrowing, in line with the approach taken by KFW in Germany[6]. This would lead to a loan programme of £2.03b that is capital cost neutral for the public sector. It would be available for all householders with a suitable credit rating as an unsecured loan, and those whose credit rating was not acceptable would, in principle, be covered by the fuel poverty programme.

For SWI it is assumed that householders would want to be no worse off in the first year for a maximum twenty-year loan. To achieve this, the following is required or assumed:

- 2% pa energy inflation
- Payments increasing with inflation
- Thirty-year payback for measure
- 19% upfront grant
- 0% finance

The 0% finance is required not only to incentivise the consumers but also to support payback within 20 years. The Green Deal Finance Company (GDFC) advised that having to charge 8-10% interest over twenty years more than doubled the cost of the work and this was not popular with consumers.[7]

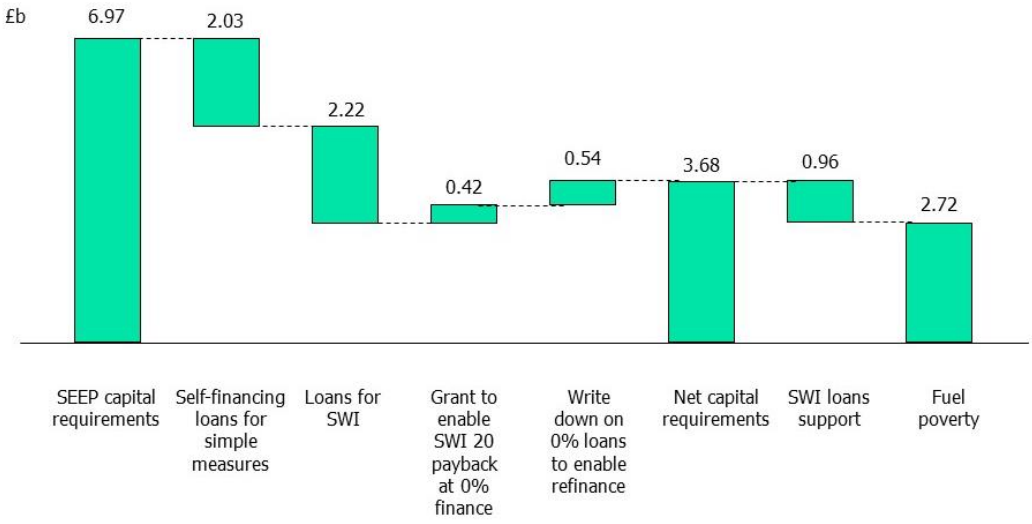
This would require the public funding of £1.80b of loans at 0% interest supported by £0.42b of grant funding for the upfront grant.

However, it is assumed that the government would not wish to hold the £1.80b on its balance sheet for twenty years and that it would be prepared to sell these loans at a discount into the capital markets. By doing this, it frees up capital and shares the risk with the private sector. In order to achieve a 5% return for investors, a return in line with investor returns for corporate bonds and renewable energy, it would need to provide a 30% discount on the loan book, leading it to write down an additional £0.54b of the book.

Over a ten-year period, following these adjustments, the £6.97b programme will require £3.68b of government grant, with £2.72b being spent on houses in fuel poverty and £0.96b being spent to enable the able to pay sector to install SWI economically. However, government funding will also need to be found for the loans programme requiring a suitable budget allocation.

[6] German Federal Ministry for Economic Affairs. German Strategy for Energy -Efficient Buildings & CO2 Rehabilitation Programme. June 2014

[7] Interview notes.



Thus, out of a total cost of nearly £7b, £3.3b or 47% is being met by the householder through public sector consumer loan schemes.

This could be reduced for SWI if householders, who did not want to take up a loan, were offered a similar proportion of grant to the 43% grant that is being used to support the loan, as a partial-grant to blend with their own finance. Any take up of partial grants, with the additional funding being provided by the householder, will reduce the size of the loan book for SWI for the Scottish Government. Some householders will not wish to take on new debt even at 0% and so, if available, might use their own funds.

Financing other low carbon measures

Whilst the analysis has focused on the core energy efficiency measures it is recognised that other efficiency products such as underfloor heating and renewable energy solutions such as solar PV and renewable heat products might also require financing to meet upfront costs. These could be financed through short-term unsecured loans and will not require the long-term finance solutions that are required for SWI.

Sourcing finance

For a ten-year programme of £6.97b, it would appear that the Scottish Government needs to source £697m of capital funds pa, with £368m being in grants and £329m as capital for the loans programme. However, this can be reduced in two ways.

- Local authorities, who have wider borrowing powers than the Scottish Government, are able to finance the loans programme for the simple measures in their own areas run through one common loan programme with separate accounts for each participating local authority.
    - If they provide the £203m pa financing by borrowing from the Public Works Loan Board (PWLB), then they can lend at a low rate of 0.8% over Gilts, currently at just over 1% for a five-year loan[8]. With a five-year loan some loans will be being repaid whilst other loans are taken out and so the maximum loan amount, assuming a

[8] http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_Interest_Rates

smooth take up, would be £0.61b across the thirty-two local authorities compared to current prudential borrowing of £11.6b[9], an increase of 5.3% on the total Scotland local authority loan book.

- For this to happen nationally, all local authorities would need to agree to take part in this programme and the Scottish Government would need to provide a Consent to Borrow. To incentivise local authorities, they could be allowed to charge a small margin so as to make a return on the capital provided. However, all may not wish to participate from the beginning and the programme would start with some early adopter councils who would demonstrate to others that this was a viable way to support their local communities.
- It is acknowledged that some local authorities may not wish to increase their overall level of debt, but given that this debt is secured against an income stream (similar to the manner in which local authorities have invested in renewables or loans have been made to residents secured against properties), it does not affect the overall prudential borrowing limits. It is unfortunate that accounting standards do not currently differentiate between local authority debt that is secured against an income stream and that which is not.
- We acknowledge the challenge of bringing local authorities into the programme but they do have access to finance, they will see benefits for their residents, their risks will be managed and they will be involved in the governance. Some local authorities have already shown great leadership in energy efficiency and we would look for them to lead the way and show that it works for all authorities.
- Should the SG negotiate additional borrowing powers with the UK government then it could take on this element of the programme which is being passed to local authorities as they have stronger borrowing powers. The alternative would be for the Scottish Government to find the additional funds in the way described below.

- The £180m SWI loans programme would only be of that value for the first year. Assuming that it can be refinanced annually, then after the £54m write down, £126m would be received back from the capital markets, leading to net financing requirement of the £54m.

Taking these two activities into account the final annual public sector funding requirement would be £480m. Currently £160m is already spent in Scotland on energy efficient programmes, with £103m being spent through Scottish Government programmes and £60m through ECO[10]. This leaves therefore an additional ~£320m pa capital cost to the Scottish government or 46% of the total programme cost. Of this £272m is for grant funding for houses in fuel poverty and only £49m for subsidising the able to pay sector.

The Scottish Government's annual capital budget for 2016-2017 is £3.14b, based on £2.83b UK government funding and £0.3b Scottish Government borrowing[11]. This would mean that the Scottish government would need to allocate 10.2% of its capital budget or 28.6% of its £1.12b infrastructure budget to SEEP. In order

[9] DCLG. UK Quarterly Borrowing and Investment levels for local authorities.
[10] EXHA
[11] Scotland's Spending Plans and Draft Budget 2016-2017. The Scottish Government

to finance this under current borrowing powers, the Scottish Government could do one of three things:

- Reduce spending on other areas of the capital programme or have energy efficiency projects replace other infrastructure budgets as they complete
- Request additional borrowing powers from the UK government for this particular programme
- Raise taxes in line with current powers.

Each of these approaches require the Scottish Government to continue to recognise the benefits of energy efficiency being included as a NIP, especially given that most of the funding will be deployed to alleviate fuel poverty.

Deploying the loans finance

Products

Having established in this proposal that the Scottish Government and Scottish Local Authorities are the source of funding for the consumer loans finance, given their ability to provide zero or low cost finance, there is a need to identify financial products that householders are willing to take up. To do this it is recognised that there are two types of loans and two types of occupancy, assuming that social housing is addressed by social housing providers and through fuel poverty programmes;

	Owner occupied	**Rental Market**
Unsecured loans for simple measures	Unsecured loan to householder	Unsecured loan to landlord
Secured loan for SWI	Secured loan to householder, with the ability to pass on outstanding amount to any new householder on sale of house, or to be repaid	Secured loan to tenant, transferrable between tenants. Ability to be subsidised by landlord.

The loan for simple measures is unsecured to the householder and landlord in line with current market practice for small loans. This keeps the administrative costs to a minimum. The larger SWI loans are secured given their size and longevity.

There are two ways of securing the SWI loan, via a charge on the property or via the electricity bill using On Bill Finance (OBF) via the Green Deal legislation. Long-term loans require some form of security as their long payback times drives future uncertainty. By securing them, the lender, in this case the Scottish Government, can have some confidence in recovering their funds.

	Secured on property	**On Bill Finance**
Description	In event of default or closure the lender can recover funds owed through sale of property	Payments are made through the electricity bill with any miss-payments being recovered by electricity companies

	Secured on property	On Bill Finance
Mechanism	Registered in the Land Registry of Scotland	Via Green Deal process
Example products	Mortgage Equity release	Green Deal
Payments	Via direct debit	Via electricity bill
Default	Repayment schedule followed by loss of property or payment when property is sold	Repayment schedule followed by pre-payment meter
Sale of property	Loan needs to be repaid	Loan can pass to next owner

OBF is also a strong approach for the letting market, with the cost of contributing to the SWI upgrade shared between the first and subsequent tenants of the building without having to be captured through a rent increase. The exact manner in which it is shared will be influenced by the introduction of regulations for minimum energy performance standards at point of rental.

Given the benefit of transferring loans to new occupiers, it is recommended that OBF be used to secure the twenty-year SWI loan. It also means that the Scottish Government is not saddled with having to repossess a property, or wait for its sales, should the loan be in full default. However, the hangover from Green Deal might support the case for researching whether this is preferred to a loan secured against the property. In theory, both could be offered but this would increase the administration costs.

OBF is also a simple way to collect finance, with the alternative being via direct debits. Whilst the Green Deal never reached critical mass, it is believed that the £50m loan book continues to be successfully serviced through OBF and there has been very little criticism of this approach to collecting repayments, compared to all the other issues that bedevilled the Green Deal.

Equity release as a product was included in the review. It is clearly something that is strongly beneficial to the recipient given that no repayment, capital or interest, is required until the property is sold. This means that all energy savings are accrued to the house owner from the beginning. However, it is an expensive product for the Scottish government as it cannot be refinanced into the capital markets and so the capital can effectively be treated as a grant with uncertainty on timing of repayment. Therefore it is suggested that it is used for fuel poor property owners for SWI should the government wish to recover some of the £1.4b grant being spent over the ten years. It also provides the opportunity to fund essential repairs that are needed to undertake energy efficiency upgrades (eg roof and external wall repairs).

Deployment

As well as creating financial products, the review considered how to deploy these products into the market. Three potential routes were considered based on the experience of KFW in Germany, the Energy Saving Trust (EST) in Scotland and the Green Deal Finance Company (GDFC) in the UK. It also took into account that there are large miss-selling risks in the energy efficiency sector and that the

body approving the loan would need to organisationally competent to avoid this, for both the financial and the energy efficient element of the transaction.

Channel	Product	Advantages	Disadvantages
Banks and mortgage companies	Unsecured loans Loans secured on property	Loans are core part of their business Borrowers using energy efficiency loans will be users of banks Economies of scale alongside sale of other bank products	Unlikely to be taken up by all banks Banks are currently rationalising their own product lines and are not keen on taking on new ones. Need to train bank staff in energy efficiency miss-selling risks Need to invest in new systems and processes Unlikely to be able to manage access to grants programme
Local authorities	Unsecured loans Secured loans	Already handling secured loans to some householders Locally trusted. LAs might wish to be involved if their capital is at risk Can integrate with grants	Need to fund and staff 32 different centres, training against mis-selling. Some LAs may not wish to participate Quality may vary between authorities
Procured entity	Unsecured loans Secured loans	Economies of scale Ability to manage miss-selling Can integrate with grants EST example	Loss of local feel Poor experience with GDFC

Based on this analysis it is recommended that a central body is procured by the Scottish Government with finance and energy efficiency expertise to run the programme. It should be able to integrate with the wider SEEP programme and, being Scotland focused, should avoid the failings of the impersonal nature of the GDFC.

Refinancing

Refinancing the SWI loans programme through bonds secured against the loans should be in two phases.

Phase 1 for when the programme is beginning; at this stage the bonds will be unproven and will be most suitable for the retail mini-bond market. They can be refinanced in tranches of £10-20m, with low upfront costs and the activity will be a good way of testing the market. Whilst these bonds will not have any security from the Scottish Government, there will be some reputational exposure should they fail.

It may be found that the market appetite for 20-year bonds is limited and the government may need to help create a secondary market by offering to buy back the bonds after a given period, say 10 years, before reselling them. This would create an unwelcome liability which should be avoided. The alternative is to go straight to phase 2.

Phase 2 assumes that retail mini-bond market cannot absorb £1.8b of these bonds given that the market is estimated to be worth only £8b[12]. This means that the programme would be financed into the institutional market. This targets pension funds and fund managers but larger tranches of £200m upwards might be required. However, these products can access the $694b green bonds market and so there is plenty of capacity.

Cost of financing operations

Most of the analysis has gone on the capital budgets, given this is the most significant expenditure. However, there are three areas of annual revenue expenditure that will need to be taken into account plus one-off start-up costs.

- Procured entity; there would be initial start-up costs of setting up the entity covering staff recruitment, system development and procurement. Following that there will be ongoing running costs. The costs below are based on a market standard of 2% of loan book plus input from the GDFC.
- Loan book first loss; it is assumed that the Scottish Government and the secured local authority loans would be priced so as to cover losses, given the 1% cost of capital. However, in order to ensure the secured loans are refinanced it is assumed that it is required to take the first 2% of losses, in line with GDFC losses, so that investors are only exposed to super-losses.
- Support for consumers; the EXHA is assuming that £120m is required over the lifetime of the programme to support the consumers with advice and behaviour change

Cost	**Start up**	**Ongoing annual costs**
Procured entity	£5m	£5-7.5m
Losses underwriting		£1-2m
Support for consumers		£12m
Total	**£5m**	**£18-£21.5m**

[12] http://realbusiness.co.uk/article/26904-crowdcube-targets-growing-businesses-with-new-mini-bond-funding-option

Incentive Schemes

Whilst the finance solutions covered so far are focused on using finance as an enabler, ensuring that lack of finance cannot be used as a reason not to proceed; finance can also be used as a means of incentivising behaviours through regulatory and fiscal solutions. This is not a core focus on this report and will require further investigation. However, the following observations can be made:

Several options have been discussed by stakeholders and are outlined below, including an additional proposal *Help to Sell* which is put forward as part of this report. Two are financial and two are regulatory.

It is assumed, in reviewing these approaches that to be successful the programme should be fiscally neutral to the government and that the regulatory approach will be supported by the SEEP financing programme. This means that house-owners, tenants and to some extent landlords can be offered "regulatory compliance at zero upfront cost".

Incentive	**Advantages**	**Disadvantages**
Land and Buildings Transaction Tax. (allow a varying charge related to the energy efficiency of the building. For low EPC buildings there would be a higher charge which would be rebated on a verified upgrade)	Sale of property is a strong trigger point for action. House buyer could do the work before or whilst moving into the property Tax can be collected on sale and rebated on delivery of EPC upgrade Could be fiscally positive to the government if upgrades not delivered	New owner may not see the penalty as onerous in the context of buying the house Only covers houses that are for sale Adds fiscal complexity
Council tax. (Variation in council tax based on EPC of the building)	Possible to be fiscally neutral if phased in line with SEEP programme so that those failing to upgrade could be absolved of the tax increase if they had demonstrated that SEEP could not deliver	Complicated to operate across 32 councils and range of variations of EPCs If funds for fuel poor are not adequate, then disadvantages those who cannot afford to upgrade
Minimum Energy Efficiency Standards (for rental properties. As applied from 2018 in the rest of the UK, properties cannot be let to tenants unless at a certain standard).	Focus is on the landlord to deliver along with other regulatory requirements. Voids offer good opportunity for	Funding required for enforcement.

Incentive	Advantages	Disadvantages
	upgrade.	
Minimum energy efficiency standards for owner-occupiers. Help to Sell loan. Additional items could be included in the upgrade as long as financed through unsecured loan which would be seller's liability as opposed to secured loan which is buyers).	Sale of property is a strong trigger point for action. Positioned as positive to help householders sell their properties. Sale of properties already regulated (eg completion of Building Regulations requirements)	Adds complexity to sale of property which is a stressful time for house owners.

It is recommended that the Scottish Government uses regulatory rather than fiscal incentives given that it can offer "regulatory compliance at zero (upfront) cost".

Through minimum standards, the 90% of PRS that might be let over the 10 years[13] and 100,000[14] houses that are sold every year will be addressed. However, this will not cover all houses over the 10-year programme and after five years when over 500,000 properties would have been through the programme, then the Scottish Government could consider introducing variations in council tax as a means of increasing demand[15]. In doing this it would be important to ensure that finance was truly available and that those that had applied for financial support, but had not yet completed the works, would not be placed in a punitive tax band, just because the work had not been done. This would ensure that those that cannot pay are not harmed by the regulation. The SEEP finance programme would provide a solution so that lack of finance would not hold anyone back whatever their financial position.

Organisation and governance

Entities

The following entities will have the identified core roles in the delivery of the domestic SEEP financing model.

Entity	Role
Scottish Government	• Provide capital funding • Provide revenue funding • Procure delivery entity and pay for delivery • Create finance vehicle • Provide governance
Delivery entity	• Manage programme • Manage finance vehicle for Scottish Government secured loan book • Manage LA unsecured loan books

[13] Developing the regulation of energy efficiency of private sector housing (REEPS): modelling improvements to the target stock. Scottish Government Social Research 2015
[14] Registers of Scotland. House Price information. Annual Market review. March 2016
[15] UK-GBC Task Group Report: Retrofit Incentives

	• Ensure no miss-selling • Ensure access to grant programmes as appropriate • Ensure installers are paid for work done • Be a Green Deal Finance Party and Green Deal Provider for OBF
Local authorities	• Provide finance for the unsecured loans • Enforce minimum standards Obtain grant finance for social housing tenants • Provide governance for the financing programme
Finance Vehicle	• Hold secured loan book • Refinance loan book into capital markets
Installers	• Install measures
Energy companies	• Collect payments for OBF

Governance

The key party in the financing model is the procured entity that delivers the financing programme and manages the loan books. Given the exposure that the Scottish Government and local authorities have to the failure of this entity they should be members of an oversight board with equal positioning the management of the financial element of SEEP. The board should be supported by independent experts from finance and energy efficiency sectors. Their role should be to ensure that there are suitable strategies, policies and controls in place to manage the £3.3b 10 year programme. That board should report to the Scottish Government.

On Bill Finance

At the moment the OBF approach has to use the Green Deal legislation in order to operate. This brings in an unwanted complexity and poor reputation. It is recommended that the Scottish Government liaise with the Department of Business, Energy and Industrial Strategy (BEIS) on some amendments to improve the likelihood of success, including but not limited to;

- Green Deal assessment and process that follows to be limited to SWI
- Inflation linking of finance repayments
- Ability to require smaller energy companies to collect Green Deal payments
- Ability to remove the requirements for Green Deal branding

In the meantime, it would be possible to work with the current provisions as they are sufficient with new branding, as long as there is a reference to Green Deal as a quality mark.

Piloting

For a successful pilot, the programme needs to test the use of unsecured loans and OBF without the incentive schemes. The EST is already administering a programme of unsecured loans, albeit at 0% interest rates, and it is suggested that they are provided with additional funds to provide loans at the low interest rate and deliver OBF as a part of a trial. This could be limited to one local authority area, to ensure that a local authority can advise others on the efficacy of the programme given the requirement for them to provide capital for the main programme.

Cash incentives may additionally be required to have householders take part in the trial, but it should be clear that these are not part of the longer-term programme.

Appendix A: EXHA Delivery model

Principles for delivery

We recommend that the delivery model for SEEP should:

- Continue to provide a **national fuel poverty programme** which responds to the needs of individual consumers in fuel poverty in an integrated way. Public funding in support of the wider delivery of SEEP should clearly be additional to existing fuel poverty programmes, and grants should be targeted so that recipients will avoid the risk of fuel poverty in the future.
- Create **a market for more energy efficient homes** (and non-domestic buildings), and therefore a more stable market for installation of measures through the **introduction of minimum energy efficiency standards for existing homes** which will rise over time.
- Use other **non-financial actions to encourage and facilitate action**, such as public sector purchasing, planning, building regulations and approaches to the management of blocks of flats, particularly in relation to the roll out of district heating.
- Provide a **range of financial solutions** for consumers which can be offered in line with their individual circumstances and the measures that need to be implemented; there should be no barrier to installation of measures because of lack of finance for up-front costs. Support should be prioritised towards lower income groups, and towards consumers who will help build the market for newer measures.
- Introduce **loans, secured and unsecured,** for those who are property rich and/or have the necessary credit rating but may lack the cash needed to improve their homes; this approach may also be suitable for the private rented sector where both landlords and tenants might be expected to contribute.
- Provide **guidance on behaviour change**, **measures and finance packages** tailored to the householder, which are independent of the sale of specific measures. Support should also be available to maximise incomes and lower energy bills through tariff advice. Follow-up support should also be offered to ensure gains are maintained.
- Provide a series of **targeted, area- and thematically-based energy efficiency programmes;** for example, it would be possible to target different types of solid wall insulation towards areas depending on the concentration of different properties and / or work through trusted intermediaries to engage specific target groups of consumers.
- Provide **guarantee mechanisms** to ensure consumer confidence, such as accreditation systems for installers and clear systems for redress in the event of poor workmanship or faults.
- Put in place a **robust monitoring and evaluation** framework to ensure that the real impacts of the programme are understood and can benefits are maximised.

Governance and delivery structures

We believe that successful delivery of SEEP will depend on the establishment of clear and robust governance structures, at all appropriate levels, combined with capacity building to ensure that all delivery agencies are capable of providing a

consistent service, in line with the aspiration of a National Infrastructure Priority. We recommend that:

- The NIP / SEEP are overseen by a Ministerial group, representing all appropriate Scottish Government interests.
- The existing SEEP Programme Board should be widened to reflect the above.
- Local partnerships are used to deliver SEEP, bringing together housing improvement and regeneration expertise together education and health and social care partnerships to maximise impact in terms of climate change, fuel poverty, economic development and health and well-being.
- SEEP includes area-based programmes which give priority to those most in need and a national fuel poverty programme to ensure anyone in fuel poverty can get help no matter where they live.
- SEEP area-based programmes will also include programmes of support and incentives for able-to-pay households and target mixed properties (domestic and non-domestic) where appropriate.
- An evaluation framework is established which reports on outcomes at all levels, including outcomes relating to health and economic development as well as to reductions in fuel poverty and climate change emissions.