



**Green Home Finance Accelerator
Discovery Phase – Evidence Report
October 2023**



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Executive Summary

1. Introduction, aims and objectives

The objective of the Discovery Phase project was to explore the development of a UK-wide green home finance loan product, including for use in bridging the gap between the upfront cost of a gas boiler replacement and the net cost of a heat pump installation after applying a £7,500 Boiler Upgrade Scheme (BUS) grant and providing related advice to customers. The project explored the extent to which such a product could be provided as an employee benefit scheme.

The specific retrofit barriers that the Discovery Phase project aimed to address included homeowner confusion about the green retrofit journey and the fact that green retrofit measures are usually materially more expensive to install than equivalent non-green measures.

The total project cost was £174,671 and the Department for Energy Security and Net Zero grant contribution was £78,602.

2. Key barriers and/or challenges

The key challenges identified during the Discovery Phase included working out how to engage with stakeholders, identifying which customers would be interested in working with us, and whether the advice should be provided separately to the provision of a loan.

3. Key findings from research and other activities

From the research conducted we established several findings:

- The product we provided should be split into two separate parts, with loans and advice being provided at different times, and with customers given the option to take the advice but not working with us to provide a loan.
- While there was some interest in the product that we supplied, the market was not yet ready for broader adoption, and it was not clear on



what timescale that would change. We base that assessment on the low take-up of the invitation to join a pilot and speculate that the reason the market is not ready is because of the innovative nature of the product. There are thousands of benefit schemes available, and it takes time for a new scheme to gain traction.

4. Key process learnings

We underestimated just how long it would take to find employers interested in engaging with the scheme, and as a result we did not have sufficient time during the Discovery Phase to trial the product with employees or to generate extensive feedback from them. Another learning from the Discovery Phase of the project is that we underestimated the amount of administrative time involved in being on the Discovery Phase. Aside from the initial application documentation, further detailed forms needed to be completed after the commencement of the Phase, and monthly and quarterly meetings were held with the monitoring officer and other members of the Department's Green Home Finance Accelerator programme team. For the future we would allocate time (and possibly a team member), especially in our GANTT chart, to deal with the administrative aspects of the Phase.

5. Reflections on key outcomes achieved

The key achievements of the Discovery Phase included separating the loan and the advice parts of the service, with the loan becoming optional to users. We spoke with over 70 organisations about the service and seven of those asked to join a pilot of the service.

We spoke with large financial institutions, including HSBC Bank and Natwest Bank and a variety of other companies that ranged from 100 employees to many thousands; the organisations (including those that asked to join a pilot) seemed to have little in common apart from the individuals involved who were curious about new ideas. These achievements could be used in the future to further develop the product by generating feedback and insights from trialling the products.





Evidence Report

1. Product overview

Our product consisted of two parts, an advice service and loan provision.

The advice service aimed to deal with the fact that homeowners are unaware or unclear on what they should be doing in terms of green retrofit.

The loan service was designed to work together with an employer, providing funding to their employees on an interest free basis. The aim was to explore whether it was possible to provide homeowners with interest-free loans.

All energy efficiency measures fell within scope of our service, although our focus was on heat pumps (given the significant carbon emission reductions that result from their installation). Our target audience covered working age adults, as our service was designed to be provided through employers.

The advice element of our service was designed to help customers understand what they needed to consider in terms of their home from a green retrofit perspective and steer homeowners to focus on larger carbon reduction measures. Verification of installation was intended to verify that a targeted loan by an employer had been used for its proper purpose.

The service was designed to incentivise consumer up-take of domestic energy efficiency, low carbon heating and micro-generation home retrofit. It aims to address some of the biggest known issues holding back wider adoption, namely clarity on the specific energy efficient retrofit measures required for individual consumers and the necessary funding to help make the upfront cost of these measures affordable for all.

2. General scoping research and other activities

Our research methodology focused on employers as we needed their engagement to be able to approach employee homeowners. We focused on



the problems of what to do and the cost of green retrofit as we thought these factors could be disseminated through businesses. We avoided approaching businesses with fewer than 100 staff on the basis that we were looking for the largest sample size possible for our product.

Our research methodology involved writing to employers to understand better what type of product would engage them. If we did not receive a response to our outreach, we would adjust the content of the email until we found that we were getting a sufficiently high response rate. Changes to the content included varying the offering we provided and phrasing the same offering in different ways and with emphasis in different places.

Existing market solutions include:

- mortgage drawdowns vs interest free - where a mortgage company can increase the size of your home loan through a drawdown. But with many mortgage rates at around 5%, a £30k retrofit work would cost £1,500 in servicing per year. Our loan would save customers £1,500 per year.
- Ordinary unsecured loans vs interest free - there are many unsecured loan providers, but their debt tends to be significantly more expensive than secured debt and usually needs to be repaid within a short period such as 1-2 years. Retrofit works of £30k may cost £3k a year or more in interest, so the saving would be £3,000 per year with our product.

An employer has a vast amount of employee benefit schemes to choose from. We differ from many/ most of schemes because of the value we bring to the company in supporting their company values and supporting staff beliefs.

Homeowners were found more likely to adopt green retrofit measures if financing was available, and that an additional 10% of homeowners, when compared to a mortgage loan, would be interested in proceeding with retrofit loan on the basis that it was interest-free.

No feedback was received regarding what advice or support consumers would value when looking to retrofit financing solutions.

We found the trigger points for considering a finance product were when the customer was thinking about commissioning a green installation at home. The



trigger points for considering commissioning a green installation included their boiler reaching the end of its useful life and impactful climate articles in the press.

There were several observations that we made about consumer behaviour. Given the UK's commitment for the UK to become net zero, the market size is in principle all privately owned homes, with a particular focus on houses as there is generally less green retrofit opportunities in flats.

There are many ways and routes to market to enable green investment, including mortgages, private loans, Government grants, and, in all likelihood, the market will support multiple approaches. Ultimately, we found that the majority of homeowners we spoke to want any changes that they make to their home to make financial sense. Most consider their home to be satisfactorily heated currently and do not see the logic in spending capital on a change that may cost more to implement, that may or may not cost more to run and which involves more thinking and hassle. Profiles of green finance customers include a strong awareness of the climate crisis and knowledge of the contribution that their home makes to that crisis.

We did not encounter any particular challenges relating to the cost of living and energy crisis. Anecdotally, we did hear from suppliers that the demand for solar installations has fallen substantially from the strong growth experienced last year.

We did not consider any methods for factoring potential future price fluctuations or energy and installation measures into the service.

There were no learnings from the Discovery Phase that prompted us to change or expand the initial target consumer groups for our service.

While it was not something that we considered, in principle the product could be expanded to other customer segments at a later stage, but we would need to research those segments to understand to what extent the service would fit without requiring wholesale change.



3. Relationship and partnership building

Heat Scheme was the sole partner of the Discovery Phase project and were not part of a consortium.

The team already had a good working knowledge of green home retrofit issues when starting the Discovery Phase. We also read widely, especially authorities on the area such as Jan Rosenow of Oxford University and Heat Geek, and we developed relationships with installers through direct out-reach and attending industry events.

We spoke with the head of MCS for guidance on installer reporting and verification responsibilities and we built early relationships with contractors that can support future retrofit delivery. The knowledge and expertise of partners was utilised during the Discovery Phase to develop our own understanding of green home retrofit.

Relationship building is expected to be continued in the future.

As we did not partner with third partner organisations, there was no knowledge sharing management between any partner organisations.

The general observation we made was that the green home retrofit supply chain is categorised by a lot of small businesses with only one or a few employees, which makes developing relationships time-consuming. For the future we would focus on the relationships with retrofit companies with growth ambition and consequently have a greater chance of growing quickly.

The project has not identified any knowledge/ expertise gaps.

4. Finance product research

We spoke with over 70 employers to understand their interest in providing their staff with a green home loan on an interest-free basis. We also researched the issues preventing them from proceeding with such a loan.

The detailed design of the proposed finance product was informed by several factors, including the need to show value to the employer. For that reason, we made the loan product an optional extra to the provision of advice. Employers were also concerned about vulnerable employees not repaying the loan and



so we needed to draft provisions providing for this eventuality. Pay back duration could be long and repayments would be made by consumers in regular instalments. Beyond these points, it was hard to identify issues and barriers to adoption by employers, as they were not in general responsive to requests to engage in feedback and discussion of the product.

Of the seven employers that signed up for a pilot, the number of employees ranged between approximately 70 and 3,000 and came from a range of different industries; there did not appear to be a unifying thread between them beyond the curiosity of the individuals involved.

No further incentives were explored beyond making the loan interest-free.

No alternative finance options were considered as the financing option of interest free loans that has already been examined effectively acts as an incentive to consumers to undertake retrofit activity.

There were no other findings of market research undertaken in the design and development of the proposed green home finance product.

We did not participate in the Financial Conduct Authority (FCA) Regulatory Sandbox or other formal development support services.

The provision of an employee loan falls within an exemption to consumer finance regulations and therefore no other regulatory considerations needed to be addressed. There are no plans to engage with the FCA.

5. Advice/information research

Our advice approach focused on providing customised information to each customer that reflected their actual home and reducing the amount of information shared, distilling down only to the information that was relevant to their home. We provided this service as a phone consultation.

This approach was selected because from the surveys that we saw it appeared that customers are confused as to what they should do and at times there seemed to be quite a lot of contradictory information available online.

Our research did not inform us about consumer preferences relating to advice and information.



Our research suggested that there is no need to package finance and advice together. Instead, they could be provided separately; the need for finance only arose once a homeowner received advice or already knew what action they wanted to take.

Signposting to a third party's existing service is easier and cheaper to provide, but not as tailored to the customer and their home as our own solution.

We plan to provide consumer information at Pilot stage.

6. Verification methodology research

Our approach is to work with and rely on MCS vetted installers who are already required to provide verification and quality assurance to MCS. We would back this up with customer supplied evidence such as a copy of the contract and smart meter data if available. For verification of fabric measures, where MCS vetted installers might not be available, we would also request the same type of customer supplied evidence as well as photos showing the finished work. We did not consider physical inspections on grounds of cost.

The chosen approach was reasonable in the context of the modest fee potential. Our approach is efficient, relying on a party that in any event needs to provide verification and quality assurance.

Our research did not inform us about how any verification services/activities should be integrated with the rest of the consumer journey.

An in-person visit would evidently be ideal, but the cost implication is substantial. Photos could help too but risk of digital manipulation of the images.

7. Marketing related research

We did not generate marketing related research.



8. Further information

We are very grateful to the Department of Energy Security and Net Zero and the Green Home Finance Accelerator teams for running the Discovery Phase programme.



Heat Scheme

44 Great Cumberland Place,
London, W1H 7BS

info@heatscheme.co.uk

www.heatscheme.co.uk



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