

# HOW TO ACCELERATE HOME RENOVATIONS through innovative financing

Executive Summary - August 2023



Consumers need financing options that are both easily accessible and understandable for their energy retrofit projects. Such retrofits are substantial investments for most consumers. It often requires combining several sources of private and public funding, because each has its pros and cons.

But how do they combine and how could their combination be improved? Those are the key questions the study tackles. A properly designed combination of public and private funding should result in a clear product offer and predictable overall costs for consumers.

# Key findings:

## 1. IN ALL FOUR COUNTRIES ANALYSED (SPAIN FINANCING OF HOME RENOVATIONS IS AN IS

Households have suffered a relative increase in indebtedness on energy bills, with a peak in difficulties reached in 2020 for most countries<sup>1</sup>. Housing stocks differ broadly across Europe, as does the balance between tenants and homeowners, but impoverishment is a concern in all countries. This further puts into question the capacity of low-income households to make big up-front investments.



**Recommendation:** the study confirms that economic hardship is prevalent in Europe and needs to be tackled consistently.



## 2. UP-FRONT FUNDING IS KEY TO ALLOW ALL TO INVEST AND KEEP PRICES DOWN

The study illustrates that grants are the most straightforward instrument for public authorities and provide good predictability to consumers so that they know when and how much they will get. But they most of the time are disbursed after the retrofit works are completed. Hence not addressing the up-front costs, which most low-income households can't cover. They also are the source of economic "dead-weight," as installers artificially increase their prices by the amount of grant provided.



**Recommendation:** systematically address up-front costs for low-income households, so that they benefit from steppingstones to undertake their home retrofit project.



<sup>1</sup> The study considered data until 2020. With the energy price spike that took place in 2021-2022, we can reasonably expect that indebtedness due to energy bills increased in those years.

### 3. BLENDING PUBLIC AND PRIVATE FUNDING IS THE SOLUTION FOR ALL CONSUMERS

Combining financial instruments can offer flexible options for consumers looking to finance the renovation of their home (e.g. mixing funds from public and private sources).

If gaps remain, the public sector should innovate. The best solutions for consumers should be accessible, cover risks (e.g. the consumer defaulting) and cover the up-front costs (e.g. of a heat pump).

Public financing instruments (e.g. grants) need to be designed first around consumers' needs. The priority should not be simplifying the work of public administrations. Synergies between innovative and enabling public financial

instruments and funding from private sources need to tackle the barriers for consumers. The resulting offers should be straightforward for consumers and it should be clear for them how much they will pay monthly and what are the overall costs of the financing.



**Recommendation:** iron out access to funding for consumers, keep it simple and clear “by-design”, with public and private working hand in hand to make success happen. Complications should be kept in the back-office.





#### 4. COLLABORATION IS KEY FOR CONSUMERS TO BENEFIT FROM ON-BILL SCHEMES TO PAY FOR THEIR RETROFIT WORKS

The core idea is to use energy bills to allow consumers to make monthly instalments on a micro-green loan for energy efficiency measures via their energy bills. This would help to address up-front costs, and the US example shows us on-bill-schemes are implementable on a large scale. But consumer journey and protection need to be adapted to our European context and regulatory framework.

Does that mean that the electricity providers must design and implement them on their own? The study found that the best way forward is for Distribution System Operators, local authorities, private banks, and other stakeholders to work together to pave the way to on-bill schemes by ironing

out financial, technical, and administrative barriers to allow energy suppliers to do so. On-bill schemes are mentioned several times in the EU's Renovation Wave and the Fit for 55 package; we expect policymakers to make them work for consumers.



**Recommendation:** on-bill schemes will only be implemented and beneficial for consumers if some extra efforts from all stakeholders are made. Collaboration over competition is key to open the market here.



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