

Decarbonising homes in Ireland

AUGUST 2023



SECTION 1

Executive summary



At current rates of progress, the government's targets for home retrofitting and heat pump installation are ambitious and will require a significant increase in delivery. Consumer research commissioned by BPFi has revealed that 40% of householders are not aware of the Building Energy Rating (BER) of their home while just 7% were planning to install a heat pump in the next three years. Cost was cited as the main factor deterring people from investing in home energy upgrades.

Government must act urgently to ensure retrofitting numbers reach the scale required to meet Ireland's decarbonising targets. Lenders are already supporting the aims of the government's Climate Action Plan through green mortgages and personal loans and informing home buyers, landlords and re-mortgagers of the benefits of retrofitting. They look forward to playing their full role in helping the government meet its retrofitting targets.

This paper looks at the current status of retrofitting in Ireland, assesses progress to date, describes the customer perspective, outlines lender actions to support households to improve the energy performance of their homes, and makes recommendations for financial and nonfinancial actions to accelerate progress towards meeting the aims and objectives of the National Retrofit Plan.

The Climate Action Plan envisages 120,000 residential buildings being retrofitted to BER B2 standard by 2025, and 500,000 by 2030. In addition, there are targets for the installation of heat pumps in 45,000 existing residential buildings and in 170,000 new residential buildings by 2025, increasing to 400,000 and 280,000 respectively by 2030.

The scale of the investment required is massive. The Climate Action Plan puts the cost of housing energy efficiency improvements at €20 billion by 2030: €11 billion in home insulation and a further €9 billion in heat pump systems.

That investment is necessitated by the current performance of Ireland's housing stock when it comes to energy efficiency. Only about one fifth of Irish homes achieve a BER of B3 or better, according to estimates from the Central Statistics Office (CSO), and just 14% of homes have a rating of B2 or higher.

The great majority of these are newer homes, but the flow of new housing has been modest in recent years. Only about 8% of the current housing stock was built after 2010.

Compounding the problem is the issue of affordability. The Sustainable Energy Authority of Ireland (SEAI) has noted the estimated cost of a full retrofit including heat pump as ranging from €25,000 for a home built since 2000 to more than €75,000 for larger or older homes.

Furthermore, CSO Census figures indicate that many of the poorer performing homes are likely to be owned by older people. These are the households least likely to be able to afford a retrofit.

Notwithstanding these issues, there are signs of growing momentum. Retrofit activity did increase quite markedly in 2022, according to SEAI figures. More than 27,000 home energy upgrades were carried out, a 78% increase on 2021. In the first six months of 2023 alone, more than 19,000 upgrades were completed.

The number of full upgrades to BER B2 standard jump by 95% year on year to 8,481 in 2022, with 2,273 of them including heat pumps. In the first six months of 2023 alone, almost 7,600 B2 or better upgrades were delivered, including more than 1,800 heat pumps.

While those increases are impressive in percentage terms, the absolute numbers of upgrades being carried out and heat pumps installed are concerningly low when set against the 2030 targets.

To better understand consumer views on retrofitting, BPFi commissioned Amárach Research to carry out an online consumer survey of 1,000 adults in April 2023. Quite strikingly, the survey found that 40% of respondents said they did not know the BER of their homes, rising to 46% among over 55s and 48% for households mainly using solid fuel.

Only 7% of survey respondents said they planned to install heat pumps in the next three years while 20% had never thought about installing them and 36% said they had considered them but were unlikely to do them in the next three years.

Almost half (46%) of those who considered installing heat pumps but chose not to do so cited concerns about the possible cost of installation as a reason for not proceeding while 29% cited possible running costs.

More than half of respondents planning home improvements for energy efficiency in the next three years said that they would use savings to pay, at least in part, for the retrofit. Only about one in four expected to use credit.

Some 63% of respondents agreed tax incentives would encourage them to invest in home renovations to improve energy efficiency, while 58% said a low-cost finance scheme supported by government would have the same effect.

Only 7% of survey respondents said they planned to install heat pumps in the next three years while 20% had never thought about installing them and 36% said they had considered them but were unlikely to do them in the next three years.

Central Bank of Ireland (CBI) research has estimated that green mortgages (a BER of B3 or higher is required to be eligible for a green mortgage) represented about 30% of new mortgage drawdowns from lenders offering such mortgages in 2022. In addition, BPFi members report that customers drew down 2,217 green personal loans worth €44.2 million in 2022, mainly for home improvement purposes. The value of green personal loans almost doubled to €19.7 million in Q1 2023, an increase of 94.5% year-on-year.

In 2022, the government invited lenders to submit applications to participate in a new home retrofit loan guarantee scheme to be operated by the Strategic Banking Corporation of Ireland (SBCI). This would facilitate low-cost loans through a degree of risk sharing with lenders. The scheme should be launched as soon as possible to reduce the cost of credit for retrofit projects.

The government must act to address the affordability issue by increasing the grants and subsidies available for home retrofits and applying them to ancillary costs such as BER rating certification. In addition, tax incentives should be introduced to make it more attractive for people to use savings for retrofit projects. Consideration should also be given to a Stamp Duty rebate scheme to encourage people buying low BER rated homes to upgrade them within a specified time period.

Finally, a government-led Steering Group comprising government departments and agencies, the CBI, lenders and other relevant private sector organisations should be established to identify practical and innovative solutions to help people retrofit their homes. Knowledge sharing between these different actors will help to identify new ways of ramping up retrofitting activity to the levels required to meet government targets.



The Scale of the Challenge

The ambitious targets for reducing greenhouse gases reflects the poor energy performance of many Irish homes

The Irish government has set an ambitious target of a 51% reduction in greenhouse gas (GHG) emissions on 2018 levels by 2030. This is in line with the EU goal of reducing net GHG emissions by at least 55% by 2030 and the longer term Fit for 50 objective of a Climate Neutral EU by 2050.

On average, residential buildings in Ireland have a very poor energy performance. According to the SEAI, fossil fuels are used as a heat source in 73% of them. Separate figures from the Environmental Protection Agency (EPA) show that the residential building sector was responsible for 10% of Ireland’s GHG emissions in 2022.

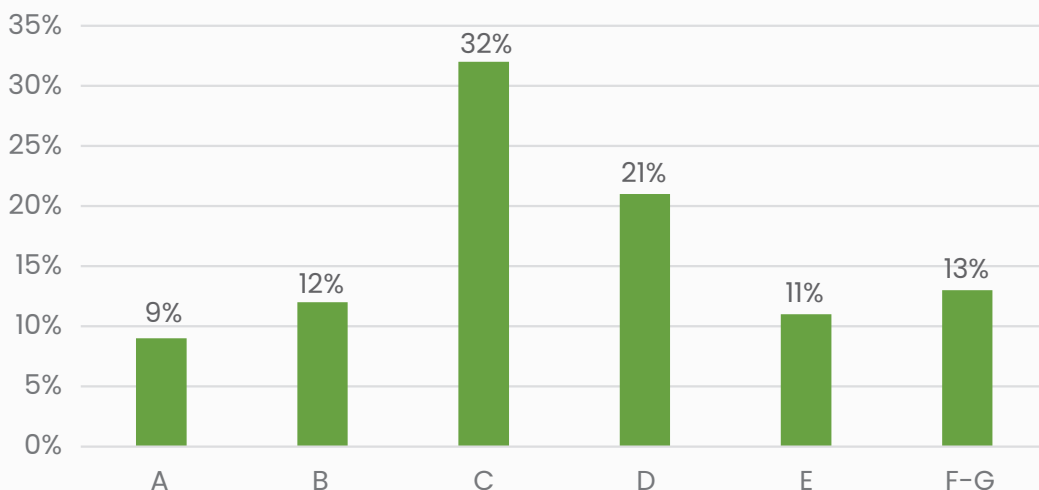
The target for GHG emissions reductions from residential buildings by 2030 has been set at 40%. This is to be achieved through a combination of improved

standards for new builds and a national retrofitting programme. The government has set a goal of retrofitting 500,000 existing homes to a Building Energy Rating (BER) of B2 including the installation of 400,000 heat pumps in homes by 2030.

Achieving the 40% reduction will be extremely challenging in light of both the current energy performance of Ireland’s residential building stock and questions relating to the affordability of retrofitting.

An estimated one in five dwellings in Ireland would have received a Building Energy Rating (BER) B3 or better, according to Central Statistics Office (CSO) estimates. Some 14% of dwellings are estimated to have a rating of B2 or higher. Therefore, about 80% dwellings in Ireland likely have a BER of C or worse.

BERs Weighted to National Level (Q1 2009–Q2 2023)



Source: CSO

Newer Homes have Better Energy Performance

BER ratings are strongly correlated with the period of construction. CSO data indicates that virtually all of the audited dwellings built since 2015 have had BER ratings of B3 or higher while almost all those built since 2020 have been A rated.

This means that the areas that have seen most new home building in recent years have the best energy efficiency profiles. More than a quarter of homes audited in areas where large numbers of new homes have been built in recent years (encompassing the greater Dublin area and Cork) have ratings of B3 or higher. CSO data also shows that these areas accounted for 67% of all housing completions between 2017 and 2022.

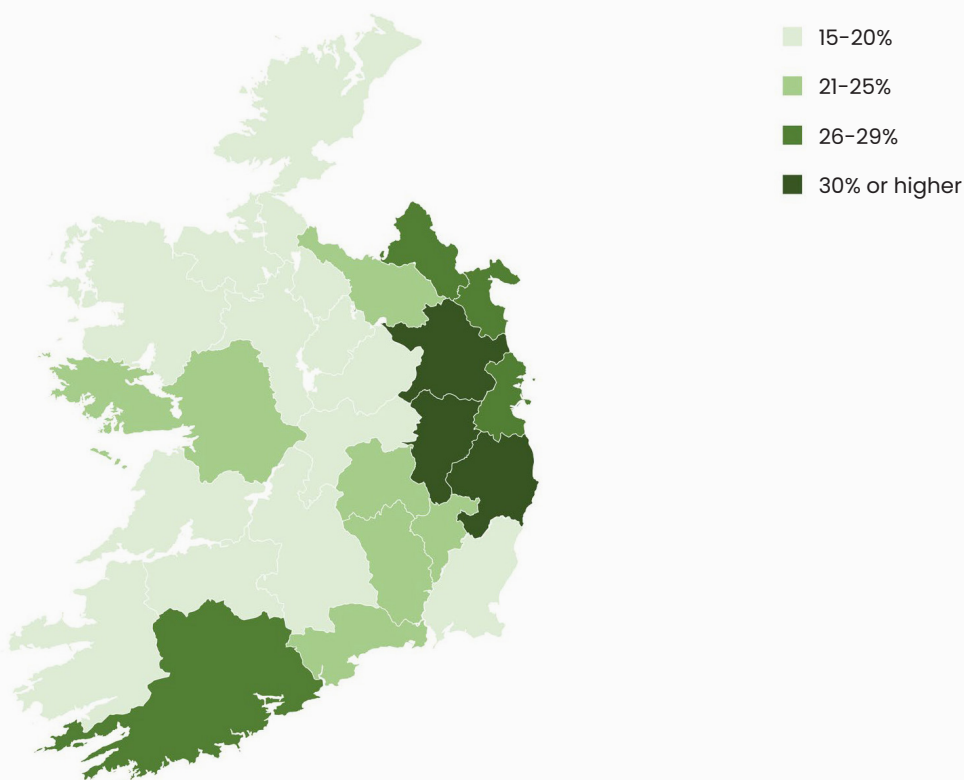
One of the main aims of the government's Climate Action Plan is to transition away from the use of oil, natural gas and solid fuel for home heating.

Electricity has emerged as the main space heating fuel of choice in new builds accounting for 88% of audited dwellings built between 2020 and June 2023, up from 49% for dwellings built in the period 2015-2019. Over the same period, the share using gas fell from 46% to 12%. No new builds since 2020 have used oil or solid fuel as the main space heating fuel, according to CSO analysis of BER audits.

Similarly, CSO Census 2022 figures show that many of the homes built since 2016 use renewable energy in one form or another. Over 40% of them had heat pumps, while about 30% had solar panels for water heating or electricity.

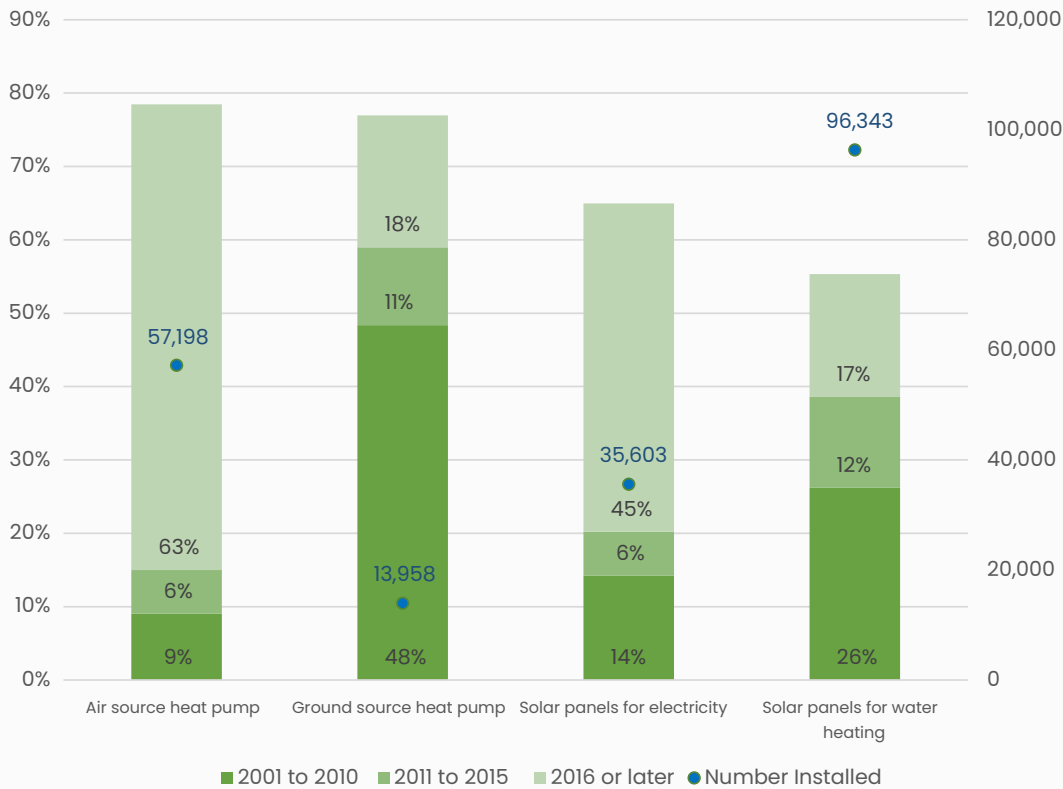
Almost 57,200 households reported having air source heat pumps in their homes in the CSO Census 2022 while almost 14,000 reported having ground source heat pumps. However, some 63% of the air source heat pumps had been installed since 2016, while almost half (48%) of the ground source heat pumps had been installed in the decade ending 2010.

Proportion of Homes with BER of B3 or Higher



Source: BPF analysis of CSO data

Housing with Renewable Energy by Build Year



Source: BPI analysis of CSO Census 2022 data

This highlights the contribution of new builds to improvements in the energy efficiency of the housing stock and also points to the enormity of the task involved in enhancing the existing stock.

However, the flow of new housing has been modest in recent years. Only about 8% of the country's housing stock was built after 2010, according to the CSO Census 2022.

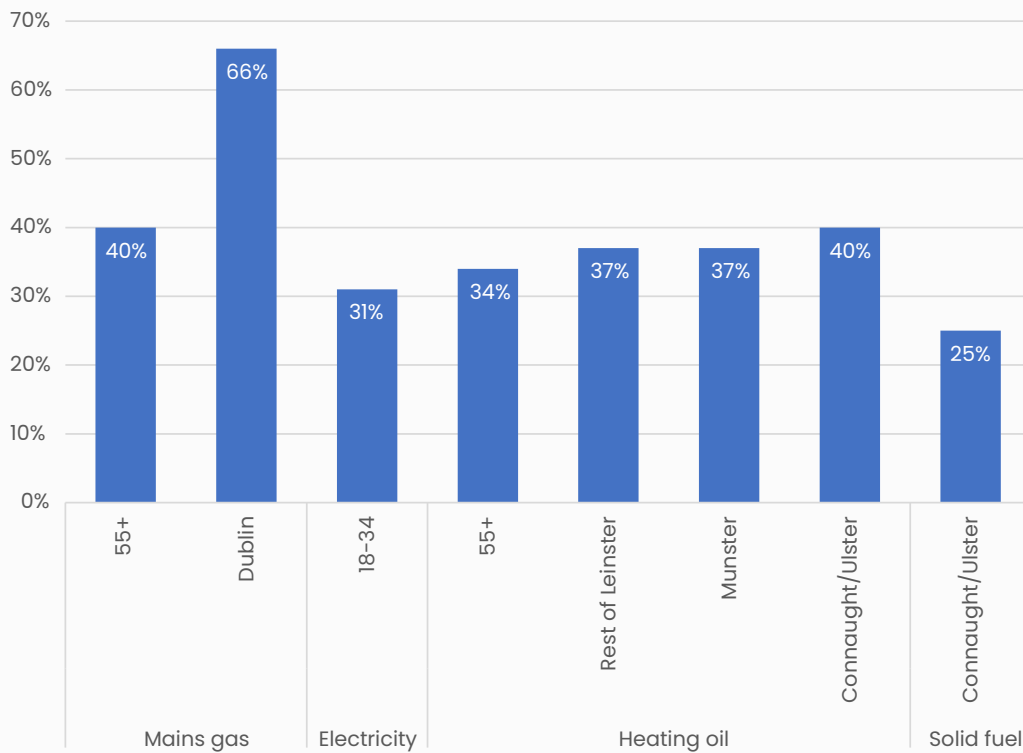


Many Homes Still Use Fossil Fuel for Heating

Looking at the profile of the total housing stock, about two-thirds of the 1.8 million households in the CSO Census 2022 had no renewable energy sources, even when wood was classified as a renewable.

Some 29% of the respondents to the BPI Retrofit Consumer Survey 2023, an online survey of 1,000 adults by Amárach Research in April 2023, said they mainly used oil to heat their homes while 13% mainly used solid fuels such as wood, coal or peat. Only one in five used electricity with most of the remainder using gas. The type of fuel used varied depending on the age of the respondent and the region in which they lived.

Demographics by Main Home Heating Fuel



Source: BPFi Retrofit Consumer Survey 2023

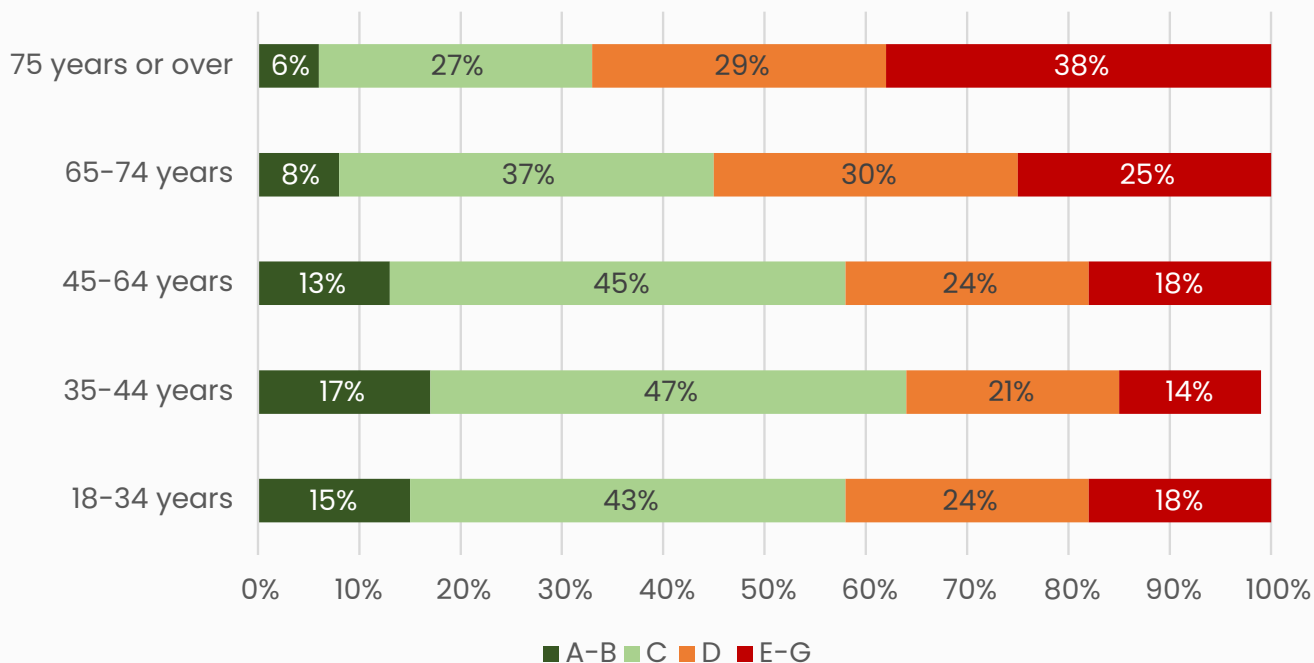
About two thirds of respondents in Dublin said they mainly used gas to heat their homes, while 37% of respondents in the rest of Leinster mainly used oil, as did 37% and 40% of respondents in Munster and Connacht/Ulster, respectively. About a quarter of Connacht/Ulster respondents reported mainly using solid fuel.

Some 31% of younger respondents (aged 18-34) mainly used electricity to heat their homes, while about three quarters of respondents aged 55 or over used mains gas (40%) or heating oil (34%).

It is apparent that many of the occupants of homes with BER ratings below B3 are older and more likely to live alone. According to CSO analysis based on the 2016 Census, 38% of households with a reference person (an individual in whose name the house is owned or rented) aged 75 or more and a quarter of households with a reference person aged 65-74 lived in a dwelling with a BER of E or worse. Similarly, 30% of single-person households lived in dwellings with a BER of E or worse.



BER by Reference Person Age (2016)



Source: CSO

To put these figures in context, almost 26% of the 731,000 people aged 65 or over in the 2022 Census lived alone. These people are least likely to be able to afford retrofits given that the median nominal

household disposable income for households comprising one adult over 65 years of age was only €16,840 in 2022, compared with €46,999 for all households.

Conclusion:

Much of the progress in improving the housing stock's energy efficiency has come from new builds, which account for a small share of total housing. Unfortunately, many of the households with the least energy efficient homes will also be the least likely to be able to afford to retrofit. This means efforts to target households for retrofits need to consider both the property characteristics as well the household profile.





Government Actions

Government actions to reduce greenhouse gas (GHG) emissions from residential housing

The National Development Plan (NDP) 2021-2030 allocated funding of €5 billion to support energy efficiency improvements across the residential and public sector. The NDP also indicated that significant carbon tax funds will be allocated to pay for the government’s target of retrofitting 500,000 homes to a Building Energy Rating (BER) of B2 including the installation of 400,000 heat pumps homes by 2030.

The Climate Action and Low Carbon Development (Amendment) Act 2021 gave legal force to the

government target of reducing GHG emissions by 51% by 2030. It requires each government minister to submit Sectoral Emissions Ceilings within overall carbon budget limits, for Government approval. The Climate Action Plan (CAP) is an important part of the enhanced climate governance framework established by the Act. It sets out how Ireland’s emissions targets and climate goals will be met and identifies the built environment as a high impact area, alongside agriculture, transport, electricity, and energy.

Ireland’s Carbon Budgets



Source: Climate Action Plan

Government Action to Date

The government has made considerable efforts to deliver retrofitting of residential homes on a large scale, including:

- Designating the Sustainable Energy Authority of Ireland (SEAI) as the National Retrofit Delivery Body.
- Creating the Heat and Built Environment Taskforce in 2023 to accelerate and drive delivery of retrofitting, renewable heat, district heat and decarbonisation of the building stock.
- Enhancing the National Home Energy Upgrade Scheme providing increased grant levels of up to 50% of the cost of a typical deep retrofit to a B2 BER standard.
- Prompting homeowners to better manage their energy demand through measures such as information campaigns, smart meters, and the provision of grants for heating controls.
- Developing a national network of centres of excellence in skills training for retrofitting and heat pump installation workers.

- Proposing a low-cost finance scheme through the Strategic Banking Corporation of Ireland (SBCI) to provide a loan guarantee for financial institutions providing finance for the purposes of retrofitting a home.
- Committing in the Housing for All plan to address the current misalignment of energy upgrade incentives between landlords and tenants.
- Introducing a new tax incentive in the Finance Act 2022 for small-scale landlords who undertake retrofitting works while the tenant remains in situ.

In addition, Ireland's Fully Funded Energy Upgrade, formerly the Warmer Home Scheme, offers retrofitting projects and other energy efficiency measures free of charge to low-income households at risk of energy poverty. The scheme prioritises the worst energy performing homes. This is in line with the government's commitment to ensure that carbon tax revenue increases are used to protect citizens most exposed to higher fuel and energy costs.

Further initiatives are planned to support the decarbonisation of residential buildings including the December 2023 Roadmap to accelerate the electrification of heating and the phase-out of fossil fuels for heating. There is also the possibility of additional financial and regulatory incentives to encourage the switch to non-fossil heat.



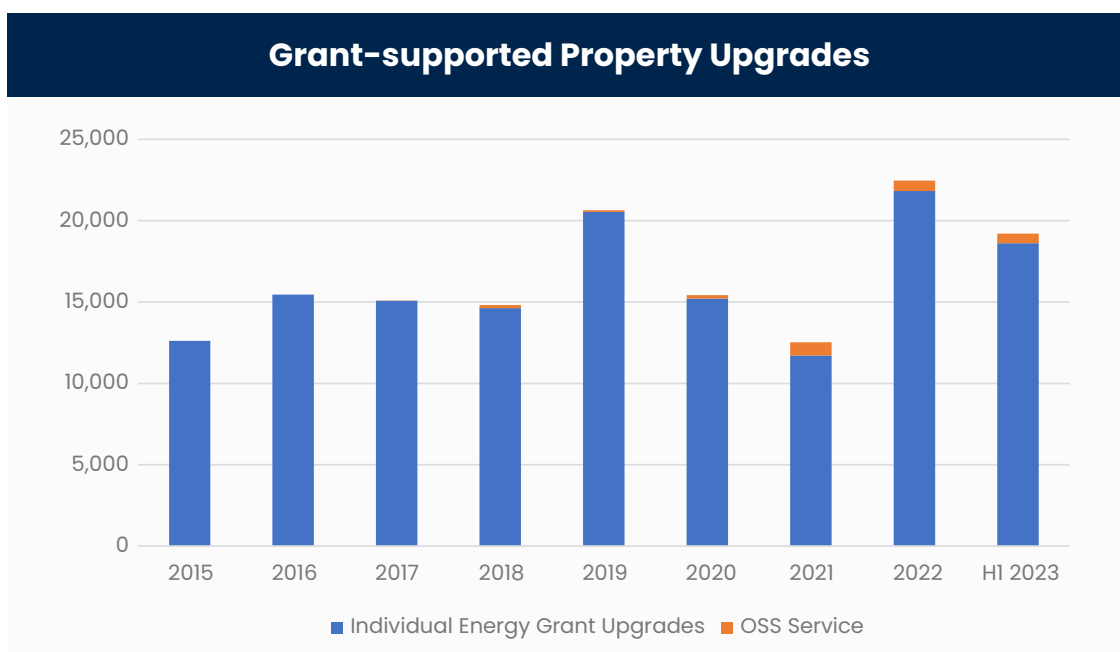


Progress on Targets

Enhanced delivery will be necessary to fulfill national retrofitting targets

The Climate Action Plan 2023 has set targets of 120,000 dwellings to be retrofitted to BER B2 or higher by 2025, including the installation of 45,000 heat pumps. The targets for 2030 are 500,000 B2 retrofits including the installation of 400,000 heat pumps in existing homes. Progress to date indicates that achieving these targets will require a significant increase in delivery.

Momentum is building, however. According to the SEAI, the national retrofit delivery body, retrofit activity increased 78% year on year in 2022 with more than 27,000 home energy upgrades. More than 22,000 homes were upgraded using individual energy grants from the SEAI or the One Stop Shop (OSS) service during 2022, up from just over 20,600 in 2019. In the first six months of 2023 alone, more than 19,000 such upgrades were completed.



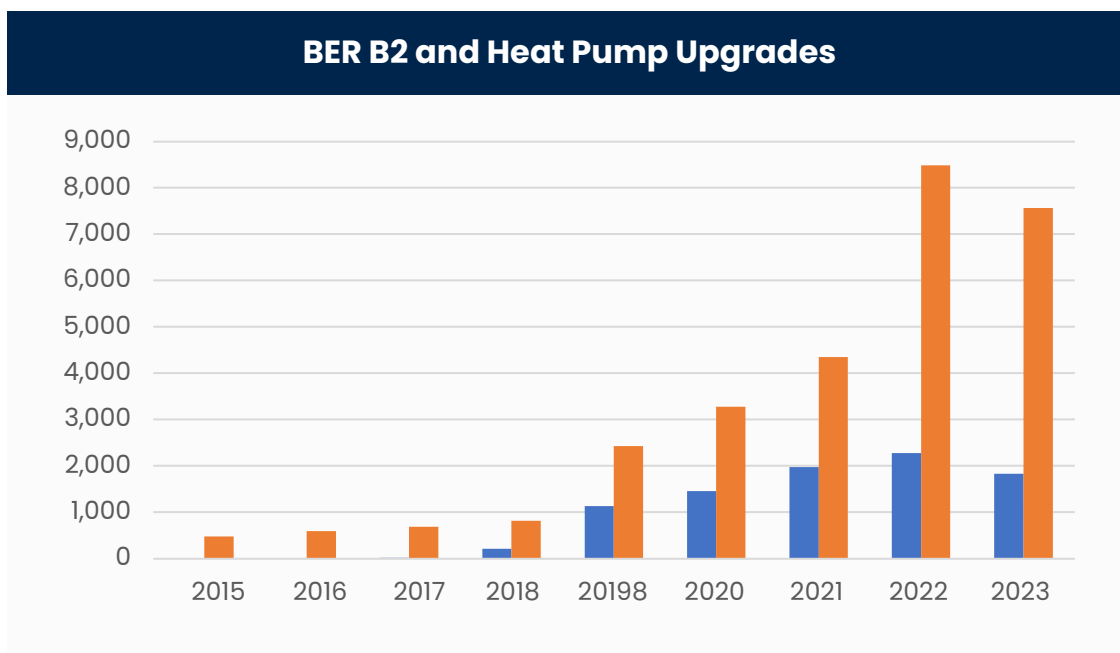
Source: BPI analysis of SEAI data

The SEAI has also reported growing momentum in upgrades to a BER B2 or higher and in the installation of heat pumps. The number of B2 upgrades jumped by 95% year on year to 8,481 in 2022, of which 2,273 included heat pumps. In the first six months of 2023 alone, almost 7,600 B2 or better upgrades were delivered, including more than 1,800 heat pumps.

Retrofit activity is well spread geographically. Dublin and Cork accounted for some 36% B2 upgrades and 31% of heat pump installations since 2015. Galway, Limerick, Tipperary, Kerry and Donegal each accounted for about 6% of heat pump retrofits over that period.

The increase in application and installation numbers is impressive, albeit from a low base, while 2023 looks set to beat the 2022 record year of 2,273 installed heat pumps by a significant margin. However, even this increased pace will not be sufficient to achieve the targets set out in the Climate Action Plan.

The problem is exacerbated by affordability issues. There is an impressive array of grants available, but a significant gap remains between what households can afford even with the grant. A recent SEAI report noted that an estimate from a One Stop Shop-registered installer “suggests that the cost of a full retrofit including heat pump can range from €25,000 for a home built since 2000 to €75,000+ for larger or older homes.”



Source: BPFi analysis of SEAI data



Conclusion:

While progress on retrofitting homes is being made, it is not sufficient to meet Ireland’s retrofitting targets. More public financial supports are needed to motivate households to retrofit to BER B2 or higher.



Consumer Views on Retrofitting

Cost is a major issue for households considering retrofitting

To better understand consumer views on retrofitting, BPFi commissioned Amárach Research to carry out an online survey of 1,000 adults in April 2023, the BPFi Retrofit Consumer Survey 2023.

Customer Motivations to Retrofit

The BPFi Retrofit Consumer Survey 2023 found that when it comes to improving energy efficiency in the home, customers are motivated mainly by a desire to reduce energy bills, followed by making the home warmer or more comfortable while environmental considerations are a lower priority.

Some 86% of respondents cited reduced energy bills as one of the three most important reasons for wanting to make their home more energy efficient, while 77% said making their home warmer/more

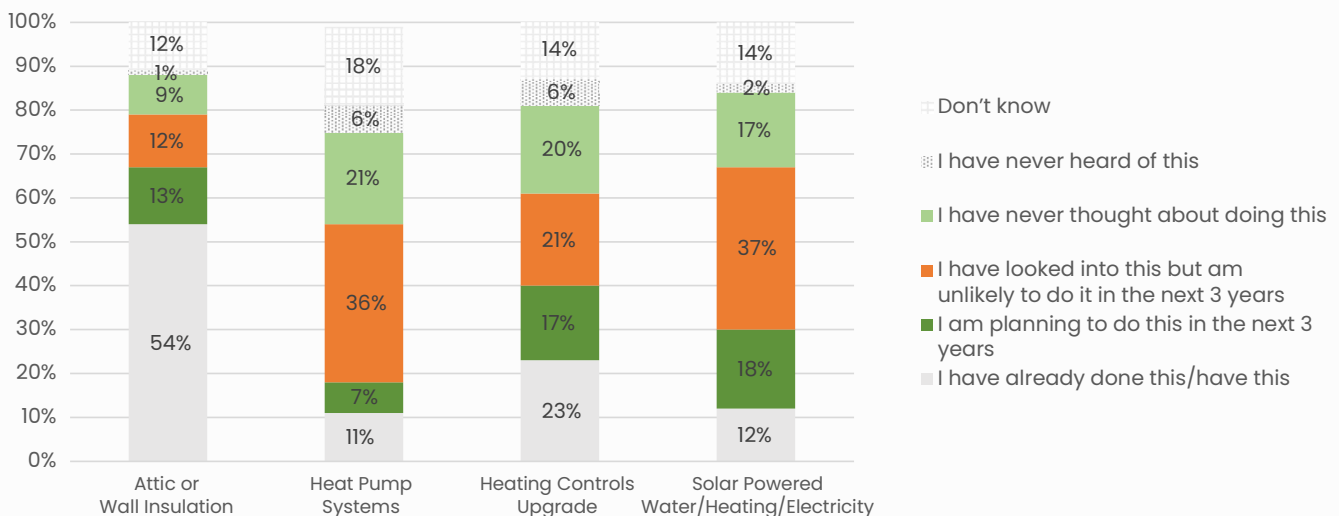
comfortable. Reducing the amount of wasted energy was important to 57% of respondents. Reducing carbon emissions was cited by just 31%.

Motivations varied by age with 38% of under 35s mentioning reducing carbon emissions as their primary motivation, while more than 80% of those aged 45 or more chose warmth/comfort.

Customer Appetite to Retrofit

Most of the government’s efforts are focussed on improving the BER rating of residential buildings but a significant unknown factor is household willingness and ability to act. Indeed, many people do not know the BER rating of their home unless they are selling or renovating their home, making it difficult for them to understand actions required.

Attitudes to Future Key Home Improvements



Source: BPFi Retrofit Consumer Survey 2023

The BPFi Retrofit Consumer Survey 2023 found that 40% of respondents did not know the BER of their homes, rising to 46% among over 55s and 48% for households mainly using solid fuel.

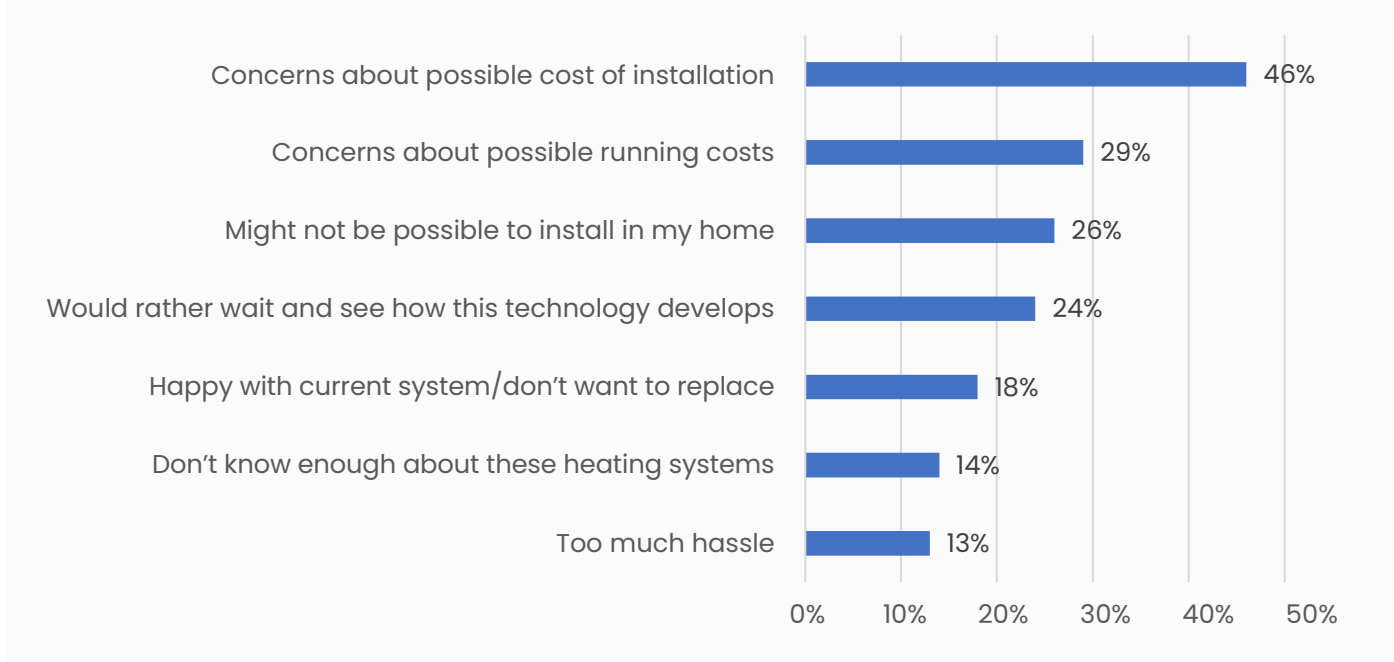
While many respondents had heard of the main types of home improvements to enhance energy efficiency, many had not considered them or had decided not to invest in them.

Only 7% of survey respondents said they planned to install heat pumps in the next three years but 20% had never thought about installing them and 36%

said they had considered them but were unlikely to do it in the next three years. This suggests that many households will need to be persuaded and/or supported to invest in improvements in energy efficiency. Among those who said they were unlikely to install heat pumps, most cited the cost or practicality of installing heat pumps in their homes.

Almost half (46%) of those who considered installing heat pumps but chose not to do so mentioned concerns about the possible cost of installation as a reason for not proceeding while 29% cited possible running costs.

Reasons for Not Installing Heat Pumps



Source: BPFi Retrofit Consumer Survey 2023

Financing the Retrofit

The cost of a BER certification and a consultation to understand what is required may deter households from taking this important first step. Even with the significant grants on offer, our survey found that it is mainly households with significant savings who can afford to retrofit their properties. Of those willing to invest in retrofitting, including installing heat pumps, BPFi's research shows the main sources of finance will be government grants and personal savings.

More than half of respondents planning home improvements for energy efficiency in the next three years said that they would use savings to pay, at least in part, for the retrofit.

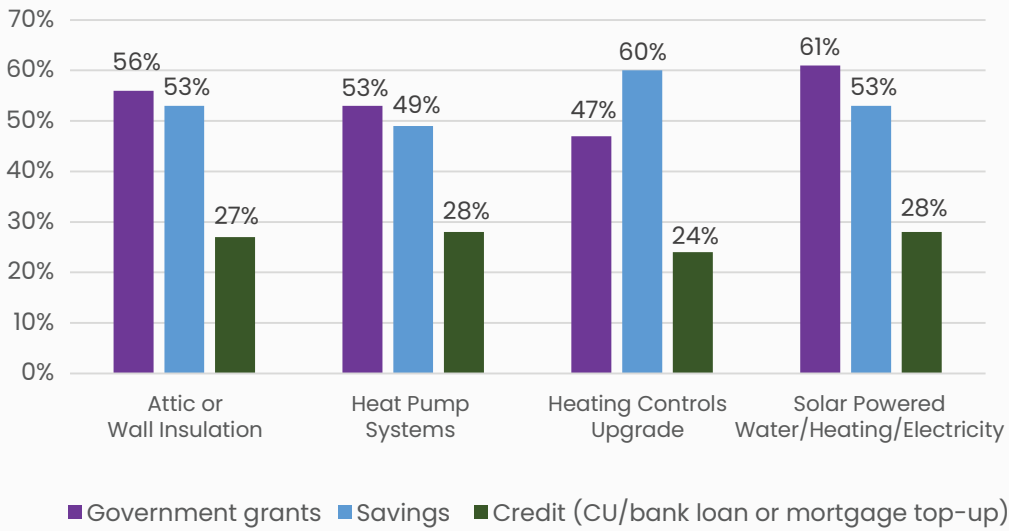
This may in part reflect the sharp increase in household savings rates witnessed during the Covid-19 pandemic. There was a jump of some €44.5 billion (43%) in household deposits in credit institutions in the period 2019-22, according to the Central Bank of Ireland (CBI).

By the end of 2022, households had almost €149 billion on deposit in credit institutions, some €139 billion of which were overnight deposits.

CSO Census figures tell us that households spent €12.1 billion in home improvements between 2019 and 2022, including retrofitting.

The BPFi Retrofit Consumer Survey 2023 found that only about one in four households planning any type of home improvement for energy efficiency purposes expected to use credit, be it a credit union loan, bank loan or mortgage top-up, to finance it.

Financing Plans for Retrofits Next Three Years



Source: BPFi Retrofit Consumer Survey 2023

Conclusion:

Savings could play a crucial role in households' investment in retrofitting in the years ahead and the government should act now to incentivise households to use these savings by providing tax incentives.

The cost of retrofits and how households will finance them is the key issue. For the majority of households that considered retrofitting and chose not to do so, the costs are prohibitive even with the SEAI grants and lower-cost financing.

BPFi believes government should work with lenders and other stakeholders to identify solutions to the affordability issue and smooth the path to improved home energy efficiency. In addition, much more needs to be done to raise awareness of the benefits of retrofitting to households.





The Role of Lenders

How lenders support customers who want greener homes

European Union (EU) and European Central Bank rules require lenders to act to “green” their lending portfolios. They must seek to improve the average energy performance of the buildings on which their mortgage books are secured. The EU intends that over time the proportion of credit institutions’ lending portfolios that can be considered sustainable will increase significantly to both address the risks arising from climate change events and to comply with the evolving regulatory regime put in place to mitigate and adapt to climate change.

Innovating for Green Lending

For lenders in Ireland, loans for the purchase and renovation of residential housing are a key component of their carbon footprint, and banks are setting targets and making commitments to reduce this footprint. To do this in a sustainable manner, they are developing innovative products and services to provide attractive financial options to customers for activities that are better for the environment, such as retrofitting their homes.

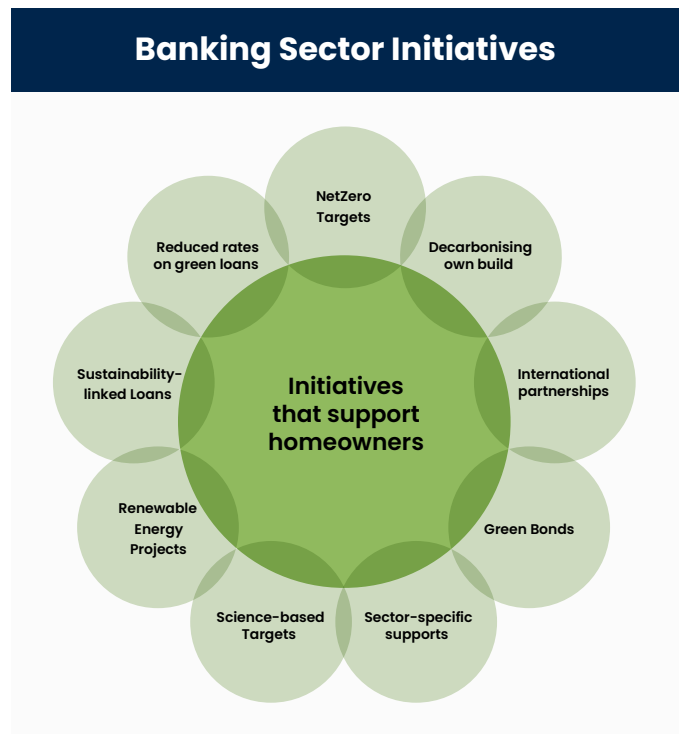
The role of the mortgage lender in educating and informing home buyers, landlords and re-mortgagers should not be underestimated. They have an important role to play in advising customers and guiding them toward actions such as retrofitting with its potential benefits such as better health and a warmer home. The provision of green lending products to support a customer to retrofit their home will also usually lead to a reduction in heating bills. Examples of products offered include a mortgage loan for the purchase of a property that has a BER rating of B3 or higher and personal lending for renovations that will improve the home’s energy efficiency – both at discounted interest rates.

Banks are training their frontline staff and relationship managers to educate customers on the benefits of retrofitting and to inform them of the

services and assistance provided by the Sustainable Energy Authority of Ireland (SEAI) and the One Stop Shops that provide a full retrofitting service to customers.

Some lenders offer green hubs, which provide practical information on sustainability and links to relevant third-party websites, case studies and details of green products and services while some offer trusted partnership services with One Stop Shops.

These innovative product offerings and customer supports place lenders in Ireland in an excellent position to collaborate with government to help scale up retrofitting.



Source: BPF

Public-Private Collaboration to Support Sustainability

Banks are identifying opportunities for collaboration to further the sustainability agenda within the sector. Government bodies, such as the SEAI, the Office of Public Works and the Environmental Protection Agency are key stakeholders for the banking sector in the transition to a sustainable economy. As lenders implement the complex new and evolving regime of sustainable banking requirements, BPFI welcomes opportunities to work with these organisations on specific climate-related matters. This collaboration will build a shared understanding of the management of physical climate risk in Ireland.

One important example of potential public-private collaboration is the Climate Action Plan's commitment to a low-cost residential retrofit loan scheme. In 2022, the government invited lenders to submit applications to participate in a new Home Retrofit Scheme operated by the Strategic Banking Corporation of Ireland (SBCI). The scheme is aimed at supporting consumers and small landlords who wish to invest in the energy efficiency of a residential property. This loan guarantee scheme would provide a competitive funding offer with State support, via the European Investment Bank, that could increase the volume of retrofit activity by offering a degree of risk sharing to lenders along with an additional

leverage effect to mobilise private capital which would allow the funding to be used in a more efficient way.

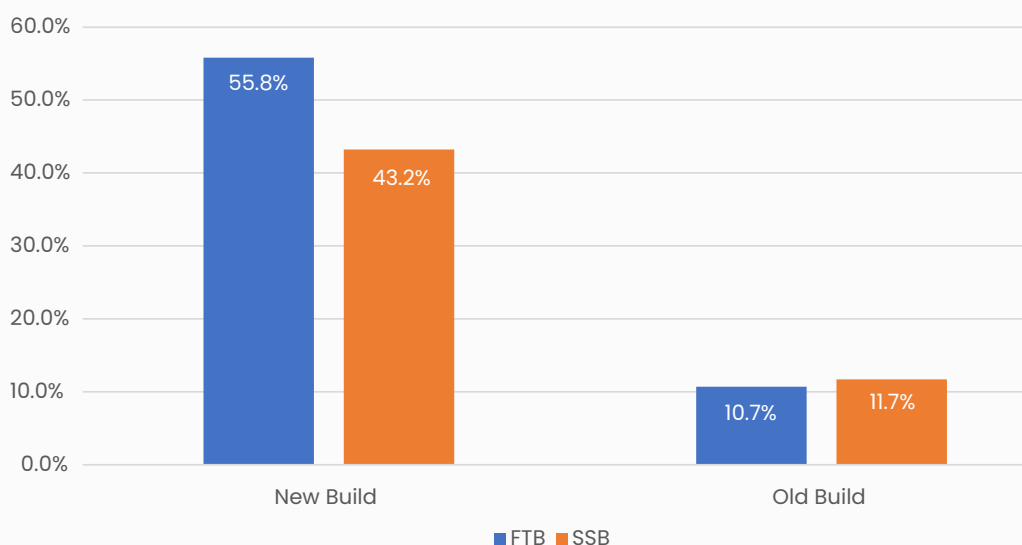
This initiative would be an excellent example of public private collaboration to help decarbonise the Irish economy. However, the scheme has yet to be established.

Green Lending Growth

The Central Bank of Ireland estimates that green mortgages (a B3 BER rating or higher is required to be eligible for a green mortgage) represented about 26% of new mortgage drawdowns from lenders offering these products in the 2021-22 period. In 2022 alone, the proportion was higher at about 30%. Switchers were the segment most likely to get a green mortgage with 39% of switchers to green mortgage lenders availing of the products in the 2021-22 period. Some 27% of first-time buyers (FTBs) and 18% of second-time or subsequent buyers (SSBs) took out green mortgages.

Almost all dwellings completed since 2015 have BER ratings of B3 or better. FTBs can avail of supports such as the Help to Buy and First Home Scheme for the purchase of new builds. It is not surprising that a higher proportion of FTB mortgages secured on new builds were green: 55.8% of FTB mortgages on new builds were green compared with only 10.7% for existing dwellings.

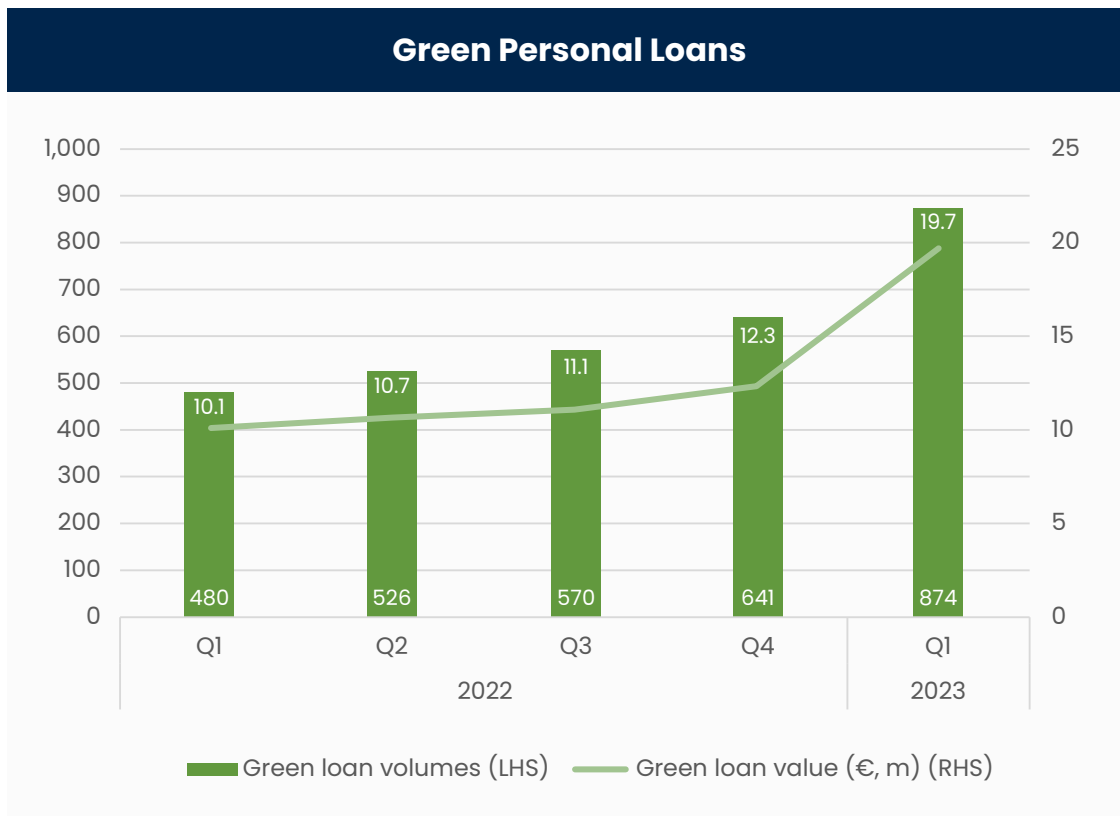
Proportion of Green Mortgages by Build Type



Source: Derek Lambert, Paul Lyons and James Carroll, 2023. Going Green, The Growth of Green Mortgage Financing in Ireland. Central Bank of Ireland Financial Stability Notes, Vol. 2023, No. 4.

Lenders also offer personal loans to customers to help finance home improvements aimed at enhancing energy efficiency or the purchase of electric or plug-in hybrid vehicles. New data reported by members to BPFi shows that customers drew down 2,217 green loans worth €44.2 million in 2022, mainly for home improvement purposes.

The value of green personal loans almost doubled to €19.7 million in Q1 2023, an increase of 94.5% year on year. The number of green loans jumped by 82.1% over the same period to 874. The average green loan was €22,486 in Q1 2023.



Source: BPFi



Conclusion:

BPFi members support the decarbonisation of homes by providing innovative green mortgage and personal loans and by educating and informing home buyers, landlords and re-mortgagers of the benefits of retrofitting.



Policy Recommendations

To deliver on ambition and consolidate progress made to date, government should adopt a more dynamic approach that includes collaboration with the private sector. Focused collaboration on solutions between national authorities and lenders will be essential to support customers to adopt more sustainable activities.

The Challenge Revisited

The retrofitting challenge in Ireland is enormous and complex. BPFI acknowledges the ambition inherent in the Government's plan for retrofitting and the actions to date, including improved Sustainable Energy Authority of Ireland (SEAI) grants and the designation of the SEAI as the National Retrofit Delivery Body. Meeting Ireland's retrofitting ambitions, as articulated in the Climate Action Plan will become even more urgent in light of the revised EU Energy Performance of Buildings Directive (EPBD), which will bring in new rules requiring Member States to improve the energy performance of homes. Financial services providers have identified the opportunities of household retrofitting to mitigate climate risk and to support the transition to a more sustainable economy. As outlined earlier, lenders play an important role in supporting customers, via attractive financing and guidance for customers on retrofitting options, but the overall challenge reflects broader issues in society:

- Many households are struggling with the rising cost of living, including higher energy costs. Some 82% of respondents to the BPFI Retrofit Consumer Survey 2023 agreed that the increasing cost of living was making it more difficult to invest in greater energy efficiency.
- The BPFI survey also indicates consumers' appetite to borrow for retrofitting seems to be limited and households considering retrofitting are keen to invest their savings.

- The housing supply crisis means energy performance may not be a big factor when choosing a property, while homeowners that want to retrofit cannot find somewhere to rent while the work takes place.

Financing the Improved Energy Efficiency of Residential Buildings

The Climate Action Plan suggests that at least €20 billion will need to be invested in housing energy efficiency improvements by 2030: €11 billion in home insulation and a further €9 billion in heat pump systems. While public sector initiatives such as investment in social housing improvements or subsidies such as grants from the SEAI will provide some of this capital, private financing from banks and investors will be critical.

BPFI members offer customers secured and unsecured loan products that are priced at a discounted interest rate when the purpose of the loan is to either buy a property that has a Building Energy Rating (BER) that is B3 or higher, or to renovate a property to enhance its energy efficiency. Customers can avail of SEAI grants to retrofit their property in part or in full and avail of more affordable lending to finance the remainder of the renovation cost.

Lenders are developing innovative customer-centric solutions around these products, such as sharing simplified pathways to retrofitting and collaboration with One Stop Shops.

Government departments have been exploring approaches to financing to support households to improve the energy performance of their homes, and in the meantime, lenders have developed these innovative and attractive products, but these actions are happening in isolation, missing out on possible shared learnings and the identification of opportunities to enhance the retrofitting offering to households.

BPFI Recommendations to Support Households to Retrofit

BPFI supports the government's retrofitting goals and the overall aim of reducing our reliance on fossil fuel for energy and heating. However, to reach the targets in the face of significant headwinds such as financial constraints and skills shortages there is a need for government-led action to mobilise vital players include lenders, construction sector, local authorities, and semi-state bodies to better understand what is required to accelerate progress and identify measures which can achieve quick wins. BPFI is therefore calling for the establishment of a government-led delivery body to drive collaboration and knowledge sharing between key stakeholders and leverage their skills and expertise to provide a systemic approach to facilitate retrofitting of homes at a scalable level.

On the key issue of approaches to financing, BPFI is calling for the government to establish a public-private Steering Group to identify quick, practical initiatives to support customers to retrofit their homes. Such a group would comprise BPFI, lenders, government departments, Central Bank of Ireland, and other parties as required.

The BPFI Retrofit Consumer Survey 2023 shows that 63% of respondents agreed tax incentives would encourage them to invest in home renovations to improve energy efficiency, while 58% said a low-cost scheme supported by government would have the same effect.



The government should act quickly to:

- **Remove financial barriers:** The government should subsidise some of the upfront installation costs that can act as a barrier for households, including the cost of the required BER rating certification.
- **Close the financing gap:** SEAI grants are helpful but the cost of retrofitting to a B2 BER standard remains prohibitive for many households. Government should therefore significantly increase the grants available to households for retrofitting.
- **Introduce Stamp Duty Rebate:** The National Retrofit Plan references the potential of energy efficiency focused tax incentives to increase retrofit activity levels. Those purchasing homes with a low BER rating should be able to apply for a Stamp Duty rebate if a renovation project to improve the energy performance of their property is completed within an agreed reasonable timeline such as two years. This would be a strong financial incentive for homeowners to renovate their new homes.
- **Deliver low-cost financing:** BPFI welcomed the low-cost financing solution proposed by the Strategic Banking Corporation of Ireland (SBCI) in 2022, and lenders would like to avail of this European Investment Bank-funded initiative as soon as possible. Homeowners would also welcome it with 58% of respondents to the BPFI Retrofit Consumer Survey 2023 survey saying a low-cost loan scheme supported by Government would encourage them to invest in home improvements to improve energy efficiency. BPFI asks government to deliver this initiative as soon as possible.
- **Leverage household savings:** The government should consider the positive implications of the substantial build-up of household savings during the Covid pandemic. While these savings are reducing, there is potential to use tax and other incentives to encourage households that retain these savings to use these to retrofit their properties, especially those with lower energy performance. Some 680,000 homes were owned outright without a mortgage according to CSO Census 2022, 11% more than in 2016. Government incentives could encourage these homeowners use their savings to retrofit their home.

Make Retrofitting Fit for Purpose

The EPBD will introduce mandatory minimum energy performance standards for homes, perhaps as early as 2025. This will require improvements to the cohesion and effectiveness of the BER rating certification and retrofitting process. Actions that can simplify the system will be critically important. These include the creation of an online information portal for all parties to a renovation project, encouraging the use of the voluntary renovation passports to be introduced by EPBD, and ongoing consumer awareness campaigns.

In addition to the focus on generating awareness and demand for energy efficiency upgrades, especially heat pumps, and addressing affordability concerns, there are capacity concerns. In its 2022 retrofit annual report, the SEAI noted that the “biggest risk to achieving the 2025 and 2030 targets is having a sufficient pool of appropriately skilled

workers to support contractors in scaling up the delivery of home energy upgrades. Construction sector inflation and material supply chain constraints are still significant risks to delivery and likely to remain so in the medium term.”

BPFI echoes the SEAI’s concern and would urge the government to prioritise upskilling for retrofitting purposes and removing barriers to further education for builders. The Expert Group on Future Skills Needs found that the retrofit programme alone will require an increase in the number of suitably qualified workers from 3,990 full-time equivalents in 2021 to at least 17,400 in the coming years.

We welcome government’s efforts to upskill construction workers, including training workers who can assist qualified craft workers who are engaged in the retrofitting of houses. However, significant additional resources will need to be provided if the skills gap is to be filled.

Conclusion:

Clearly, the government’s ambitious retrofitting and heat pump installation targets are to be commended, but finance remains a significant barrier to their achievement. Making retrofitting affordable for more households will require a number of government actions including increased and improved subsidies, tax incentives, loan guarantee schemes, and investment in the training and upskilling of construction workers.

Lenders are ready and willing to play their part. They are already providing green mortgages and personal loans and other innovative products to support home energy performance improvements and are anxious to participate in the SBCI Retrofit Loan Guarantee Scheme as soon as it is launched.

Lenders also wish to collaborate with government and other stakeholders on efforts to identify and implement measures which can accelerate progress towards meeting the retrofit targets and overall climate action goals.





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