

South West Net Zero Hub ('SWNZH')

Review of Able to Pay Loan Fund proposition ('Fund') – OCTOBER 2022

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Background and scope

Background

VIA Analytics Limited ('VIA') leads a team including Daedalus Environmental Limited ('Daedalus') and Amberley Advisory ('Amberley') engaged by the South West Net Zero Hub ('SWNZH') to carry out a high-level appraisal of the business case for a Local Authority Consortium / Lendology Retrofit Finance Fund ('the Fund').

The Fund

The proposed Fund would cover the geographic area of 21 Councils in the SW of England (note for clarity throughout that the 21 council areas referred to are those which are subscribed to Lendology rather than the total number of councils that fall within the SWNZH's geographic coverage).

The Fund would be targeted at the able to pay ('ATP') domestic market, responding to clearly articulated carbon emission (reduction) targets and a financing environment that is acknowledged to be challenging for that market (with privately owned homes estimated to number 3 million in the SW).

The Fund is proposed to:

- Be £100m;
- Be financed through a combination of public and private capital;
- Operate on a loan fund basis for 10 years lending plus 5 years run off;
- Secure that lending through a title restriction placed on the property in question; and
- Offer a low or even nil interest rate solution to the ATP market.

Scope and limitations

The purpose of the VIA-led high level appraisal is to:

- Assess if the proposal is possible – with reference to market experience (sectoral and regulatory / commercial environment) and any comparable initiatives; and
- Identify the basis on which a viable proposal could be developed – including high level financial implications and next work steps.

In line with the methodology set out in VIA's proposal document, this work has been carried out through a process of:

- Review of existing materials in relation to the proposed Fund, in particular the Lendology / Consortium proposal document (2021);
- Review of comparable initiatives and delivery models;
- Assessment – albeit specifically not legal advice at this early stage – of key legal and structural considerations and issues;
- Illustrative modelling of market, household, carbon and financial impacts and implications; and

- Early stage cost benefit analysis i.e. the strength of the value for money case attached to the potential scale of any public sector investment in the proposed Fund.

The remainder of this document is structured broadly in line with the above headings, concluding with recommendations as regards next steps. A number of acronyms are used throughout this document, in particular the following:

• SWNZH	South West Net Zero Hub
• ATP	Able to Pay
• The Fund	The proposed retrofit finance fund for the ATP market
• EWI	External wall insulation
• PV	Photovoltaic
• LTV	Loan to value
• EV	Electric vehicle
• EPC	Energy Performance Certificate
• PACE	Property Assessed Clean Energy
• GFI	Green Finance Institute
• LEP	Local Enterprise Partnership
• UPRN	Unique Property Reference Number
• PWI	Party wall insulation
• CWI	Cavity wall insulation
• ASHP	Air source heat pump
• GIFA	Gross internal floor area
• kWh	Kilowatt hour
• PAS	Publicly available specification
• FCA	Financial Conduct Authority
• CEO	Chief Executive Officer
• UCIS	Unapproved Collective Investment Scheme
• P&L	Profit & Loss
• IRR	Investment Rate of Return
• PV	Present Value
• FTE	Full Time Employee
• ONS	Office of National Statistics
• GVA	Gross Value Added
• BCR	Benefit Cost Ratio
• FBC	Full Business Case

It should be noted that, whilst this work has been completed diligently, it is the initial output – based on a limited first phase of funding – of what would be a multi-phase study if sufficient detail is to be worked up to support any eventual decision to progress with the Fund.

In this context the findings (and in particular the financial illustrations) contained in this paper should be considered indicative only and should not be relied upon (particularly given the current volatility in energy and financial markets).

The final section of this paper suggests next steps / workstreams that would be required to develop a second, more detailed phase of research into the Fund proposal.

Comparable initiatives

There are numerous examples of different – public sector instigated – financial arrangements seeking to support retrofit activity in the domestic sector, both in the UK and globally. We have sought here to provide a small sample of these for comparison with the proposed initiative.

There are a number of key themes that should be noted in developing an able to pay proposition, which we have also drawn out below.

Case studies – loan funds

1. Home Energy Scotland Loan (UK)

Provided by the Scottish Government, the loan is available to householders in Scotland for both energy efficiency and renewable energy technologies. Funds are allocated each financial year, and available on a first come first served basis, until they run out. Key features of the loan include:

- Interest rate: interest free
- Repayments – under £5k 5 years; £5-10k 10 years, £10k+ 12 years
- Admin fee of 1.5% up to £150
- **Energy efficiency improvements**
 - o Maximum loan value £15,000
 - o EWI - £10,000 [£6,000 loan plus £4,000 cashback]
 - o Heating system (warm air/high retention storage) - £5,000 [£4,600 loan plus £400 cashback]
 - o Single glazing replacement - £4,500 [£4,100 loan plus £400 cashback]
 - o Loft/floor/cavity insulation - £1,000 [£600 loan plus £400 cashback]
- **Renewable energy technologies**
 - o Maximum loan value £17,500, although the cashback noted here is not usually available for renewable technologies
 - o Wind or hydro turbines: £2,500
 - o Solar photovoltaic (PV): £5,000
 - o Solar water heating systems: £5,000 (£1,250 loan plus up to £3,750 cashback)
 - o Energy storage systems (heat or electric batteries): £6,000
 - o Hybrid PV-solar water heating systems: £7,500
 - o Heat pumps (either air source to water, ground source to water, water source to water or hybrid air source to water): £10,000 (£2,500 loan plus up to £7,500 cashback)
 - o Heat meter (if installed alongside a heat pump): up to £500 cashback*
 - o Biomass boilers or stoves (non-automated, non-pellet stoves or room heaters are not eligible): £10,000 (£2,500 loan plus up to £7,500 cashback)

- Connections to a renewably powered district heating scheme: £5,000 (£1,250 loan plus up to £3,750 cashback)

2. ANZ Good Energy Home Loan (New Zealand)

Provided in New Zealand, this home loan is effectively provided as a top up to an existing Home Loan or mortgage product from ANZ, and cannot be secured by householders separately. Key features include:

- A maximum loan value of NZ\$80,000 (c.£42,000)
- Interest rate: 1% for 3 years, increasing to either a 'special' or 'standard' fixed rate thereafter (5.35-6.95%)
- Maximum loan term: 30 years, with repayments fixed for duration of the loan
- Early repayment charges apply but homeowners can overpay by 5% of loan each year in addition to fixed repayment schedule
- Measures include:
 - Heat pumps, insulation, double glazing, ventilation
 - Hybrid and electric vehicles & EV chargers
 - Solar panels and batteries
 - Rainwater harvesting systems

3. CommBank Green Loan (Australia)

Available in Australia, again this a product available to householders with existing home loans/mortgages with CommBank.

- Minimum loan value AUS\$5,000; maximum loan value AUS\$20,000 (c£3,000-£12,000)
- Interest rate is a subsidised 0.99% for 10 years but a standard variable rate applies thereafter
- No establishment fee, loan service fee or early repayment fee applies
- Maximum loan to value ratio (including both the existing Home Loan and the additional Green Loan) not to exceed 80%
- Value of existing Home Loan must be greater than AUS\$150,000, and the Green Loan must be secured against the same property
- Repayments – fixed for duration of the loan
- Measures include:
 - Solar panels
 - Batteries
 - Solar hot water systems
 - Heat pumps
 - EV charging

4. Canada Greener Homes Loan

Canadian homeowners are eligible for a range of support with both grants and loans available. To be eligible for the loan, homeowners must be eligible for the grant first, but

this is not an income / means tested facility, rather grant eligibility relates to proving legal (freehold) ownership of the property itself. Key features include:

- This loan is an unsecured personal loan on approved credit
- Interest rate: this product is completely interest free (plus Greener Homes Grant available)
- Minimum loan value CAN\$5,000, maximum loan value CAN\$40,000 (c.£3,250-£26,000)
- Maximum loan term is 10 years and repayments are fixed for duration of the loan
- Early repayment charges apply but up to 5% of the loan each year in addition to fixed repayment schedule can be rapid
- Measures vary and include the following (maximum loan per item shown in brackets)
 - o Home insulation (\$5000)
 - o Air tightness (£1000)
 - o Windows and doors (\$5000)
 - o Space and water heating (\$5000)
 - o Renewables (\$5000)
 - o Resiliency measures (\$2625)

5. Basingstoke & Deane Homeowner Loan (UK)

The council has provided flexible loan finance for homeowners seeking to make energy related improvements to properties with a fixed interest rate.

- Maximum loan value £10,000, an interest rate of 4.49% applies, and is subject to a small arrangement fee of £95
- Administered by the Parity Trust, the loan comes with three different repayment options, as follows:
 - o Standard capital repayment loan with a repayment of typically 5-15 years
 - o An interest-only loan option with a 25-year term. Homeowners are required to pay the capital on the sale of the property or when the loan term expires, whichever is sooner.
 - o Interest 'roll-up' loan: this option comes with no monthly payments, but the loan balance increases over time as the interest rate accumulates. Homeowners must pay the total loan balance when the property is sold or when the loan term expires, whichever is sooner.
- The measures available include:
 - o Double glazing windows and doors
 - o Insulation
 - o Heating systems
 - o Water efficiency measures
 - o Renewables including solar panels, heat pumps, etc.

6. Barclays Green Home Mortgages (UK)

A number of banks are beginning to offer 'green' mortgage products for more energy efficient properties, and we have selected a UK based one as an example. Green mortgages tend to offer a reduced interest rate against standard products, although in practice the differences in rates are small, eligibility is of course limited, and indeed LTV risk tends to weigh far more heavily in terms of attractive interest rates available to householders. Key features of this product:

- This product is only available for:
 - o New build purchase direct from a developer
 - o Existing buildings with EPC A or B rated may get lower rates on some fixed term mortgages
- Interest rates vary between 3.25% and 3.57% depending on term, which is typically 2-5 years and requires a LTV between 75% and 90%
- Buy to let versions of these products also available
- Early repayment charge of 2% of balance

7. PACE – Property Assessed Clean Energy (US)

Developed in the US, and now making in-roads in the UK (see Case Study 9), the PACE model pays for 100% of the costs of completing an energy efficiency, renewable energy, or resiliency project on domestic properties. PACE is repaid on the property tax bill over a period of up to 30 years. This longer term approach allows for lower repayments, with the intention of creating a positive cash flow position for householders from the outset as a result of reduced energy bills.

It is processed in the same way as other local public benefit assessments have been for decades, effectively managed through what in the UK would be via the council tax mechanism. Depending on local legislation, PACE can be used for commercial, non-profit and residential properties, because PACE programs are established locally and tailored to meet regional market needs. Regardless of the local variations, there are several key features that apply in every case:

- PACE is voluntary for all parties involved
- It will cover 100% of a project's costs with long term financing terms
- It can be combined with utility, local and federal incentive programs
- Energy projects are permanently affixed to a property and the PACE assessment is filed with the local municipality as a lien on the property

Case studies – other related financial initiatives

8. Green Homes Incentive (for developers)

Not a householder product, but an attempt by the Welsh Government to support the development of new homes which deliver better energy performance outcomes. Key features include:

- Funded by the Welsh Government, it is managed by the Development Bank of Wales
- Available on residential development loans for the creation of efficient new build homes – it facilitates a reduction in loan repayment fees of 2%
- Finance is provided for up to 100 per cent of building costs is available with interest rolled-up throughout the loan term
- Eligibility will depend upon qualifying criteria that includes EPC A Rating/Passivhaus status of product, and no fossil fuels permitted, and non-concrete structures only are permitted
- The total loan pot is small, only £33m, and loan sizes are between £150k and £6m
- Loan term can be up to 2 years

9. Greater Manchester Combined Authority and the Green Finance Institute

Details on this new partnership are, at time of writing, fairly scant, however the press release in early August 2022 indicates that the GFI will be looking to develop a range of finance initiatives for retrofit including:

- *The UK's first Property Linked Finance scheme, replicating the successful PACE model from the US into the UK market.*
- *Issuing Local Climate Bonds to allow residents to invest in the net-zero agenda, providing funding for council decarbonisation projects in Greater Manchester.*
- *A campaign to boost the development of Green Mortgages, in collaboration with local and national lenders, mortgage intermediaries and local influencers.*
- *Demand Aggregation Financing that embeds access to finance into retrofit demand aggregators, which can bring down the upfront costs of energy efficiency measures for consumer.*
- *Green Rental Agreements, where the GFI will collaborate with institutional landlords to promote a new type of tenancy agreement incorporating energy efficiency.*

Key findings and points for consideration in progressing Fund proposition

Several key themes arise from the examination of these different approaches to householder finance, as follows:

1. The interest rate for householders is positive, unless subsidised by the relevant public authority (for example in the case of the Canada Green Home Loan). There is little in the publicly available information that provides detail on the extent to which the public sector in each of these cases subsidises the rate, although it would be sensible to assume in some cases this is a 100% subsidy. The simple fact is someone must pay a rate sufficiently attractive to the market to provide the finance, although clearly there is some creativity in making this more attractive to homeowners whether through:
 - a. Extending the loan period, and therefore reducing loan repayments
 - b. Providing short term rate reductions (for 1-3 years)
 - c. Providing flexibility in loan repayments (particularly where risk can be reduced to the lender by attaching the loan to the property)
2. The value of the loan available to householders is highly variable depending on the fund, with higher amounts (£20k+) only available when attached to the property. The higher loan availability recognises the potentially high cost of measures, but these products are typically locked in to accompanying home loan / mortgage facilities and inevitably seek to reduce risk to the lender. However, in practice, it appears that loans will typically be in the £5k-£20k range, reflecting the essential balance between cost of measures, potential energy savings, and affordability of repayments.
3. Measures are broad – there appears no appetite to restrict householders' choice of energy measures, whether related to efficiency or renewable generation. Facilities that cover other sustainable living solutions - EV charging points, rainwater harvesting, battery storage, etc – are also included. This flexibility enables greater choice for residents, and aligns finance to householder needs, and therefore is likely to make programmes more attractive to a wider audience.
4. None of these products/solutions are repaid via the energy bill (c.f. The Green Deal) although they are administered in a variety of ways – from standard monthly repayments from householder bank accounts to top ups to existing mortgage arrangements, to additional payments to a local government tax bill.

Market impact

Approach

In order to establish, at high level, the market potential for the proposed fund, we have looked at the potential for measures across all 21 local authority areas using the [C-Path platform](#). C-Path was developed by Via Analytics and Daedalus Environmental on behalf of the South East LEP and its 35 local authorities, and provides:

- The ability to rapidly plan tailored retrofit programmes across a range of different measures using property specific data
- Regularly updated, automated databases and intelligent algorithms to generate the insights about the scale of cost, carbon and energy reduction impacts of programmes
- A fast, easy-to-use and intuitive online portal

Extracting the relevant data for the south west area, we have therefore been able to assess the scale of opportunity across the range of typical energy efficiency and renewable energy options pertinent to owner occupiers in the domestic sector.

From this we have then applied assumptions in respect of fuel poverty levels and, by inference, the able to pay market to which this fund would apply. The recent upheavals in the energy sector, and particularly the rapid rise in energy prices, have meant that our assumptions on levels of fuel poverty have also had to evolve. In 2021, the fuel poverty level in the targeted region was between approximately 9% and 11%. Given recent energy market price rises, and for our modelling, we have assumed this will be 25%, although in practice we think this is likely to be higher still, especially from 2023 onwards.

As will be seen, however, the scale of the opportunity is still significant, and a £100m fund is still a 'drop in the ocean' by comparison.

To generate the energy savings and figures resulting from the fund, it has been necessary to make assumptions regarding the following:

Table 1 – market impact / energy saving assumptions

Assumption	Basis
Mix of measures	Those to be installed in practice, based on <ul style="list-style-type: none"> - an assessment of the measures available - whether these affect heating or electricity demand It has been assumed that 55% of measures affect heating demand, 45% affect electricity use.
Heating fuel	The mix of properties that apply to the scheme, and whether they use gas or other fuels for heating – the broad assumption here being that c.73% of properties are on the gas network within the target region (which uses HMG data available here for the relevant 21 local authorities)

Grid decarbonisation	The level of decarbonisation of the Grid over time uses projections from HM Government, data tables for which can be found here .
Inflation	<p>Inflation both for the cost of measures and for household energy supply – 15% for next 12 months, and 5% thereafter.</p> <p>Both of these are currently high, highly volatile and unpredictable in the short term. To this end higher than usual inflation has been assumed over the immediate period, returning to more 'normal' levels thereafter.</p>

It should be noted that the calculated cost of measures is based on data from Spring 2022. It is likely that the availability of technologies has become more restricted, and the cost of installation increased, since this point – a trend which is likely to continue over the next couple of years. This will increase costs, something which has been allowed for in our assumptions on the number of successful loan applicants each year (because we have assumed a fixed total of £10m loan funding available each year for 10 years).

A corollary to this is that dealing with, and supporting rapid growth of, a high quality, local supply chain to support this fund is a key consideration and will be a large determinant of success on the ground, should a fund be brought forward.

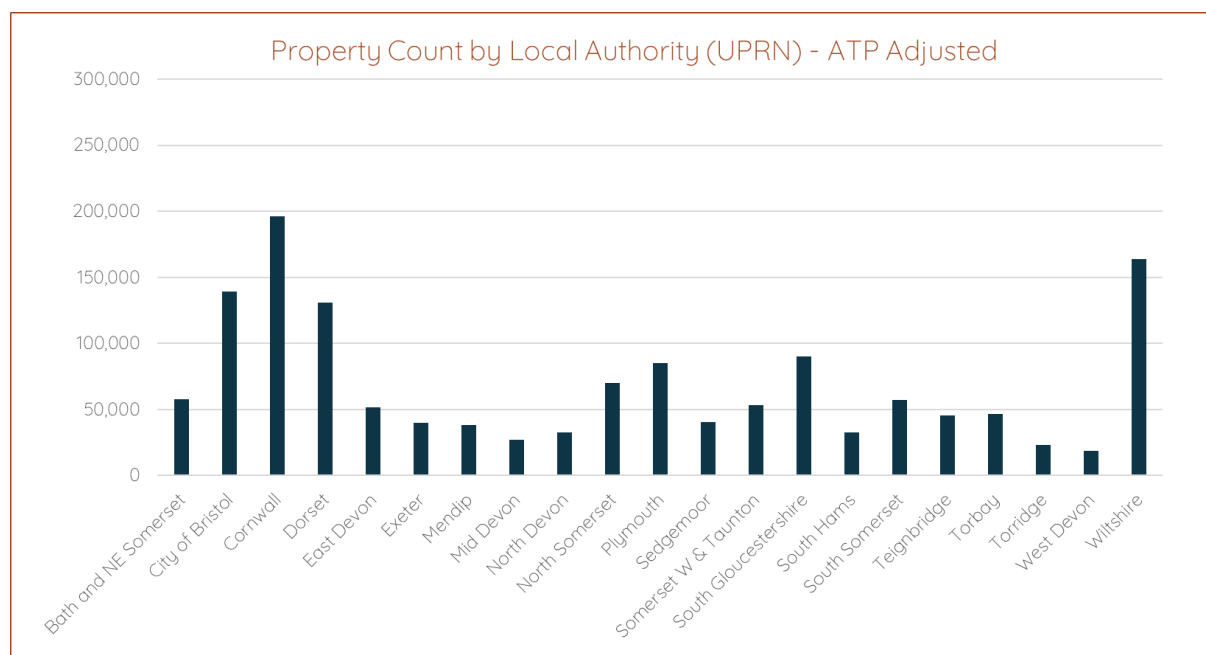
The following sections include a graphical representation of the analysis undertaken, covering properties, measures, total and average costs for the able to pay sector within the region. Key observations are also drawn later in this section.

Scale and nature of potential demand

Property Count

A total of 1.439m properties fall within the able to pay sector.

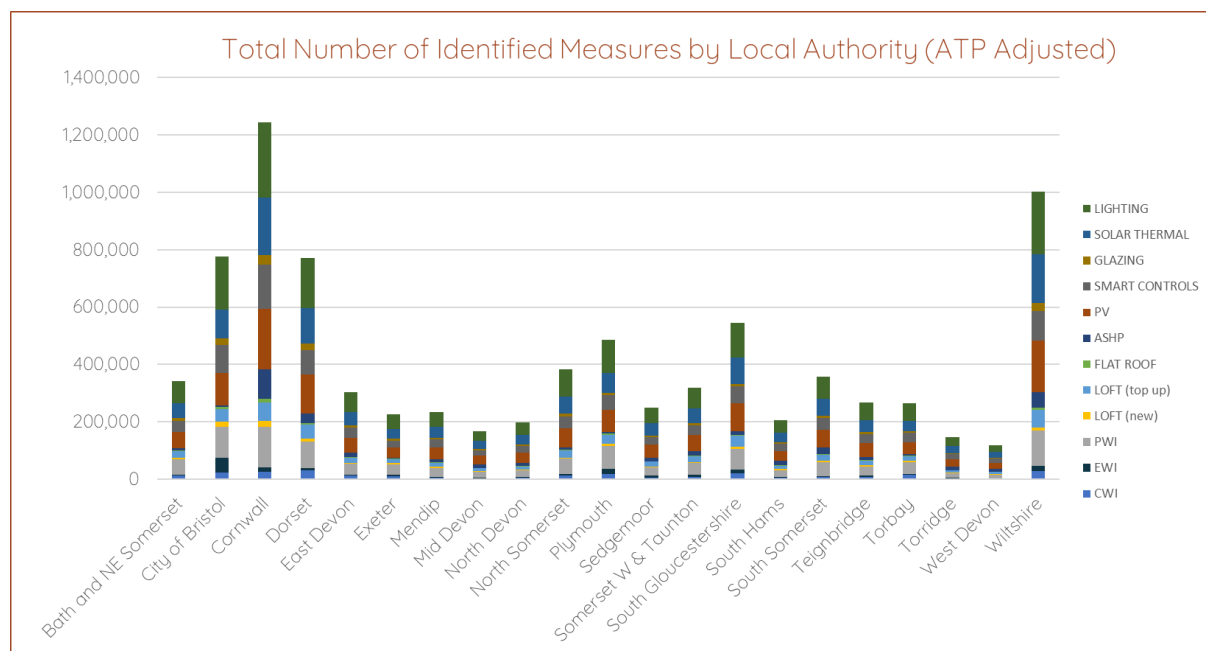
Figure 1 - Property count



Number of Measures

The total number of measures within the assessment is estimated at around 8.6m across the 21 authorities.

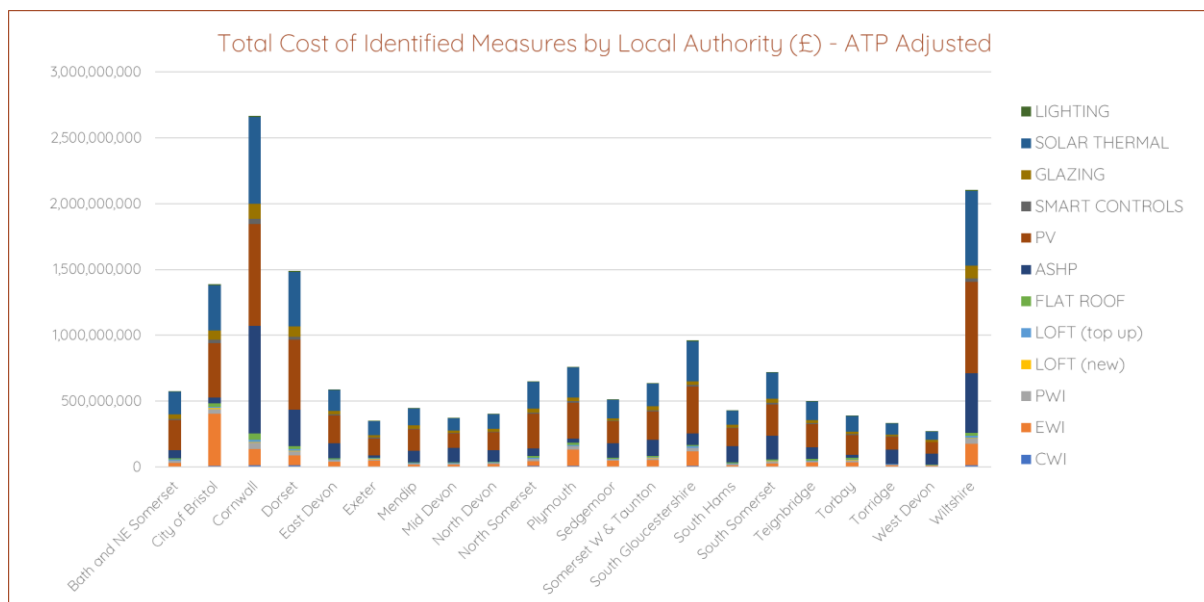
Figure 2 - Identified measures



Value of Measures

The total cost of available measures is calculated to be £16.54bn.

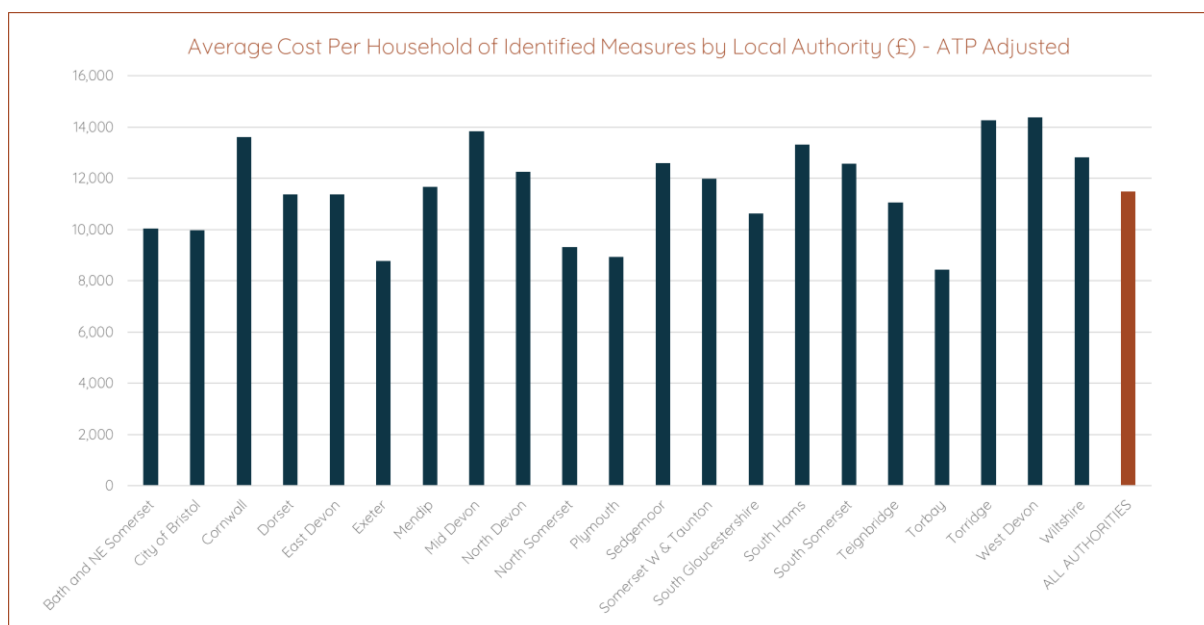
Figure 3 - Cost of measures



Average Cost of Measures

The average cost of measures is estimated to be £11,500 per property.

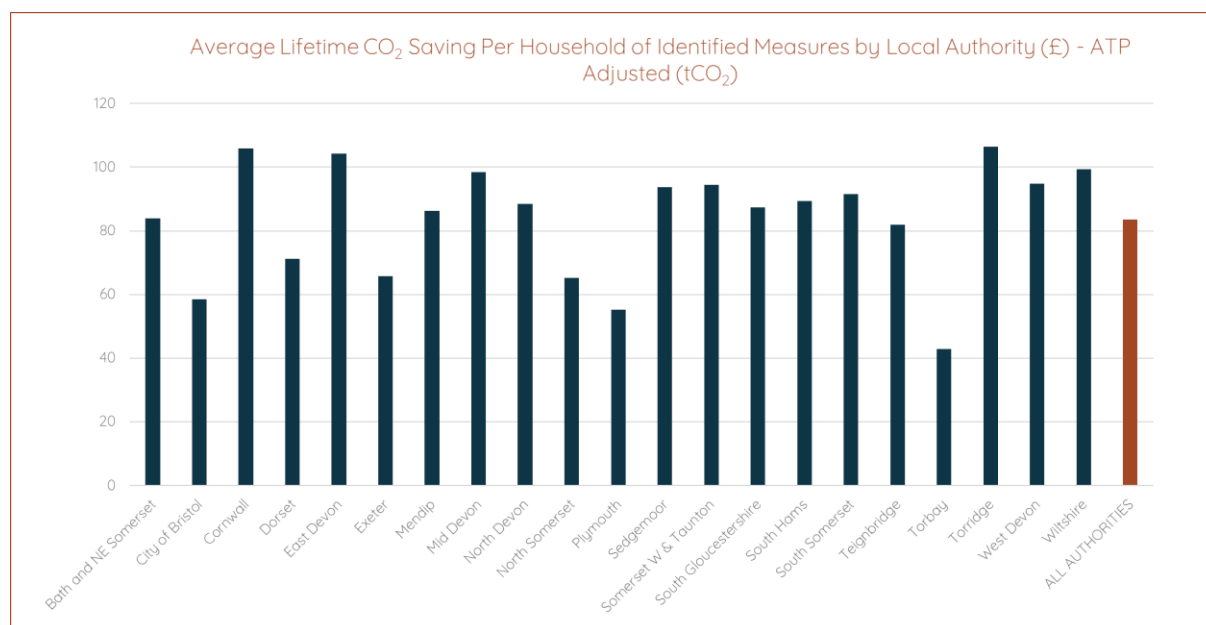
Figure 4 - Average cost of measures by LA



Average Lifetime Carbon Saving Per Household

The lifetime carbon dioxide saving per household is 84 tonnes on average across the region, based on the assumed measures available.

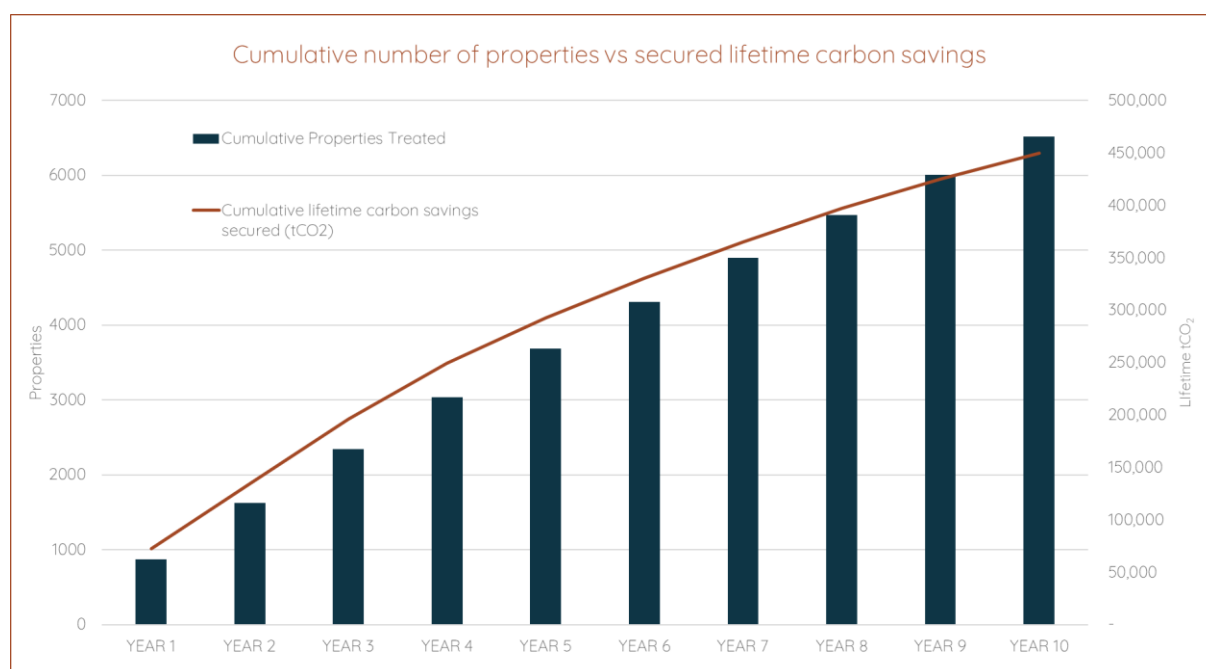
Figure 5 - Average lifetime carbon savings



Carbon reduction and energy saving impacts – fund level

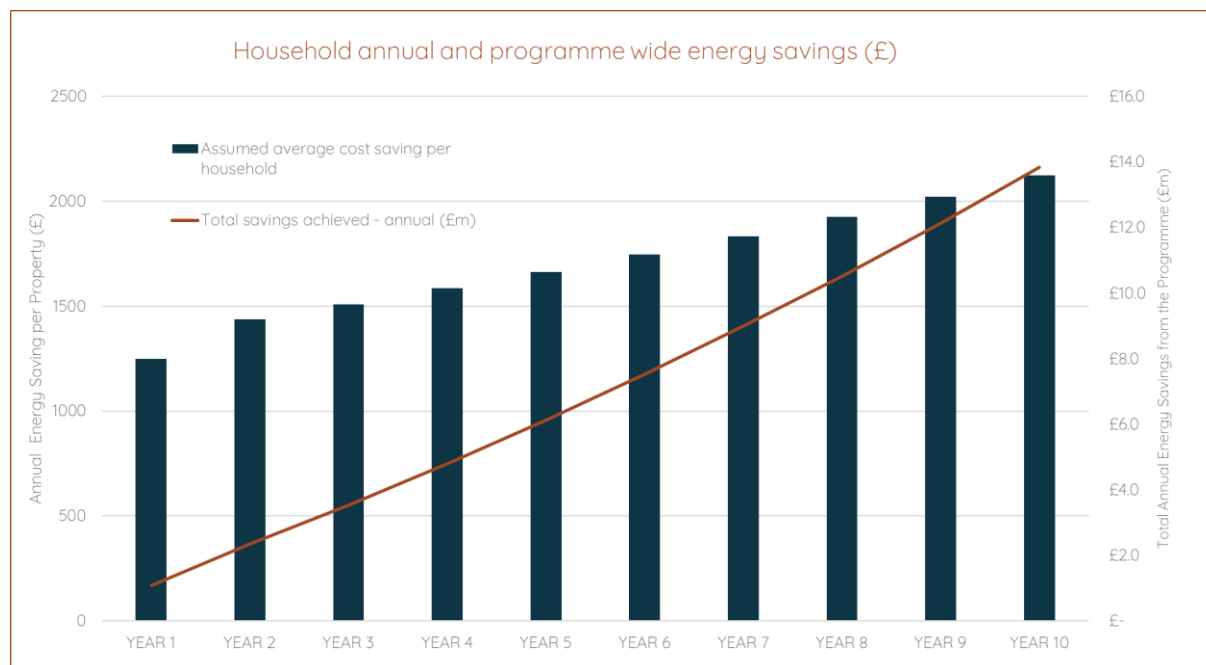
Assuming a consistent annual spend of £10m, the total lifetime carbon reduction impact is estimated to be in the region of 450,000tCO₂.

Figure 6 - Illustrative Fund impacts



Over the course of the programme, and assuming the spend profile above, a total saving in household energy bills of around £70m is estimated during the 10 years – a figure which is likely to continue to increase beyond this period as many of the measures assumed have much longer lifecycles.

Figure 7 - Illustrative energy saving impacts



Energy and cost saving impacts – household case studies

At an individual householder level, we have also undertaken 3 illustrative case studies with an assumed existing level of energy demand and mix of appropriate measures:

- A 2 bedroom terraced house
- A 3 bedroom semi-detached property
- A 4 bedroom detached property

Table 2 below provides further details of the characteristics of the homes and the assumed measures to be installed (note that as per Table 1, the measures assumed to be installed are specific to the characteristics of a particular house / house type and are not therefore directly comparable across case studies). Initial energy costs are aligned to those expected from Autumn 2023 onwards following recent energy price rises. We have assumed a loan period of 15 years and an interest rate of 4%. Towards the bottom of the table we have added in the value of energy efficiency measures as they translate to house price value, using recent research by [MoneySupermarket](#).

On this latter point, for the southwest region, the difference between median house price and the equivalent property with an improved EPC rating (from D to A/B) is around 7.8%.

To avoid bias and taking a more conservative position, we have assumed a 2.5% increase in the house price in each case.

Table 2: Householder case studies

	2 Bed Mid Terrace	3 Bed Semi	4 Bed Detached
GIFA (m2)	75	100	150
Heating fuel	Electricity	Gas	Gas
Annual Heat Energy Demand (kWh)	6000	12000	18000
Annual Power Demand (kWh)	3000	3400	3800
£/kWh (heat)	£0.26	£0.15	£0.15
£/kWh (electricity)	£0.52	£0.52	£0.52
Standing charge (heat)	£99.35	£99.35	£99.35
Standing charge (electricity)	£158.92	£158.92	£158.92
Annual energy bill	£3,378.27	£3,826.27	£4,934.27
Measures	Solid Wall Insulation	Cavity Wall Insulation	Cavity Wall Insulation
	2.5kWp PV System	3kWp PV System	4kWp PV System
	Loft Insulation New	6kW Battery	Loft Insulation Top Up
	Smart Controls	Double Glazing + Doors	Lighting
	Lighting	Smart Controls	Smart Controls
Estimated Cost of Measures	£14,150.00	£18,900.00	£8,800.00
Estimated Annual Heat Reduction (kWh)	1710	1690	2540
Estimated Annual Power Reduction (kWh)	1430	2430	2340
Estimated Annual Cost Reduction (Year 1)	£1,188.20	£1,517.10	£1,597.80
Simple Payback (years)	11.9	12.5	5.5
Estimated Total Cost Reduction (15 Years, 5% energy price inflation)	£15,004.34	£19,157.62	£20,176.68
Loan Principle	£14,150.00	£18,900.00	£8,800.00
Repayment Period (years)	15	15	15
Interest Rate	4%	4%	4%
Monthly Repayment	-£104.32	-£139.34	-£64.88
Total Annual Repayment	-£1,251.82	-£1,672.04	-£778.52
Total Repayment	-£18,777.26	-£25,080.58	-£11,677.73
Sub total - energy cost reduction less total loan repayment	-£3,772.92	-£5,922.96	£8,498.95
Average Property Value	£279,474.47	£324,567.20	£511,744.87
Property Value Increase (%)	2.5%	2.5%	2.5%
Property Value Increase (£)	£6,986.86	£8,114.18	£12,793.62
Energy Cost Reduction Plus Property Value Uplift Less Total Loan Repayment	£3,213.94	£2,191.22	£21,292.57

Conclusions and Points to Note

Scale of Fund

In spite of the impacts of energy price rises on the quantum of 'able to pay' properties over the coming years, we anticipate that the total opportunity for retrofitting energy solutions to domestic properties will outstrip the proposed fund of £100m by a factor of 160 (and this factor would be larger still if measured across the entire region rather than the 21 identified local authorities). In that respect, there should be sufficient scope to focus attention on the 'easy wins' – early adopter households with an appetite to implement solutions and make the necessary changes. £100m should only be seen as a pilot project which has huge potential for expansion over time.

Energy supply price sensitivity

The business case for householders is highly sensitive to energy prices – the higher the price of energy, the better the case for householders to agree loan finance for measures. The impact of price sensitivity could also be mitigated in several ways, for example by extending the loan period. However, seen as whole and when including house value, a positive case can be demonstrated in every case (based on the work undertaken to date). It should however be noted that under no circumstances can any savings be guaranteed (often because of householder behaviour) and we have made no allowance in the analysis for any potential rebound effect. The rebound effect is where the lower marginal costs after measures are installed make energy services cheaper, allowing residents to keep their homes warmer by having the heating on more, or at a higher temperature.

Measure and house type sensitivity

That the payback period for different measures in different household types is wildly variable is not news. It is therefore extremely important that householders can secure sufficient intelligence about their property and the associated impacts on a bespoke basis in order for them to make informed decisions about what measures to implement, and therefore what is affordable. Moreover, there needs to be flexibility for householders to make their own decisions about which measures to prioritise, which suit both their needs and their desired outcomes.

Loan fund parameters

We estimate that a typical, affordable loan may be in the region of £10-15k on average, repaid over a period of 10-15 years, and charge an interest rate of around 4% (paid either by the householder or subsidised by the public sector). It is indeed the case that a whole house retrofit bill can be significantly higher, but our property specific analysis takes a more pragmatic approach, looking at measures that are likely to be implemented by householders without significant disruption to the property. We have assumed, for example, that only non-gas properties will install ASHPs over the programme period.

Implementation and deliverability – route to market

The 'elephant in the room' currently is the capability of the existing supply chain to implement these measures sufficiently rapidly, and at a level of quality, that delivers the required outcomes in terms of energy saving and emissions. A locally delivered £100m fund over 10 years offers some level of comfort to local installation companies who will need either to scale up or invest in facilities / capacity to implement this level of activity. robust framework for the engagement of quality suppliers is critical in persuading the private investors their funds will not only be spent in the right way, but sufficiently quickly to start generating a return. We have spent no time in this commission looking at these issues, but it would make sense to commence this work – if it hasn't already in some capacity in the region. This will, inevitably, need to include specific parameters around delivery quality and accreditations linked to the Microgeneration Certification Scheme and PAS2030/2035. Within this context a new Retrofit and Heat pump supply chain and skills study by the SWNZH (expected to be complete early 2023) will be highly relevant -*SW Regional Retrofit/Heat Pump Skills: A report into the current and future skills requirements of the retrofit and heat pump markets in the SW region.*

Legal and structural considerations

Lendology – potential role in relation to Fund

Lendology C.I.C. is the trading name of Wessex Resolutions C.I.C. It is understood that the company (operating since 2005) has charitable status, and it is regulated by the FCA as a Community Investment Company (C.I.C).

The proposal to create a Fund has been put forward by Lendology, acting in consortium with 18 of the 21 local authorities in the South West, as summarised in the Lendology / Consortium proposal document (2021). That document suggests:

- The creation of a regional loan fund offering affordable loan finance to homeowners wishing to implement retrofit works / measures to reduce carbon emissions and improve energy efficiency;
- Offering the ATP sector minimum lending £15,000 with a 15 year term at relatively low interest rates, with a title restriction placed on borrower properties at the Land Registry;
- Funded through cornerstone finance from the local authority partners (discussions with Lendology suggest indicatively £15m) and co-financed with (an indicative £85m) from private capital; and
- Managed in a single loan fund by Lendology on behalf of the local authority partners.

Lendology – historic role and financial performance

Lendology was created out of a need for Councils in the South West region to reduce the amount of grant payments made to private homeowners to support essential home repairs and improvements.

Operating as a non-profit making social enterprise, Lendology has lent in excess of £15m to eligible home-owners, with over £9m repaid (and an extremely low default rate, having experienced only £23k of non-payments).

Whilst this review does not encompass a detailed review of Lendology (and nor, given procurement requirements, is it certain that Lendology would be the eventual Fund Manager), a headline analysis of Lendology's financial status has been carried out – partly to inform the illustrative Fund financial modelling set out in the following section of this document, and partly to identify any key points for consideration / further review if Lendology were to apply for the Fund Manager position.

Table 3 below summarises the historic performance of Lendology over the past 3 financial years:

Table 3: Lendology Historic Financial Performance

Financial Year	2020/21 (actual)	2021/22 (actual)	2022/23 (budget)
OPERATING EXPENDITURE			
Employee costs, incl Directors	350,389	350,570	364,565
Mileage expenses	3,119	1,925	2,350
Other travel & subsistence	1,325	710	2,000
Rent, Rates & Power	8,964	12,987	12,000
Entertainment	0	1,534	1,300
Printing, stationery & phones	4,942	4,186	4,000
Professional fees, incl audit	23,529	34,763	25,000
Marketing	46,066	41,438	50,216
IT costs	48,339	41,417	46,000
Other premises exp	1,918	5,063	950
Subs, Licenses & Training	6,252	12,039	23,500
Insurance	4,017	4,251	4,000
Misc exp	3,191	73	100
Bank charges & interest	313	371	300
Depreciation	21,932	27,952	26,060
Gain/loss on sale of Fixed Assets	-11,646	-853	0
Irrecoverable VAT	16,286	11,403	17,012
Donation	275	75	0
Suspense	0	-47	0
TOTAL COSTS	529,211	549,857	579,353
INCOME FROM LOANS MADE	-267,007	-251,431	-236,000
OPERATING LOSS	262,204	298,426	343,353
OTHER INCOME			
Council Subscriptions	142,339	206,579	176,073
Subsidy interest	0	22,263	19,000
Marketing top-up	43,400	12,711	25,000
Interest on Bank Deposit	121,848	78,074	100,000
Misc income	0	3,650	0
TOTAL OTHER INCOME	307,587	323,277	320,073
NET PROFIT / LOSS for YEAR	45,383	24,851	-23,280

Points for consideration and further review

Financial performance

The following points are flagged and worthy of further review in relation to the above financial performance:

- Income from loans made to property owners only covered 50.5% of total running costs in 2020/21. This dropped to 45.7% in 2021/22 and drops again in the 2022/23 Budget to 40.7%.

- As the loans are currently bearing an interest rate of 4%, in order for the whole of the current cost base to be covered by the current loan scheme, the effective rate on that scheme would need to be between 8 – 10%.
- Other sources of income include grants received from the participating local authorities – 27% of costs in 2020/21, 37.6% in 2021/22 and budgeted at 30% in 2022/23.
- The Company keeps large reserves of cash, advanced from the Local Authorities and treated as deferred Liabilities. These deferred liabilities amounted to £16.4 million on 2020/21 (£17.3 million in 2021/22) Of these deferred liabilities, only £7.4 million (45%) was advanced as loans to householders at 31 March 2021 (£8.5million at 31.2.22 (49%)).
- Un-lent balances are held on term deposits, generating bank interest receivable (the other main source of covering the Operating Deficit).
- These results relate to the current schemes operated by Lendology, which are expected to continue. Whilst there may be some cost synergies if combined with a new scheme (the proposed Fund), the vast majority of its running costs would be additional to the current cost base.
- The average size of loan in 2020/21 (the latest available figures) was £7,017 (funds drawn down in the year of £1.6 million, spread over 228 sanctioned loans). This is a considerably smaller loan per property than is envisaged by the proposed new scheme. Clearly the proposed Fund would represent a major step up in scale – from £1.6m lending pa to an estimated £10.0m pa.
- It is not entirely clear why less than 50% of the monies advanced by local authorities is on-lent to property owners. This could be because of lack of demand, or because of restrictions placed on Lendology by the terms on which the Local Authorities have advanced funds to Lendology. Lendology suggest it is part lack of awareness, part restrictions imposed by the Local Authorities – which are variable.
- The marketing cost of acquisition of a new borrower appears to be around £200 per loan. If the scale of the new scheme is to be achieved, marketing costs are likely to rise considerably, partially simply because the number of loans is predicted to increase from around 250 per year to 833, possibly also because it may involve engaging with harder to reach borrowers.

Legal and structural

In addition, whilst these comments should not be construed as formal legal advice (as matters proceed, a suitably experienced legal firm should be appointed to provide that advice), the following legal and structural considerations are worthy of being noted:

- Certain aspects of Lendology's current FCA compliance are likely to need to be changed and expanded, as a result of the much increased potential size of the organisation (e.g. disaggregating the roles of CEO, Compliance Officer and Anti Money Laundering Officer).

- Whilst Lendology's C.I.C status enables it to undertake its current operations, it would not necessarily be able to operate the proposed Fund scheme under its' existing regulatory approvals.
- If the introduction of private sector investors requiring a financial return leads to the creation of a separate Fund then that Fund is likely to be classed as a 'UCIS' – Unapproved Collective Investment Scheme (despite it only providing loan finance – the deemed 'investment' is the portfolio of loans).
- If this is the case, Wessex Resolutions C.I.C. is likely to need to extend its Scope of Permissions from the FCA to include Fund Management. This is not a quick or simple process – the FCA will require considerable due diligence and the current Board structure of the company may need to be enhanced by the addition of people with relevant fund manager and regulatory experience.
- The fund itself is likely to be structured as a Limited Partnership, with the investing local authorities etc being the limited partner and a specially created subsidiary of Wessex Resolutions C.I.C. being the Unlimited Partner, which would then employ Wessex Resolutions C.I.C. as the Fund Manager.
- This is a standard structure for these types of funds and basically puts each investor, from a taxation point of view, in exactly the same position as if each investor had provided its proportion of every loan made by the Fund. However, the precise structure to be used has clearly not been settled at present, and a more detailed review of the structural options would be necessary at the next stage of analysis. Hence these comments may need to be reviewed and revised.

Illustrative financial implications

Purpose of headline financial modelling

The fundamental purpose of the headline financial modelling exercise is to consider the financial viability of the proposed Fund – or more realistically, given the need to both offer affordable loans to ATP borrowers and generate a return on investment to sources of private capital, the level of subsidy that will be required to underpin Fund operations.

Note in this context that whilst the above dilemma could perhaps be partially addressed by not accessing private capital (i.e. 100% financing the Fund from public sector source), such an approach has not been considered probable for these purposes. Encouraging private capital to play a part is consistent with UK Government policy – attracting and enabling private sector investment into the retrofit market (and ‘green’ finance more generally). It also makes considerable sense given the scale of investment required (as highlighted in the ‘market impact’ section) and limitations on public sector (particularly local authority) financial resources.

Loan Fund – assumed structure for modelling purposes

An assumption has been made for working purposes that an ATP Loan Fund would be structured to include the Fund itself and an appointed Fund Manager (Lendology or another Fund Manager). This mirrors the likely structure described on page 23 above.

The Fund is assumed to be £100m as per the original proposal, funded through £85m private capital and £15m local authority capital as per discussions with Lendology. As noted earlier in this document, £100m is a significant investment but not excessive given the vastly larger scale of the potential domestic retrofit market.

The following pages therefore summarise the key modelling assumptions and indicative financial forecasts for both a Loan Fund and a Fund Manager.

Loan Fund – modelling assumptions and outputs

Key assumptions

- The Loan Fund (and the associated Fund Manager) financial illustrations have been developed over a 10 year basis. This provides a reasonable medium to long term view and is consistent with the basis on which carbon reduction and energy saving impacts have been measured (as well as the original Invitation to Quote, which requested analysis over up to 10 years). Note however that any future, more detailed financial modelling should also take into account the run out period during which loans are repaid to the Fund (i.e. model the entire life cycle of the Fund).
- Fund resources – i.e. the proposed £100m – are made available in Year 1.
- Local authority resources (assumed £15m) are expected to be returned at the end of the Fund life cycle (or reinvested subject to agreement) but are not assumed to require a return on capital. This assumption would clearly need to be reviewed and potentially revised in any further, more detailed, analysis. It is possible, for instance,

that local authority investments would be based on prudential borrowing against which local authorities might seek to recover the cost of borrowing (which would increase the estimated subsidy required to make the Fund feasible, although not, given the assumed ratio of private to public sector capital, to an extent that would substantially alter the cost benefit analysis).

- Private sector capital (assumed £85m) is expected to require a market level return on capital, calculated on an IRR basis over the period of the financial model. As a working assumption, it is estimated that sources of private capital would require a return on this basis of between 5% and 8%. An assumed return of 6.5% has therefore been applied for base modelling purposes, with an annual interest rate subsidy included in the financial model (under 'grants and other funding') to underpin that return. This has been calculated in the Excel modelling on a 'goal seek' basis – generating an annual grant funding requirement over 10 years that results in a level of Loan Fund profit that equates to an IRR of 6.5% on £85m private capital.
- The interest rate chargeable to borrowers has been assumed to be at a level (4%) that generates some return to the Fund, but is also competitive in the existing market and potentially attractive to households when combined with a lengthy repayment profile and relatively light touch recourse (a restriction on title rather than a charge).
- An indicative rate of 1.5% has been assumed in relation to interest generated on positive cash balances.
- All other parameters have been modelled in line with working assumptions applied by Lendology, namely:
 - Average loan size £12k
 - 833 successful applications pa (i.e. c £10m lending pa)
 - 208 unsuccessful application pa
 - Average loan term 15 years
 - 42 loans repaid early annually
 - £500 set up fee payable to Fund Manager per successful loan application
 - £150 set up fee payable to Fund Manager per unsuccessful loan application
 - £180 annual loan administration fee per loan under management
 - £180 loan redemption fee
 - 1% pa loan default rate

Financial modelling outputs

The Loan Fund illustrative financial forecasts on this basis are set out below in Table 4.

Please note that these figures – and the subsequent indicative financial forecasts for a Fund Manager – are early stage and illustrative only and not to be relied upon.

Table 4: High level illustrative P&L Forecast – Loan Fund (pre taxation)

Fund Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
FUND INCOME										
Interest received on loans	391,500	763,448	1,115,062	1,445,529	1,754,002	2,039,603	2,301,415	2,538,488	2,749,832	2,934,418
Interest on cash balances	1,403,346	1,338,832	1,284,441	1,240,325	1,206,637	1,183,534	1,171,175	1,169,722	1,179,336	1,200,186
Loan early redemption fees	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560	7,560
Loan set up fees	416,500	416,500	416,500	416,500	416,500	416,500	416,500	416,500	416,500	416,500
Grants and other funding	2,735,730	2,735,730	2,735,730	2,735,730	2,735,730	2,735,730	2,735,730	2,735,730	2,735,730	2,735,730
Total Income	4,954,636	5,262,071	5,559,294	5,845,644	6,120,430	6,382,927	6,632,381	6,868,000	7,088,959	7,294,394
FUND EXPENDITURE										
Loan specific fees - set up	-416,500	-416,500	-416,500	-416,500	-416,500	-416,500	-416,500	-416,500	-416,500	-416,500
Loan specific fees - unsuccessful applications	-31,200	-31,200	-31,200	-31,200	-31,200	-31,200	-31,200	-31,200	-31,200	-31,200
Loan specific fees - early repayments	-7,560	-7,560	-7,560	-7,560	-7,560	-7,560	-7,560	-7,560	-7,560	-7,560
Management fees - annual loan admin fees	-140,940	-281,880	-422,820	-563,760	-704,700	-845,640	-986,580	-1,127,520	-1,268,460	-1,409,400
Sub-total - fees accruing to fund manager	-596,200	-737,140	-878,080	-1,019,020	-1,159,960	-1,300,900	-1,441,840	-1,582,780	-1,723,720	-1,864,660
Provisions / write offs	-100,000	-100,000	-100,000	-100,000	-100,000	-100,000	-100,000	-100,000	-100,000	-100,000
Total Expenditure	-696,200	-837,140	-978,080	-1,119,020	-1,259,960	-1,400,900	-1,541,840	-1,682,780	-1,823,720	-1,964,660
Net profit/ (loss)	4,258,436	4,424,931	4,581,214	4,726,624	4,860,470	4,982,027	5,090,541	5,185,220	5,265,239	5,329,734

Fund Manager – modelling assumptions and outputs

Key assumptions

- The Fund Manager forecasts relate to the operation of the new loan fund ONLY. It is assumed that (in the case that Lendology was appointed to the Fund Manager role) the existing Lendology schemes would continue, but the Fund Manager forecasts exclude interest on bank deposits – which are treated as existing ringfenced Lendology resources relating to existing rather than new loan fund.
- Fund Manager fees earned from loans made relates to activity based fees as proposed by Lendology and as detailed in the section above, but do NOT include interest on loans or loan fund deposits (both of which are assumed to accrue to the Loan Fund).
- Estimated Fund Manager running costs have been based on illustrative multiples of the current Lendology budgets - see points i – v below for details;
 - i. Fund Manager employee and related costs estimated at a multiple of x5 on existing budget cost base (as loans sanctioned rising from 228 to 833 pa and are expected to be larger in scale, funds advanced from £1.6m to £10m pa);
 - ii. A similar increase assumed for Fund Manager insurance costs given significant rise in scale and likely compliance requirements;
 - iii. Fund Manager marketing costs subjected to particularly large multiple (x6), reflecting identified demand challenges;
 - iv. Fund manager IT costs are not assumed to need to rise proportionally given recent upgrades and an expectation the system can deal with increase in capacity; and
 - v. Fund manager irrecoverable VAT is applied at prevailing rate on costs other than employee and insurance costs.
- The above assumptions will require considerable review and refinement should the Fund proposals progress beyond this high level review phase – see the ‘Next Steps’ section – but the outturn figures on this basis provide an early working estimate of the quantum of Fund Management costs. Whilst those outturn figures are arguably a little higher than market norms as a % of the Fund size, that reflects an expectation of large manpower and marketing costs, given the Fund will process a high volume of relatively low value loans.
- A slowly tapering public sector subsidy is assumed in order to underpin Fund Manager operations, under the line Central Government and other grants. In practice, this subsidy may be shared across Central and local government, with the allocation to be agreed in due course – but (as with the existing Lendology operation) it is clear that the nature of the Fund Manager activities will dictate that ongoing subsidy will be required.

Financial modelling outputs

The Fund Manager illustrative financial forecasts on this basis are set out below in Table 5.

Table 5: High level illustrative P&L Forecast –Fund Manager (pre taxation)

Fund Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
FUND MANAGER OPERATING EXPENDITURE										
Employee Costs	1,877,510	1,933,835	1,991,850	2,051,606	2,113,154	2,176,548	2,241,845	2,309,100	2,378,373	2,449,724
Mileage Expenses	12,103	12,466	12,840	13,225	13,621	14,030	14,451	14,885	15,331	15,791
Other Travel & Subsistence	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	13,439
Rent, Rates and Power	24,720	25,462	26,225	27,012	27,823	28,657	29,517	30,402	31,315	32,254
Entertainment	2,678	2,758	2,841	2,926	3,014	3,105	3,198	3,294	3,392	3,494
Printing, Stationery & Phones	8,240	8,487	8,742	9,004	9,274	9,552	9,839	10,134	10,438	10,751
Professional Fees	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239	67,196
Marketing	310,335	319,645	329,234	339,111	349,285	359,763	370,556	381,673	393,123	404,917
IT Costs	94,760	97,603	100,531	103,547	106,653	109,853	113,148	116,543	120,039	123,640
Premises Expenses	1,957	2,016	2,076	2,138	2,203	2,269	2,337	2,407	2,479	2,553
Subscriptions, Licences & Training	48,410	49,862	51,358	52,899	54,486	56,120	57,804	59,538	61,324	63,164
Insurance	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095	26,878
Irrecoverable VAT	113,000	116,390	119,882	123,479	127,183	130,999	134,928	138,976	143,146	147,440
Misc	309	318	328	338	348	358	369	380	391	403
Total operating costs	2,576,422	2,653,714	2,733,326	2,815,325	2,899,785	2,986,779	3,076,382	3,168,674	3,263,734	3,361,646
Bank Charges and Interest	618	637	656	675	696	716	738	760	783	806
Depreciation	53,684	55,294	56,953	58,662	60,421	62,234	64,101	66,024	68,005	70,045
TOTAL COSTS	2,630,723	2,709,645	2,790,934	2,874,662	2,960,902	3,049,729	3,141,221	3,235,458	3,332,521	3,432,497
FUND MANAGER FEES EARNED FROM LOANS	596,200	737,140	878,080	1,019,020	1,159,960	1,300,900	1,441,840	1,582,780	1,723,720	1,864,660
OPERATING LOSS	-2,034,523	-1,972,505	-1,912,854	-1,855,642	-1,800,942	-1,748,829	-1,699,381	-1,652,678	-1,608,801	-1,567,837
OTHER INCOME										
Central Government and other grants	2,100,000	2,000,000	1,900,000	1,800,000	1,800,000	1,750,000	1,700,000	1,650,000	1,600,000	1,600,000
TOTAL OTHER INCOME	2,100,000	2,000,000	1,900,000	1,800,000	1,800,000	1,750,000	1,700,000	1,650,000	1,600,000	1,600,000
NET PROFIT / LOSS for YEAR	65,477	27,495	-12,854	-55,642	-942	1,171	619	-2,678	-8,801	32,163
CUMULATIVE PROFIT / LOSS	65,477	92,972	80,118	24,475	23,533	24,704	25,323	22,645	13,844	46,007

Financial implications and headline sensitivity analysis

The financial forecasts incorporate an estimated subsidy requirement at both the Loan Fund and the Fund Manager level. Collectively, on a 10 year basis, this subsidy is estimated to amount to c £45m.

Note that any State Aid (or subsidy control post-Brexit) considerations and implications relating to public funding on the scale proposed will require addressing – by suitably qualified legal advisors – if the Fund proposition is progressed further.

The above figure is based on an assumption that private capital will require a return of 6.5% - and is the mid-point estimate that is taken forward to the illustrative cost benefit analysis in the following section.

Note that in these projections we have assumed that the investor loans are repaid immediately once loan repayments are received from householders – an alternative approach would be to use that returned cash to reinvest in further householder loans. The effect of this would be that firstly the investors get no return of capital during the 10 year period (although they would receive interest), and secondly a significantly larger number of householder loans could be made than are currently modelled – with consequential increased economic benefits. This alternative approach is something that we would anticipate should be modelled in the next phase of work.

Given the importance of the above noted cost of capital assumption, 2 additional scenarios have been calculated in order to generate a range of possible outcomes in terms of subsidy requirements – at each of an estimated low point (5% private capital IRR requirement) and high point (8% private capital IRR requirement), with the following results:

- 10 year estimated subsidy requirement (5% private capital IRR): £35m
- 10 year estimated subsidy requirement (8% private capital IRR): £55m

Illustrative cost benefit analysis

Whilst strictly beyond the scope of this initial phase report, an early stage cost benefit analysis is set out below, for the purposes of beginning to frame conversations with prospective public sector funders around the strength of the case for the scale of subsidy identified above. As with the financial analysis, this should be treated as early stage and indicative only – with significantly more detailed analysis required at the next stage of project development as described below under ‘next steps’.

Public sector costs

The starting point for developing cost benefit analysis is the cost to the public sector – the estimated £45m total subsidy over 10 years to support Loan Fund and Fund Manager operations.

That £45m has then:

1. Had optimism bias applied to it at 13% (a mid-point between lower and upper ranges for optimism bias as noted in HM Treasury’s supplementary guidance note); and
2. Been adjusted to present day values (‘PV’) by adjusting (discounting) the 10 year cash flow costs using HM Treasury’s standard assumption of a 3.5% discount rate.

Table 6 - cost benefit analysis estimated economic costs

Public sector costs	£m
10 year subsidy requirement - estimated	45.0
Uplifted to incorporate optimism bias	6.0
Discounted to PV	-7.0
Discounted economic cost of intervention	44.0

Economic benefits

In addition to £85.0m of private capital leveraged into the delivery of carbon reduction and energy security priorities, the key economic benefits associated with public sector investment in an ATP Loan Fund would include

- The positive impact of carbon savings on society - estimated to be in the region of 450,000tCO₂ over 10 years. Applying HM Treasury’s £/tonne of carbon saved metrics to these estimated carbon savings over a 10 year basis results in an estimated undiscounted benefit of £26.0m.
- Direct energy cost savings to households - a total saving in household energy bills of around £70.0m (undiscounted) is estimated over 10 years.
- The GVA of estimated employment impacts – associated with the jobs that would be created and / or sustained in the installation of retrofit measures financed by the Loan Fund. Applying an estimated £109k construction spend / Full Time Employee (‘FTE’) based on ONS construction industry statistics (2020) and an estimated £45k

GVA per construction employee results in an estimated GVA of £31.0m (undiscounted) associated with employment impacts over 10 years.

Applying discounting to each of the above 10 year figures on the same basis as the economic costs results in the following summary of economic benefits:

Table 7 - cost benefit analysis estimated economic benefits

Economic benefits of ATP Loan Fund	£m
10 year carbon saving impact - estimated	26.0
Discounted to PV	-4.0
10 year energy cost saving impact - estimated	70.0
Discounted to PV	-13.0
10 year employment impact - estimated	31.0
Discounted to PV	-4.0
Discounted economic benefits of intervention	106.0

Value for money case

Comparing the economic benefits on a discounted basis to the economic costs of intervention on a comparable basis suggests a benefit cost ratio ('BCR') of 2.4:1.

DCLG appraisal guidance states that value for money judgements should be based on the size of the monetised benefits relative to the monetised costs – i.e., the BCR as measured above. That same guidance states that a BCR of between 1.0 and 2.0 is acceptable value for money and a BCR of 2.0 or above is high value for money, suggesting that based on this early stage analysis there would be a strong public sector business case for intervention. This conclusion would be strengthened further if the £85.0m private sector capital leveraged were included in the BCR calculation – increasing the BCR to 4.3:1.

Next steps

Whilst all due care has been taken to conduct this review diligently, it has been a limited scope exercise carried out at a necessarily high level, focussed upon assessing if the proposal for an ATP Loan Fund is possible, as well as the basis on which a viable propose could be developed going forward.

One key output from this initial phase of analysis is therefore to set out the subsequent workstreams and outputs associated with a second, more detailed, phase of project development support.

Further analysis required – detailed workstreams

Phase 2 would build substantially on the existing analysis in the following areas, with the ultimate output being a Full Business Case ('FBC') report in HM Treasury Green Book format, and the successful application of that FBC to Central Government for (a) the case for establishing a SW Loan Fund as a pilot for national roll-out; and (b) grant subsidy to support Loan Fund operations.

- Detailed strategic objectives – setting out clearly the rationale for the Loan Fund and proposed outcomes and outputs
- Detailed review and recommendations on key market issues including:
 - Technology / measure focus (if any)
 - Technology bundling and pricing
 - Energy market and pricing scenarios
 - Geographical / house type focus (if any)
 - Access to market – identifying and engaging target property owners
 - Marketing strategy and uptake level scenarios
 - Installer capacity and engagement strategy
- Detailed review of Fund Manager cost base
- Full review and appraisal of Loan fund structural options
- Review of associated FCA and regulatory issues and requirements
- Full financial model and financial case, including:
 - Updated Fund Manager cost base
 - Integration of market review findings (measures, marketing, uptake)
 - Analysis of / sensitivity on quantum and pricing of loans
 - Loan Fund run off strategy and financial implications
 - Options and strategy for attracting private capital
 - Sources of Government funding (Central and local authority) and implications
- Commentary on commercial and operational issues, including governance, oversight, procurement and monitoring
- Economic case setting out in detail the value for money case to Government in line with Green Book analysis principles
- Implementation strategy – including pilot and national roll out, with identified timelines

In parallel – although not specifically included as part of any FBC – it would be necessary for due diligence to be carried out on the existing Lendology business as a prospective Fund Manager (including site visits, review of property and operations).

A Phase 3 of support beyond FBC would include implementation support around (for instance) procurement and attracting private sector capital.

Headline costs and timescales

If carried out intensively and at pace with clear reporting and decision making structures across all interested parties, a Full Business Case (i.e. Phase 2 as described above) can be developed in 4 – 6 months. The importance of involving multiple third parties (including Central Government and local authorities as potential funders) in the development of this business case means:

1. Those timescales are likely to be elongated – possibly more like a 6 – 9 month process to agreed FBC; and
2. Costs would be charged on a time and materials basis rather than a fixed cost budget – albeit with a budget cap in place that would not be exceeded without prior agreement. A sensible working budget cap for these purposes would be in the region of £130k - £170k (excluding VAT or detailed legal advice).