

CECODHAS HOUSING EUROPE

Public consultation on EIB's Energy Lending Policy

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CONSULTATION RESPONSE December 2012



How to optimize the role of the EIB as a leader in Energy Efficiency Investment in the EU

Introduction

CECODHAS warmly welcomes the bank's allocation of €85 billion annually to energy efficiency compared to €65 billion for gas/networks and €50 billion for renewables to 2020, with buildings identified as a priority sector.

What do you think are the main barriers to energy efficiency investments? What might be done to overcome these?

Our experts have a clear view of the obstacles to lending to energy efficiency in general, many of which apply to the social housing sector. Projects are often small and fragmented in nature compared with the big energy infrastructure projects such as power plants which must become a thing of the past. Other obstacles leading to limited access to capital include budget deficit limits, retail banks not understanding the business of energy efficiency. This fragmentation results in high transactions costs, excessive complexity for small actors and a clear need for bundling of projects and intermediaries. Technical assistance schemes such as ELENA designed to assist local actors in prepared projects are too large for some.

The bundling of maximum number of projects to cut down on transactions costs while ensuring quality control and respect for the banks criteria is an objective for social housing organisations. A big part of the transaction cost incurred is the price of conducting due diligence for loans. From the operational perspective of housing providers, the investment sizes are much too big (e.g; 50 million limit for use of ELENA) and require complex collaboration between many municipalities.

There is a need for capacity building tools which are more in tune with the operational level. Currently there is a mis-match and a need to examine the use of financial intermediaries to make the bridge. The possibility of building capacity of existing structures to channel through EIB funds such as the Caisse de Depot in France or of KfW in Germany is a clear one. In some countries, social housing federations could also be potential aggregators as many already function as banks for their members. Working with such counterparts, when needed in partnership with local banks, has been proven to bring down transaction costs, risk and thereby interest rates. (There is also a need to ensure transparency when working through intermediary banks to avoid excessive increases imposed by them) Where such institutions do not exist, their establishment is a must. They could also bring together new financing streams such as those which will be generated by energy supplier obligations in article 7 of the new Energy Efficiency Obligations or emissions trading schemes, particularly to address fuel poverty.

What role can Energy Service Companies (ESCOs) play in developing energy efficiency investments?

Another question included in the EIB written consultation is the role of energy service companies (ESCOs) in developing energy efficiency investments. The potential pit-falls of relying on energy savings of individual projects to cover investment and proposed mixing buildings of different types within refurbishment project to help spread the gains and defend general interest.

A private market controlling the entire project structuring stream for the realization of energy efficiency in buildings would privilege those projects which are most profitable (such as swimming pools and rest homes), overlooking those projects which provide per se less savings, such as schools and social housing, particularly where under-heating due to fuel poverty is an issue". To avoid this one approach is to ensure initial screening and bundling of projects together followed by supervision by Public Social Housing Companies and Public Administration can guarantee the general interest and ensure the realization of all types of projects, which have been demonstrated to be profitable also when combined all together.

What is clear is that working with different funds with different sets of rules and procedures will definitely not help to increase the flow of finance to energy efficiency projects. Bundling on the borrowers side must be facilitated by the merging of financial streams and simplification of procedures on the lenders side. Existing public banks and housing providers can potentially be activated as effective aggregators working in a more uniform way and helping to reach the Holy Grail.

Overarching policy coherence review to be carried out at EU level

The obstacles identified were deemed to be correct while some omissions of barriers which could potentially be tackled at EU level were identified.¹ While the EU clearly describes energy efficiency in housing as a no regrets investment option there are some overarching EU regulations which have a counter effect and potentially hamper investment flows at local level.

Examples identified are EU fiscal consolidation guidelines which block spending on energy efficiency at municipality level.

EU state aid rules which due to interpretation at national level lead to confusion on the criteria on what can qualify as co-funding of EU financing need clarification.

A third contradiction which has been reported is that drops in consumption are not necessarily leading to drop in bills for end users thus jeopardizing one of main drivers of energy efficiency policies : increased affordability.

Members report isolated cases of this such as district heating bills which do not go down when consumption goes down, electricity companies charging higher rates for lower consumption because of infrastructure costs. These complaints require further review within the context of the review of the 3rd package.

A review of construction and renovation price trends in the EU would also be welcomed by Members.

EU funding and Financial Tools: Adaptation: Scale and Timing would improve usefulness

Technical assistance offered by initiatives such as ELENA are in line with a real need at local level. These should be made permanent but should be possible to use on smaller projects and should be accessible in the appropriate scale and timeframe.

European Regional Development Funding and European Social Fund

Current proposals for 2014 – 2020 fitted to needs;

Clarification on potential clashes with state aid regulation are needed;



Call for obligatory spending on housing if indicators such as fuel poverty and high CO2 footprint could be considered to overcome low political will in some Member State level.

Area-based interventions to be encouraged.

Need for capacity building to assist in application process.

➤ *More information? See policy recommendations from IEE project SF Energy Invest*

New Funding Streams

Social Housing Organisations could become recognized energy efficiency providers. Clear energy Efficiency Feed-in Tariffs are needed – This has been implemented in the form of supplier obligations in the UK and white certificates in France, but require a significant boost.

Use of Carbon Credits to fund refurbishment is reported by some Members States (Latvia, Czech Republic) but this is not widespread and requires further investigation.

Local energy provision: National tax law often acts as a deterrent for local housing organisations to become energy producers. Local production of renewable energy efficiency due to reduced

¹ 2050 energy roadmap

transportation – also as a way to finance efficiency

Energy Service Contracting

Energy Service contracting in the housing sector has not taken off this is partly due to the perception of risk of non –payment by end – users.

To address this a guarantee fund could give a boost to market development.

There is a need for measures (capacity building/intermediary bodies) to ensure energy service contracts protect sufficiently the end user and the client.

There is a wide perception among membership that energy service contracting or collaboration with ESCOs is only to be considered for measures with a short-term pay back, such as replacement of heating system with systems based on co-generation.

- More information? See policy recommendations from IEE Project FRESH

Bankability

Skills in accurate stock auditing integrated into local heating, cooling and energy planning are needed to increase attractiveness of investments.

Guarantee funds for financiers have a role to play. The European Investment Bank provision of such a fund could help to kick-start investment.

National Obstacles and Solutions

Characteristics and ownership of housing stock

Privatization of building stock is obviously not the best strategy to follow if you wish to implement large scale refurbishment projects.

It is not by chance that countries who have made the most progress in reducing energy consumption of their stock have a high proportion of stock managed by non-for profit housing organisations.

Refurbishment strategies in stock with multiple owners is obviously much more complex and time consuming.

Housing organisations have the skills to assist authorities in addressing also the private residential stock

Competencies in refurbishment planning and implementation are now highly concentrated in the social housing sector. These skills can be used to address the private stock with appropriate collaboration with local authorities. This would encourage area-based refurbishment as refurbishment based on ownership and thereby achieve economies of scale and cut down on costs associated with

Reversal of privatization of stock proposed in some cases:

“In Bulgaria the BHA is promoting the need for the establishment of a social rental housing sector as a solution to the poor housing conditions of low income private flat owners in multi-apartment blocks now falling into disrepair housing people in large numbers, often the equivalent of a small village.” Eleonora G. Bulgarian Housing Association, BHA

Political priorities and energy mix in the housing sector

Political will to focus on energy efficiency in housing is lacking in some countries. Unwillingness at central government level to touch often recently privatized housing can be a factor. Underlying factors can include the energy mix and import dependency levels.

VAT as a tool

Low VAT rates on maintenance, renovation, rent are cited as a useful way to help boost refurbishment rates. In some cases these are applicable only in the private sector and not for social housing organisations or housing cooperatives.

Split incentive

Split incentive: The so-called Split incentive to be tackled through rent regulation whereby an energy correction factor' is introduced in to rent

calculation or a living cost as opposed to rent + heating/cooling bills.

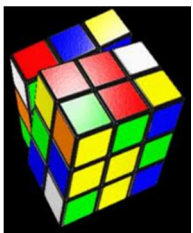
Improvement in delivery of 'refurbishment'

Integrated renovation and building concepts (integrated project design) will bring down cost.

- *More information?: See policy recommendations of the IEE project SHELTER*

Over-arching Observations

Complexity – One clear funding stream needed



Currently there are a range of different funds with different criteria for access; One stream which brings together all the possible funding and functions such as technical assistance and

low interest loans for refurbishment would boost take up.

Continuity and Timing

Funding and financial opportunities for housing refurbishment must match the long term planning required by stock managers. Stop-start incentive schemes will increase risk perception and decrease trust in the market.

Likewise were a certain speed is required to access funding for example for technical assistance, long periods writing application and waiting for results (ELENA, MLEI) do not help.

The Human Dimension: Not included in the financial estimations

In parallel to roadmap towards increasing nearly Zero energy buildings Member States need a road map to bring citizens along with the energy transition in the residential sector.

*«I something have the impression that low energy housing engineers feel that people should stay outside so that they do not interfere with the perfect energy- efficient house they have created
« Ralph Protz, Kompetenz Zentrum, Berlin*

Significant un-recognised costs

Housing organisations have estimated that 15% of refurbishment cost is community outreach, advice, information and where needed the re-housing or temporary housing of residents during renovation.

There is a need for a large-scale roll out of these outreach services throughout the EU.

Re-bound effect

Where a lack of awareness is an issues, reductions in energy usage after refurbishment cannot be guaranteed.

Under-heating

Post refurbishment rises in energy consumption cannot always be explained by is the phenomena of under-heating, common in low income households where refurbishment may result in an increase in the use of heating – this is known as the re-bound effect.

Recommendations :

At EU level

- ✓ Review of EU policy coherence to identify possible signals on economic governance state aid, energy /construction market regulation which could contradict energy efficiency goals;
- ✓ Boost ELENA and MLEI and increase usability by ensuring scale and timing correspond to needs of those organisations who are ready to act;
- ✓ Establish EU fund to provide guarantees for energy efficiency financiers (banks, ESCOs);
- ✓ Facilitate exchange of know-how/experience;

EU to promote at national level

- ✓ Long-term, low-interest loans – possibly with support of EU guarantee fund;
- ✓ VAT policies which promote refurbishment
- ✓ One fund /point of reference for energy efficiency providers;

- ✓ Development of reliable market for energy efficiency provision;
- ✓ Address regulatory obstacles to local energy provision;
- ✓ Fair solutions to the split incentive;
- ✓ nZEB Roadmaps which integrate the human dimension including the cost
- ✓ Long-term regulatory frameworks which guarantee continuity;

➤ In Annex – overview of questionnaires

➤ For More information and best practices:

www.powerhouseeurope.eu/

www.housingeurope.eu

CECODHAS Housing Europe 'The Federation of public, cooperative and social housing', is a network of national and regional social housing federations gathering 4.500 public, voluntary housing organisations and 28.000 cooperatives housing. Together the 45 members in 19 EU members States **manage 25 million dwellings**. CECODHAS members work together **for a Europe that provides access to decent and affordable housing for all in communities which are socially, economically and environmentally sustainable and where all are enabled to reach their full potential.**