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Dear Convenor,

Notification of the publication of the Green Heat Finance Taskforce Part 1 report.

On 22 November, the Green Heat Finance Taskforce will publish its first report to the Scottish Government discussing where and how we can help increase the flow of private finance to support the transition to clean heating.

Over the past year the Taskforce, which I co-chair, has been exploring barriers and opportunities for developing a diverse range private finance products to help consumers cover the upfront costs associated with converting from polluting to clean heating. This includes identifying innovative new products which could develop in the medium term and potential pilot approaches in the shorter term.

The Taskforce offers a wealth of experience from industry, finance, academia and consumer perspectives. It concludes that the market for financing retrofit is currently immature but expanding and consider there to be substantial growth potential in the short, medium and longer term provided demand for clean heating systems increases sufficiently. This includes through products like additional secured borrowing, equity release specifically for retrofit and property (rather than individual) linked loans. These are all discussed in the report.

The Taskforce will be spreading its recommendations across two reports. The first report - Part 1 - sets out the current status of private finance markets for building retrofit including installation of clean heating. It will highlight barriers to the growth of private finance provision and note opportunities to expand the range of products available to individuals and businesses to help finance the upfront costs of work. It will also provide an overview of the current products on the market which consumers can access. The annex of this letter includes the nine recommendations of the Taskforce's Part 1 Report.

The products identified by the Taskforce are primarily products which would be suitable for people who can afford the repayment costs over time. Of course, we know some people may

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not be able to afford repayment costs for property upgrades, even when they are offered at low or zero interest rates as some market providers currently do. There will therefore continue to be an important role for Scottish Government support throughout the heat transition and in the future I would expect a mix of public and private financing to be deployed in various combinations to provide individuals with the support which is most relevant to their circumstances.

Part 2, the Taskforce's second report, will focus on financing mechanisms which might apply across multiple properties through place-based initiatives, social housing options and approaches for heat networks. It will explore how to aggregate demand to levels that can attract larger investors, although these structures will take longer to establish and, at least initially, will require blended investment combining both public and private contributions.

As well as making independent recommendations to the Scottish Government, the Taskforce highlights where action is required by others and identifies some organisations that can work in partnership with government to foster greater action. I therefore welcome the Report and it will provide an important contribution to shaping our future funding and financing policy related to the heat transition. After considering the detail in this Part 1 report, along with conclusions of the Part 2 Report when it is published next year, the Scottish Government will formally respond to set out which recommendations we will take forward and how.

However, to reiterate the importance of decarbonising heat it is worth bearing in mind that the benefits of clean heating and energy efficiency measures go further than allowing consumers to reduce bills through reduced energy consumption, or government to make progress towards net zero goals. They can also improve health by making properties warmer and less damp. For these reasons we remain committed to working with others, including Parliament, industry and local authorities to build the momentum and coordinated structures necessary to successfully convert existing buildings to clean heating.

I hope that you find this detail useful and I look forward to further opportunities to discuss our delivery of the transition to Net Zero with members of the Committee.

Yours sincerely,

PATRICK HARVIE

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Part 1 report recommendations:

1. Scottish Government should encourage, from early 2024, increased market-customer engagement and communications – working with the Green Finance Institute, the finance sector through Scottish Financial Enterprise and other interested parties, to raise awareness of existing green finance products (particularly green mortgages and unsecured loans) with mortgage providers, distributors, brokers and quantity surveyors, and to further explore options for expanding the range of products available;
2. Scottish Government should begin work early in 2024 with the Equity Release Council to develop an information framework and guidance – alongside associated codes of conduct for expansion of these products by institutions – for the purpose of installing zero direct emission heating solutions, as well as the necessary building fabric improvements;
3. Scottish Government should support the development of blended co-investment vehicles (blended financing) – with the support of the Scottish National Investment Bank, Scottish Financial Enterprise and Scottish Futures Trust. By the end of 2024 it should identify the most suitable focus and delivery structures that will help facilitate the joint deployment of public funding alongside private sector capital;
4. Scottish Government should collaborate with the Green Finance Institute to research the viability of Property Linked Finance in Scotland, with a view to developing a scalable demonstrator of the mechanism by the end of the current Scottish Parliament in 2025;
5. Scottish Government should review and publish, by the end of 2024, the scope to utilise fiscal levers and taxation policy in Scotland to facilitate and accelerate the installation of zero direct emission heating solutions and energy efficiency measures;
6. Scottish Government should review and publish an analysis, by the end of 2024, of how non-domestic rates reliefs can better support and encourage investment in energy efficiency and zero direct emissions heating;
7. Scottish Government should commission research, by mid-2024, to help mitigate the split incentive issue by exploring options for the use of green rental agreements in Scotland, and then pilot deliverable approaches, by early 2025, to encourage retrofitting in privately rented properties;
8. Scottish Government should immediately seek to engage with UK Government and regulators to ensure alignment of approaches and support coordination of activity between governments and regulatory bodies; and
9. Scottish Government should map, by mid-2024, the current availability of physical and investment-related data pertinent to heat in buildings – identify gaps and establish a framework promoting open data sharing to address these.

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