

# The 'Revolving Retrofit Guarantee Fund'

## A Sustainable Financing Mechanism For Housing Retrofit

### Overview

Radian secured European Regional Development Funding (ERDF) via SEEDA in 2009 to implement the 'Retrofit South East' Project. This project aims to develop capacity for low carbon retrofit of social housing. A key aim of the project was to develop a conceptual finance model to address the principal barrier to mainstream retrofit. This work focused on introducing to the UK the proven 'Retrofit Revolving Guarantee Fund' (RRGF) mechanism. Led by Global Environmental Social Business (GESB), experts at implementing this sustainable and affordable finance model in Europe to levels where 2% of a national housing stock is refurbished to advanced energy efficiency standards annually, this follows the introduction of the RRGF principle by the World Bank and IFC. Work on this innovative and portable model has focused on the affordable housing sector, although it is also a highly applicable financial solution to private sector housing, to provide access to long term sustainable and affordable finance for energy efficient and renewable energy retrofit projects.



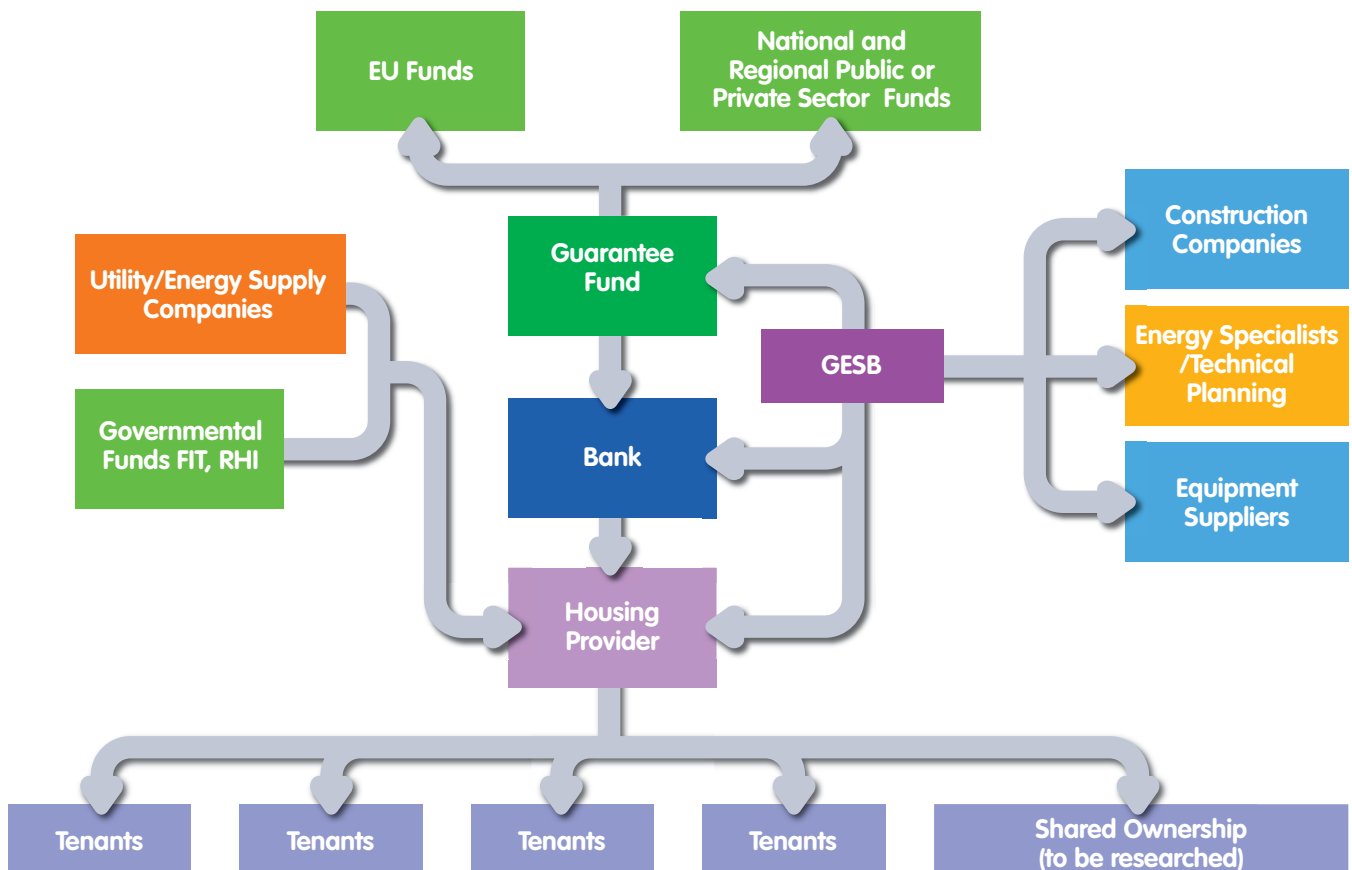
# The emergence of a sustainable retrofit finance solution for the UK housing stock



Currently, there is no mechanism available in the UK market that is able to mobilise the required investment volume for mass retrofit in a sustainable way, and the long term availability of grants and subsidies is uncertain. The Revolving Retrofit Guarantee Fund (RRGF) mechanism and the findings from the 'Retrofit South East' project are being disseminated by Radian, an award winning leader in implementing advanced exemplar retrofit projects. In Radian's opinion, the RRGF, as a package, offers distinct advantages or can enhance traditional financial products currently available or in development, such as the 'Green Deal', PV 'Rent a Roof' and EIB finance schemes.



## Operation of the RRGF in Affordable Housing



**Radian, working in partnership with GESB, have held a series of workshops and focus group meetings to develop the conceptual RRGF to suit UK housing. These were attended by key stakeholders including NHF, HCA, DECC, EST, PUSH, SEEDA, pioneering housing associations, local authorities, construction companies, energy suppliers, representatives of other private sector organisations and banks. This research reached stakeholder consensus regarding the unique advantages offered by a RRGF programme for retrofit:**

- Borrowing for retrofit work takes place against a guarantee fund, greatly reducing the risk for commercial investors issuing loans. This also means housing providers do not need to borrow against their existing housing asset base for expensive large scale retrofit, so can retain this for use against important new build developments to help increase the supply of social housing.
- The volume of loans, coupled with the de-risked guarantee fund, enables borrowing at lower interest rates than social housing providers are currently able to access. Loans are made based on clear eligibility criteria.
- The guarantee fund, managed by an independent delivery agency, enables the scheme to operate continually in the event of loss or temporary default on loan repayments (as high as 5% default can be accommodated while the fund remains operational) and marks a move away from traditional mortgage based finance and the risk of private sector repossessions.
- Leverage rates of investment into the fund to produce low interest rate borrowing for capital works are unrivalled by any alternative funding schemes (1:20 - 1:150) and enables more retrofits for less. As repayments are made the fund revolves increasing the leverage ratio and enabling further sustainable loans to be issued.
- The fund earns interest, which pays for the financial management costs of the programme, and investment can be returned to original investors at eventual end of programme, if required, making it more attractive to fund investors.
- Flexibility to increase size of retrofit programme portfolio during the life of the operational fund or to extend programmes at the end of their lives.
- Borrowing can take place at a community level to improve loan up take rates by spreading credit risk so that equality of access to loans prevails. Energy behaviour change and local retrofit skills training are introduced as key elements of projects. e.g. using the highly successful and effective 'Greening Campaign' communities approach.
- Programme management has a strong social dimension and closely engages residents at all stages of the retrofit process through Community Support staff. Loan agreements with residents are clear, concise and simple to understand and complete.
- Residents benefit from a 'Pay as you Save' approach, whereby low monthly repayments are less than their overall annual running cost savings post retrofit. This could be paid as a service charge under a voluntary agreement; an increase in rent, where current rent levels are lower than target rent; or as a result of a change in rent legislation or policy. The loan remains assigned to the property.
- Technical solutions implemented are robust and align with investment returns using specialist advice and based on evidence of performance in use.
- The fund can accommodate all available grants and income streams such as FIT, RHI, CESP, CERT, to further reduce the cost of borrowing, the amount of loan or the borrowing period.
- Fund is complementary with existing housing association management practices, including rent collection payments.
- Once operational, the fund is not affected by Government intervention and avoids uncertainty associated with short term grant availability.
- A proven sustainable financial mechanism offering secure and long term access to affordable financing continually to 2050 and beyond.



# Project context – the need for sustainable and affordable retrofit finance in the UK

The residential housing sector contributes approx. 27% of the carbon dioxide emissions in the UK. In order to achieve the Climate Change Act target of an 80% reduction in CO2 emissions by 2050, it is estimated that at least 500,000 existing homes require comprehensive whole house energy efficient refurbishment every year up to 2050. Based on existing examples, where household carbon dioxide emissions have been reduced by 60 to 80% per annum post refurbishment, this could cost up to £10 billion each year. Therefore, cost is a highly significant barrier to progress. Failure to deliver these refurbishment targets now, as is currently the situation, will mean that a higher number of annual refurbishments will have to be completed in subsequent years.

## RETROFIT South East

### Next steps

The 'Retrofit South East' project, led by Radian, is part funded by ERDF secured through SEEDA and contributes to an 18 month study (2009-2011) to build capacity for low carbon retrofit in the region. Phase II of the 'Retrofit South East' project will commence late 2010, following Radian securing additional ERDF funds, and will develop the mechanism to a UK bankable and pilot-ready stage. The 'Greening Campaign' will be added as a new project partner, to existing partners Camco, Parity Projects and GESB, to fully address user education and behaviour change.

Radian and GESB are seeking interest from all retrofit stakeholders wishing to learn more about the Revolving Retrofit Guarantee Fund (RRGF) mechanism, or interested in engaging in a medium to large size retrofit project, to pilot the mechanism in their area of operation in parallel with Radian.

### Further information and contacts

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#### Radian

Is an award winning social housing provider, managing 17,500 homes in the South East, at the forefront of the retrofit agenda led by Sustainability & Innovation Manager, Paul Ciniglio.

[www.radian.co.uk](http://www.radian.co.uk)

#### About GESB

The managing director of GESB, Aniko Dobi-Rozsa, created and managed the RRGF methodology while working for the World Bank Group and the IFC for 8 years. The global success of this portable product in Europe speaks for itself, with hundreds of thousands of households already having benefited and now enjoying more comfortable and affordable living conditions. GESB is an ethical organisation, focused on improving people's quality of life with equal opportunity.

[www.gesb.eu](http://www.gesb.eu)

For the full RRGF report, go to [www.radian.co.uk](http://www.radian.co.uk) and click on 'sustainability'.



Project partners are:

