

The use of loans to encourage action to reduce emissions in homes and businesses

Introduction

Loans, including zero interest unsecured loans, have been an integral part of the support provided by the Scottish Government to reduce emissions in homes and businesses for around 15 years.

The first loans for home energy efficiency were offered under the Scottish Government's Energy Saving Scotland Home Loan Pilot (Oct 2009– June 2010) and for small businesses under the Scottish Government's Energy Saving Scotland Small Business Loans scheme (from 2008), the latter was also available for private sector landlords to use.

Between 2017 and 2022 the Scottish Government also piloted the use of equity loans to fund energy efficiency improvements and repairs through its Home Energy Efficiency Programme Equity Loan Scheme.

This briefing summarises the loan schemes currently available in Scotland for owner occupiers, private landlords and small and medium sized businesses (SMEs). These schemes are all funded by the Scottish Government and managed by Energy Saving Trust and are:

- Home Energy Scotland Grant and Loan Scheme
- Private Rented Sector Landlord Loans
- SME Loans

Home Energy Scotland Grant and Loan Scheme

The Home Energy Scotland Grant and Loan Scheme was launched in December 2022 and replaced the Scottish Government's Home Energy Scotland Loan and Cashback Scheme which provided up to £15,000 loans with up to £6,000 cashback grant for energy efficiency improvements, and up to £17,500 with £7,500 cashback for renewables measures for homeowners. Importantly, in this previous scheme, customers could not access the cashback grant without taking out a loan.

The Home Energy Scotland Grant and Loan Scheme provides grants and unsecured zero interest loans to help households in Scotland reduce their bills and carbon emissions by making the adoption of energy efficiency and home renewables systems more affordable.

Under this scheme customers are able to access the grant element without taking out a loan. The maximum amount that can be borrowed depends on the measures that will be installed

(see below for further detail). Repayment periods also depend on the measures installed but can be up to 12 years.

Importantly, the Home Energy Scotland Grant and Loan Scheme is supported by free, impartial customer advice provided by Home Energy Scotland. The Home Energy Scotland advice service provides customers with “one-stop shop” information about and is the gateway for access to the Home Energy Scotland Grant and Loan Scheme as well as to other available financial support (for example the Scottish Government’s national fuel poverty programme Warmer Home Scotland).

This ensures that, where eligible, customers can be referred to the most appropriate programme specific to their personal circumstances which for loans includes ensuring that any repayments are affordable. Having the Home Energy Scotland advice service as the sole referral route for the Home Energy Scotland Grant and Loan Scheme also ensures that the scheme is not mis-sold to customers.

The Home Energy Scotland Grant and Loan Scheme allows customers to overcome high upfront costs, which are a critical barrier to the installation of energy efficiency improvements and renewables.

For many householders the up-front cost of purchasing and installing these improvements continues to be the main barrier to uptake and the zero-interest loan is designed to help overcome this barrier. The loan element enables customers to repay the upfront cost over time, while the grant reduces the overall intervention cost.

In 2022/23 Home Energy Scotland loans supported the installation of over 5,500 measures. The most popular were:

- solar photovoltaic (PV) systems
- air source heat pumps (both representing around 25% of installations)
- electric batteries (representing around 20% of installations)

From 6 June 2024, the programme no longer supports new applications for solar PV and energy storage systems, including electric and heat batteries, with available funds targeted at measures which directly decarbonise heat or reduce heat demand.

Key steps

The key steps in the Home Energy Scotland Grant and Loan Scheme are as follows:

1. Householder contacts the Home Energy Scotland advice centre. Adviser determines if scheme is appropriate for their needs and circumstances.
2. A free property survey can be scheduled and conducted by a specialist advisor, however customers with a pre-existing energy performance certification report can access funding for certain improvements without the need for a survey.
3. Householder gathers quotes from installers.

4. Householder submits the application for funding which, when applying for a loan, includes a credit check.
5. The Home Energy Scotland Grant and Loan service delivery team conducts due diligence of the application and if criteria are met, funds are offered.
6. Installer implements the improvement.
7. Householder gathers evidence of installation (including for example, the installer invoice and a post-installation EPC) and provides it to the Home Energy Scotland Grant and Loan service delivery team. There is also a requirement for householders to put a review on the [Renewables Installer Finder tool](#) before funding is released.
8. The Home Energy Scotland Grant and Loan service delivery team disburses the funding.
9. Householder repays the loan over the agreed period.

Maximum loan amounts

The maximum loan and grant amount available depends on measure, for example:

- **Heat pumps** (either air source to water, ground source to water, water source to water or hybrid air source to water):
 - **For those not eligible for rural uplift:** £15,000 (£7,500 grant plus up to £7,500 loan).
 - **For those eligible for rural uplift:** £16,500 (£9,000 grant plus up to £7,500 loan).
- **Solid wall insulation:** up to £10,000 (£7,500 grant plus up to £2,500 loan).

[Read the full list of maximum loan and grant amounts per measure.](#) The minimum loan amount available is £500.

Loan repayment periods

Householders can choose how long to take to repay the loan, up to the following maximum number of years:

- **Under £5,000:** 5 years
- **£5,000 – £9,999:** 10 years
- **More than £10,000:** 12 years

There is no minimum loan term.

Quality standards

For low carbon heating, such as heat pumps, there is a requirement to use Microgeneration Certification Scheme (MCS) installers to access the Home Energy Scotland Grant and Loan Scheme.

To access the Home Energy Scotland Grant and Loan Scheme for some energy efficiency measures, there is a requirement to use installers that are TrustMark registered businesses to install these.

Customers accessing the Home Energy Scotland Grant and Loan Scheme who cannot locate a TrustMark registered installer may use a Green Deal certified installer.

Repayment rates

The Home Energy Scotland Grant and Loan scheme is targeted at the able to pay market and applicants are required to pass a credit check for loan funding. This is likely to contribute to the fact that the repayment rates of the Home Energy Scotland Grant and Loan scheme have been consistently high.

Failed direct debit payment rates (which can be considered as payment defaults, including non-intentional causes such as card expiration) are consistently very low.

Private Rented Sector Landlord Loan Scheme

Interest free loan funding of up to £100,000 (£38,500 per property) is available to private sector landlords registered in Scotland with five or fewer properties through the Private Rented Sector Landlord Loan. Landlords with more than five properties in their portfolio can borrow a maximum of £250,000 and are subject to interest at a rate of 3.5% APR.

These loans help overcome a critical barrier to the installation of energy efficiency improvements, renewables and energy storage: the upfront capital cost. For many landlords, the up-front costs of purchasing and installing these improvements continues to be the main barrier to uptake and the loan is designed to help overcome this barrier. There is no grant element to the Private Rented Sector Landlord Loan.

The loans cover a range of energy efficiency improvements (such as improving insulation, glazing, and heating systems (warm air units or high heat retention electric storage heaters)). The maximum loan amount depends on measure(s), for example:

- **Energy efficiency:** the maximum loan available is £15,000 in this category for each property and within this maximum loan amounts are available for each energy efficiency improvement (e.g. £10,000 for external wall insulation).
- **Up to two renewable systems:** the maximum loan available is £17,500 in this category for each property and within this maximum loan amounts are available for each renewable system (e.g. £10,000 for a heat pump (air source, ground source, water source or hybrid)).
- **Energy storage:** the maximum loan available is £6,000.

[Read the full list of maximum loan and grant amounts per measure.](#)

There is no minimum loan amount. The maximum loan term is 8 years. There is no minimum loan term.

SME Loans

The SME Loan was launched in 2008 by the Scottish Government as a key part of Scotland's economic recovery programme, recognising that SMEs often do not have the capital finance to implement energy efficiency or renewables measures to enable them to benefit from the resultant reduced energy costs.

The loan scheme provides unsecured, interest free loans of up to £100,000 to SMEs, not-for-profit-organisations and charities to finance the installation of renewable heating and energy efficiency measures. The minimum loan that can be taken out is £1,000. The maximum loan term is 8 years and there is no minimum loan term.

A cashback grant is also available through the SME Loan Scheme (launched in 2018) to stimulate the uptake of energy efficiency and renewable heat measures in non-domestic properties.

Through this financial offer SMEs can apply for a 75% cashback grant of up to £10,000 towards the costs of a renewable heating system and a further 75% cashback grant up to £20,000 for energy efficiency measures. In total SME's can access a maximum of £130,000 through the scheme.

These loans and grants help Scottish businesses overcome the financial barrier that comes with installing energy efficiency improvements and renewable systems; improvements and systems that will help businesses reduce their energy usage, fuel costs, carbon emissions and therefore increasing the businesses economic competitiveness.

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