

Third-Party Financing Companies set up in France as Integrated Home Renovation Services

Third-Party Financing Companies set up in France are examples of ‘all-inclusive’ One-Stop Shops (OSS) / Integrated Home Renovation Services set up by Regions and main cities (*Métropoles*) to both direct the demand for renovation towards energy performance and facilitate the decision making of households and co-ownerships through an integrated financing offer.

The scope and organisation of these activities depend on local political decisions to overcome the shortcomings of the renovation market:

- Ile de France Energie¹ (formerly Energies POSIT'IF), ARTEE² (Agence Régionale pour la Rénovation Energétique de la Nouvelle Aquitaine), OKTAVE³ in the Grand Est region, were created in the form of Société d'Economie Mixte (public-private companies). Bordeaux Métropole Energies⁴ (BME), which is the holding company of the Régaz Bordeaux group (gas distribution and energy services), has the same company status, and Centre - Val de Loire Region has also chosen this status for the third-party financing operator created in 2020.
- Hauts-de-France Pass Rénovation⁵ was created as a public establishment (therefore legally integrated into the Regional Council)
- And the Occitanie Region has created the Third Party Financing activity of the Regional Energy and Climate Agency (AREC⁶) as a company wholly owned by Local Authorities (*Société Publique Locale* - SPL).

All Third-Party Financing Companies aim at easing the financing of energy-efficient renovations. While OKTAVE chose to do it through bank intermediation, the other Third-Party Financing Companies take advantage of their specific legal status, which allow them to provide long-term credits to their customers further to an approval from the French Banking regulation authority⁷.

Direct loans offered by Third-Party Financing Companies

Third-Party Financing Companies set up in France aim at not excluding from the green housing market households with low incomes, or who have recently taken on debt to buy their home, or who do not have easy access to loan insurance, and to enable them to spend less on energy. For the community, the challenge is to prevent the risk of precariousness for these households.

The direct financing offer is included in their typical "Integrated Home Renovation" offer. Firstly, they can offer direct loans with repayment terms up to 25 years, depending on the useful life of the financed renovation, thanks to the long-term credit lines the European Investment Bank is providing them. In addition, Third-Party Financing Companies design the financing in such a way as to make it as easy as possible to carry out the renovation without overburdening the household's ability to repay. They take into account the assessment of energy savings to evaluate the repayment capacity of the households, as this is done under their control. They are also directly involved in the design and implementation of the renovation. Finally, by also providing post-renovation monitoring, Third Party Financing Companies allow households to better control their energy consumption.

Whereas extending individual loans is not an end in itself for the banks, but a means of attracting and retaining a selected clientele with a view to cross selling more profitable services and products, Third-Party Financing Companies are developed by the Regions and large cities specifically to encourage housing deep renovations. They take into consideration the trade-off between the social and energy benefits and the credit risk that they assume.

Initial results

¹ <https://www.iledefranceenergies.fr/>

² <https://www.artee.fr/>

³ <https://www.oktave.fr/>

⁴ <https://www.facirenov.fr>

⁵ <https://www.pass-renovation.hautsdefrance.fr/>

⁶ <https://www.arec-occitanie.fr/renovoccitanie-le-service-public-regional-de-la-renovation-energetique.html>

⁷ Autorité de Contrôle Prudentiel et de Résolution (ACPR)

Among the STF's which have ACPR approval, Hauts-de-France PASS Renovation has been carrying out financing activity since 2016, ARTEE started its financing activity in 2019, Ile-de-France Pass Renovation and AREC in Occitania in 2020.

The production of renovations by the Third-Party Financing Companies covered 2,000 dwellings in 2019 (houses and apartments in co-ownership), for a works cost of almost € 50m. These renovation work's energy impact (reduction in primary energy consumption) is about 42 GWh/y. The volumes of third-party financing reached 20 million EUR at end of 2020.

These slow beginnings can be explained by multiple factors: locally, STF have difficulties in structuring their service offer due to the low willingness of households to pay for advisory activities, the lack of qualified installers, but also due to national obstacles: instability of subsidies and competition from national incentive schemes that direct demand towards single energy-efficiency measures (such as one-euro boilers financed by energy saving certificates) and reluctance to adapt legislation to allow Third-Party Financing Companies to distribute the regulated zero-rate eco-loan.

However, it is worth noting the average amount of renovation works that is supported / carried out by Third-Party Financing Companies is high: around € 25k to € 50k for individual houses, € 20k to € 35k for co-ownership apartments. Likewise, the level of energy savings achieved is commonly greater than 50%. These indicators clearly show that Third-Party Financing Companies are faithful to their ambition to favour renovations in a way consistent with the national objective of energy transition, against the current of incentives pushing for "single-batch" work.

Proposal for strengthening the capacity of Integrated Home Renovation Services

The Third-Party Financing Companies in France need additional resources on top of charging their services to the final beneficiaries: individual owners and co-ownership syndicates. In fact, although there is a clear need for educational efforts and assistance in making decisions about the work to be done, this is the service offer for which households' willingness to pay is the lowest.

The magnitude of labour cost of Third-Party Financing Companies which are related to advisory services is about 2,000 euros per project, i.e. about 6% to 7% of the investment cost. At the same time, implementation of OSS involves the coordination of many skills and requires significant resources: development and marketing skills, technical abilities in building physics and handling thermal performance models, etc. It needs, as well, investment in robust IT tools supporting these processes, training etc. In addition, the activity is capital-intensive due to the long duration of retrofit projects end-to-end.

Public sector intervention is therefore necessary to cover the costs of EE-oriented advice and supervision.

At present, France is moving towards financing the advisory and support services of Integrated Home Renovation Service through the energy efficiency obligation scheme (EEOS) (*'Certificats d'économie d'énergie'*). This is an interesting development as until now French EEOS tends to favour the most cost-effective EE measures, i.e., short-term, low-cost measures, rather than those with a higher initial cost and a more lasting impact. It highlights a shift from the objective of maximising the leverage of EE certificates to improving their additionality and effectiveness through the advisory and monitoring activities of the Integrated Home Renovation Service. However, this evolution is still in its early development and the French EEOS lacks stability.

In order to limit the stop-and-go effects caused by changes in EEOS schemes and subsidies linked to local policies, the development of Third-Party Financing Companies would be stronger if it is based on a stable national financing mechanism organised by the public sector, which would be accessible to all market actors (public, public-private and private), provided that it leads to the realisation of renovations that are in line with the EU's 2050 carbon-neutrality target and other environmental objectives.

To achieve this, Third-Party financing companies are advocating that Integrated Home Renovation Services have a status of **Services of General Economic Interest** (SGEIs) as defined in the frame of the European Union rules on state aid, public procurement and the internal market. The description of SGEI as "*economic activities which deliver outcomes in the overall public good that would not be supplied (or would be supplied under different conditions in terms of objective quality, safety, affordability, equal treatment or universal access) by the market without public intervention*"⁸.

⁸ European Commission (2013). Guide to the application of the European Union rules on state aid, public procurement and the internal market to services of general economic interest, and in particular to social services of general interest. Commission staff working document. Brussels, April 29, 2013: https://ec.europa.eu/competition/state_aid/overview/new_guide_eu_rules_procurement_en.pdf

It is a stable basis to assess the amount of compensation proportionate to the public service obligations included in the Integrated Home Renovation Services, to cover development investments and part of the operating costs of Integrated Home Renovation Service and securing a level of income over a multiannual period, while limiting competition distortion, discrimination, and barriers to new entry.

This compensation may be adjusted at local level, so that advisory and support services meet social objectives, and is then taken into account when selecting the operators of the Integrated Home Renovation Service according to qualitative criteria, and according to the level of invoicing of the service to the beneficiaries. These operators may be involved in the framework of public contracts, or concessive type contracts, or may be developed by local authorities “in house” or through public-private companies.

Such clarification would also help Regions to use European structural funds to finance Integrated Home Renovation Services, once they are framed consistently with staid aid regime.