**SCOTTISH FUEL POVERTY FORUM**

**FINAL REPORT ON THE REVIEW OF THE SCOTTISH GOVERNMENT’S FUEL POVERTY STRATEGY**

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Front cover image: unimproved and improved properties in Annbank, South Ayrshire, which benefited from HEEPS investment in 2013/14

# **Executive Summary**

In 2011 the Scottish Fuel Poverty Forum was tasked with undertaking a review of the Scottish Government’s Fuel Poverty Strategy to ensure it is best positioned to assist fuel poor households in Scotland. This is the Forum’s final report of that review to the Deputy First Minister and Cabinet Secretary for Infrastructure, Investment and Cities.

Our report provides an opportunity to summarise the progress that has been made against recommendations in our interim report. We also highlight recent changes that have occurred, particularly in the energy market, and set out recommendations in areas where more needs to be done.

The Scottish Government has continued to honour its commitment to eradicate fuel poverty by way of support and funding to tackle the problem. However, it is important that neither the Scottish Government nor the Fuel Poverty Forum becomes complacent. The most recent Scottish House Condition Survey (SHCS) shows a small drop in the overall numbers of fuel poor households in Scotland. Whilst this is good news, the fall is mainly due to a period of stable energy prices and improving energy efficiency of the housing stock. The fall is not enough to remove the problem from the front of our thinking or to lessen the desire for action.

In this final report, the Forum makes recommendations that it believes will be critical to the success of the Government’s aims. Key areas for action are:

1. Research was recently commissioned to review assumptions that underpin the current definition of fuel poverty and the Forum will consider the results before making any new recommendation to Scottish Ministers regarding changes.

# The Scottish Government should continue with an area-based approach to tackling fuel poverty and prioritise areas of wider poverty and deprivation, as it is the most effective way of delivering help and assistance to fuel poor households. The Forum wants to ensure the Scottish Government supports the need to keep HEEPS programmes at current budget levels. We urge the Scottish Government to explore all possible funding routes, including through European programmes and any consequential funding from the incentive package proposed by DECC as part of changes to ECO, in order to do this. The Forum further urges Government to maintain ‘safety net schemes’ for those living outwith area based programmes, and to do more to promote successful HEEPS schemes.

# The Forum remains concerned by the number of fuel poor households who live remote from the gas grid and who are reliant on electricity and other fuels, such as oil, for their primary heating source. These households need to be better served by HEEPS schemes.

1. Scottish Government must build on the success of current schemes to tackle harder to treat properties. There is also a need to recognise that the barriers to the installation of measures are often social rather than technical. Providing the wider support will improve the success of programmes.

1. The Scottish Government should, as a matter of urgency, improve the quality of existing reporting systems intended to monitor HEEPS programmes and the effectiveness of the measures they deliver. Current mechanisms do not provide the transparency needed to inform future improvements.
2. The Scottish Government must be clearer on how it will develop firmer links between fuel poverty measures and health or other social benefits. Trusted intermediaries are needed to help address the issue of hard to engage households. By fostering better links, vulnerable households can be encouraged to take up the most advantageous measures as well as being taught to use the equipment and controls to best effect.
3. The Scottish Government should explore ways of increasing participation of SME companies in delivering measures through the HEEPS schemes. Local employment, providing green jobs, was a key objective in the Forum’s interim recommendations. So far, this has met with a low level of success, particularly in rural areas, and those firms seeking to undertake the necessary up-skilling of their labour force have found the costs prohibitive.
4. The Scottish Government should promote the uptake of incentives to establish community owned renewable energy assets, in deprived areas, where the income could help fund measures to alleviate fuel poverty.
5. The Scottish Government should increase its efforts to establish heat networks. In Aberdeen such assets have made a considerable contribution to the eradicating of fuel poverty by providing affordable community heat. Proposed changes to ECO, currently out to consultation, would make district heating installations a primary ECO measure, and therefore provide an opportunity to grow heat networks.
6. The Forum would wish to review the costs and benefits of collective switching after all Ofgem’s reforms following the Retail Market Review are in place.
7. In its interim report the Forum commented on the relationship between health, fuel poverty and excess winter deaths. This relationship is not fully understood statistically or scientifically and the Scottish Government agreed to undertake research. The Forum recommends Scottish Ministers take further action to move forward the understanding of this issue.
8. The Forum previously recognised the potential for the Green Deal to make a contribution to the success of Scottish energy efficiency programmes. Green Deal is a funding mechanism that can be utilised by those who are ‘able to pay’ and the Forum acknowledges it is not recommended as a funding route for the fuel poor or those who under heat their homes. Nonetheless we believe that the Scottish Government should build on the good examples of the Green Deal already working in Scotland to help the scheme mature.

**Chapter 1**

# **Developments since Interim Report**

Current levels of fuel poverty

## Since the Forum’s interim report was published in 2012, the Scottish House Condition Survey[[1]](#footnote-1) has been updated. The new figures show that in 2012 there were 647,000 (27.1%) households in fuel poverty, which compares with the now revised upwards level of 721,000 (30.5%) households in 2011. This demonstrates that the programmes of assistance provided by the Scottish Government and the energy companies are having some impact in reducing bills and making homes more energy efficient.

## However these latest figures also show that 27.1%of homes in Scotland are still currently living in fuel poverty. This is set against a background of continued social programmes funded by the public purse and rising fuel bills. With the target date set at 2016 for the eradication of fuel poverty, there is still much work to be done.

Fuel Poverty and Extreme Fuel Poverty since 2003/4[[2]](#footnote-2)

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## Introduction of the Home Energy Efficiency Programmes for Scotland

## The main finding set out in our interim report was the need for a national retrofit programme to tackle fuel poverty and Scotland’s ageing housing stock. The Forum is pleased to report that these programmes, now called the Home Energy Efficiency Programmes for Scotland (HEEPS), commenced last year.

## The Scottish Government has also continued to support Home Energy Scotland to provide impartial advice for all householders. It provides the first contact point for 150,000 householders per annum and ensures that householders are directed and supported in their journey to the most appropriate scheme.

## While the Scottish Government has provided updates on progress under the National and Area Based Schemes at the Forum’s meetings, these updates have not provided the level of detail required by the Forum to effectively monitor the success or otherwise of the programmes. This is an area where the Forum has recommended further action.

Establishing an ECO sub-group

## The Forum has recently established an ECO sub-group to support the leverage of ECO into Scottish Government schemes. It is likely that this sub-group will have additional work to undertake given the recently announced changes to ECO. The Forum recommends that the Scottish Government produce an annual report on progress made through these schemes. The first report should be published as quickly as possible, once the final spend for the first year is known. The report should be made publicly available on the Scottish Government website.

Seeking innovative solutions

## The Forum is in discussion with Distribution Network Operators (DNOs) to understand better the new obligations they have been given by Ofgem via the RIIO ED1 pricing arrangements and how this might identify fuel poverty projects in the period April 2015 to March 2023. Both Scottish DNOs have been invited to become members. The Forum believes this will assist in our aim to seek further innovative solutions to the alleviation of fuel poverty.

## The following chapters set out in more detail the work that has been done since the Forum’s interim report and sets out a vision of how the Scottish Government’s Fuel Poverty Strategy should develop over the next 18 months.

# **Chapter 2**

# **Definition of Fuel Poverty and Household Eligibility**

**Progress made**

UK Government fuel poverty definition changes

## The definition of fuel poverty recommended by Professor John Hills in his review “Getting the measure of fuel poverty – Final Report of the Fuel Poverty Review”[[3]](#footnote-3) was adopted in July 2013 by the UK Government and applies in England alone. In response to DECC’s consultation the Forum argued that the Hills definition was overly complex in its measurement and was also, in the main, immune to any movement in energy prices. A further point is that the change in definition does nothing to assist in finding or identifying the fuel poor. In fact, by effectively declassifying a large number of pensioner households, it is distinctly at odds with UK Government support programmes (the Warm Home Discount and Winter Fuel Allowance for example) for fuel poverty alleviation. On this basis, the Forum cautioned DECC against adopting the Hills’ definition as proposed.

## Whilst the Forum does not advocate the Scottish Government adopting Professor Hills’ methodology, we agreed the assumptions underpinning the current Scottish methodology required some scrutiny and potentially some change to make them more relevant. Any changes to be suggested by this review should make measurement more effective and targeting of assistance easier to achieve.

Considerations for Scottish Government research

## The Forum focused on the assumptions made for people over the age of 60. The model currently assumes those people would be at home all day and heat their homes to 23°C. This may not be reflective of consumers’ real experience, but may reflect the experience of over-75s and those with health or mobility issues. The Forum is mindful of the World Health Organisation’s (WHO) paper “Health Impact of Low Indoor Air Temperature”, published in November 1985, and K. J. Collins’s paper “Low indoor temperatures and morbidity in the elderly”, published in 1986 by Age Concern, that clearly outline the impact of indoor air temperature on the health of occupants. This research and others suggest that living in the temperature range of 18oC to 24oC poses no health risks and suggests that a heating regime at the higher end of that scale is required for those over 60.

## It is important to remember that older people are not the only section of the population who are at risk of fuel poverty. Families with young children, those with disabilities and other households with a very low income are also at risk of fuel poverty and their requirements need to be taken in to consideration when designing schemes.

## The modelling used in Scotland while remaining inside the suggested temperature parameters is different to that used in the old and new models adopted in England.

## Sitting alongside the assumptions on temperature regimes is that of calculating household income. Household income is calculated on the basis of the householder with the highest income combined with the income of his or her spouse/partner. Income from other adults in the households is not collected and therefore not included in the current calculation. This may have the effect of under reporting actual household income.

## With these considerations in mind, and taking into account the findings of the “Fuel Poverty Energy Evidence Review Defining, Measuring and Analysing Fuel Poverty in Scotland[[4]](#footnote-4)”, the Forum has recommended that the research specifically explores the following:

## Whether the adopted heating regimes, the temperature levels for living areas (zone 1) and the rest of the home (zone 2) and the duration of heating spells, continue to be appropriate standards for energy consumption;

## the definition of ‘vulnerability’ with respect to energy requirements and the appropriate heating regime;

## the definition and treatment of ‘under-occupancy’ in determining reasonable energy requirements;

## the definition of ‘household income’ for the purpose of identifying households in fuel poverty and the potential for identifying an upper income level.

## Much of the existing available research and assessments are based on the physical properties of the homes. There is a growing body of evidence that householders are not realising the expected benefits from the physical properties of the home in terms of either or both fuel savings and thermal comfort. Further structured research and pilot programmes will be necessary to identify the support required to ensure householders maximise the benefit for their current homes from the insulation measures installed.

## The Forum is pleased that research is now underway and is expected to be completed in Spring 2014. The Forum will carefully consider the outcomes of this study and make further recommendations to Scottish Ministers based on the evidence presented to us.

**Concerns**

## It is disappointing that research on the fuel poverty definition was not completed prior to publishing this report. However, the Forum worked closely with the Scottish Government in developing the specification and is chairing the steering group for this research. We are confident that this means there is no scope to ‘define away’ the problem – an issue the Forum believes is happening in England as a result of their changed methodology.

**Recommendations**

## The Forum believes that the definition currently used in Scotland is still relevant, but that it needs to be reviewed and updated to reflect a more accurate assessment of the energy demands with in homes in a modern age. **Based on evidence drawn from this independent study, the Forum will consider any changes to the definition carefully before making a further recommendation to Scottish Ministers.**

## The Scottish Government’s Fuel Poverty Statement provided for the collection of data using the two most common versions of the fuel poverty definition (i.e. a version including all household income and one which calculated household income after housing costs had been removed). **The Forum would wish Scottish Ministers, at the conclusion of its research, to publish the fuel poverty figures measured against both definitions and that future SHCS reports include figures for both definitions.**

# **Chapter 3**

# **Scottish Government Fuel Poverty Programmes**

**Progress made**

Background and delivery of measures through Home Energy Efficiency Programmes for Scotland (HEEPS)

## The Home Energy Efficiency Programmes for Scotland (formerly the National Retrofit Programme) were launched in April 2013. It is proposed that they will upgrade Scotland’s housing stock, tackle fuel poverty and reduce carbon emissions. Full details and eligibility for the programmes can be found at the Home Energy Scotland website[[5]](#footnote-5).

## In summary there are four strands:

## **Area Based Scheme**. This is delivered by local authorities and prioritises fuel poor areas. Through this scheme, the whole of Scotland should be covered in around 10 years. Scottish Government funding of £55 million has been allocated specifically for this scheme in 2013-14

## **Affordable Warmth Scheme**. This is delivered nationally and is targeted at private tenure households who are vulnerable to fuel poverty, as defined by the UK Government’s affordable warmth group. Eligibility for this scheme is based on the ECO Home Heating Cost Reduction Obligation.

## **Energy Assistance Scheme**. This is an extension of stage 4 of the previous Energy Assistance Package. It focuses assistance on the most vulnerable and poor households which were previously eligible for heating and insulation measures but who would otherwise miss out under the Affordable Warmth Scheme. Scottish Government funding of £16 million has been allocated for this scheme in 2013-14.

## **Home Energy Scotland**. This provides free and impartial advice, accessible to all householders in Scotland, and ensures they can be referred through the most appropriate scheme specific to their personal circumstances. This includes referrals to: Area based schemes; Affordable Warmth Scheme; Energy Assistance Scheme; Income maximisation - including referrals for Warm Homes Discounts and benefit maximisation; and referrals to more in-depth services provided by local authorities and third sector organisations. Home Energy Scotland also supports local authorities and RSLs in their approaches to fuel poverty and insulation programmes.

## Advice to the Forum suggests that the entire 2013-14 Area Based Schemes budget has been allocated to councils who are levering in ECO funding to help some of the most vulnerable households manage their fuel bills more efficiently.

## Ofgem publish statistics for ECO on a quarterly basis[[6]](#footnote-6) with the latest figures published in January 2014. While it is early days, these figures show delivery of ECO measures in Scotland has so far reflected our population share, although the Forum has concerns that the delivery has been better in some parts of Scotland than others, with some rural and island areas faring least well.

## The mixed progress of HEEPS Area Based Schemes is due to a range of factors, including:

## The requirement to carry out robust procurement for insulation contractors and ECO providers has delayed the commencement of some schemes. However in the majority of local authorities, these are now in place and progress is expected to speed up.

## The nature of the local housing stock as the programmes supported by ECO are better suited to flats with cavities and non-traditional build. There are still technical issues associated with stone built properties requiring internal or external wall insulation. There are also specific issues relating to the treatment of room-in-a-roof assessments which impacts on a large number of properties in rural areas.

## Although local authorities have a good understanding of local issues, energy efficiency and the changing ECO requirements are complex and it can be challenging for officers to speedily deliver new programmes especially when the housing stock has been transferred. Joint working and external support can make a big difference to what they can achieve.

## Progress is also being made under the national Affordable Warmth Scheme. Memoranda of Understanding to deliver the Scheme have been signed with ScottishPower, British Gas and SSE to ensure eligible households in Scotland, regardless of location, receive a service under ECO. This has only been partially successful because, due to the design of ECO, the offers have generally been limited to on-gas areas and, although off-gas householders are eligible, they are not entitled to support. We believe a move to a deemed scoring approach could significantly reduce this problem. The Forum wants to see a continuation of this kind of commitment to working towards a common aim continue, particularly where this can be done through building partnerships and results in improved outputs.

## The Forum is also advised by officials that around £100,000 - £200,000 is expected to be lent out in 2013/14 under the Scottish Government’s Gas Infill fund. This loan fund will help householders in areas on, or very close to the existing gas grid, switch to gas is as a cost-effective way of reducing energy bills and tackling fuel poverty.

## The Scottish Government has to date made offers of grant totalling almost £400,000 and offers of loan funding of £10.9 million, of which it is expected that around £2m will be drawn in 2013/14 under their Warm Homes Fund. This scheme supports renewable energy projects in fuel poor communities.

## Along with the Scottish Government’s CARES scheme, the Warm Homes Fund can be used by communities to create an income stream from renewables projects that can be used to finance installation of efficiency measures in the local area. Ultimately, this will help communities better understand the benefits of renewable technologies and provide further opportunities to access measures that will improve their homes and reduce their bills.

## The Scottish Government’s winter marketing campaign has been helping to raise the profile of the Home Energy Scotland advice line. In the first week of the campaign there was a 90% increase in calls to the hotline from the previous week and the Forum hopes this success continues and can be built upon. By having an overarching campaign signposting to more detailed support, this broadens householder engagement and ensures that householders are given the most appropriate advice.

Technical and educational developments

## The technical difficulties of installing measures in pre-1919 and traditional properties, and the strong belief that this leads to expensive solutions, is seen as the root of inertia and low take-up in this sector. However, research and pilot work by many organisations in the UK, but specifically by Historic Scotland, would suggest that there is a range of technically appropriate measures that could be deployed under new and evolving ECO schemes. The potential changes to the parameters and criteria for ECO funding are examined in DECC’s March 2014 consultation. This may lead to a wider range of measures for traditional buildings becoming available within the scheme, along with more modest but achievable targets.

## By developing a range of measures, suitable for traditional Scottish house types, it is considered that a significant work programme would result - requiring up-skilling of local contractors and the establishment of a materials supply chain utilising natural Scottish resources. Funding from the Scottish Government’s Low Carbon Skills fund should be used to assist with this up-skilling to ensure Scotland’s SMEs, including those in isolated areas, will be well placed to take advantage of the local economic potential this would bring. The demand for such measures, and construction solutions, from key stakeholders (such as The Crown Estates, Members of Scottish Land and Estates, National Trust for Scotland and many Housing Associations, along with the widely dispersed individual properties in rural communities) means that a sizeable market is assured.

## Parallel to these technical developments, it is interesting to note there have been initiatives by Historic Scotland and the Construction Industries Training Board to develop an SQA approved qualification for the installation of energy efficiency measures in older and historic buildings. However, these elements of the Scottish housing stock form a sub-set of the wider population of Hard to Treat Properties. A recent ambitious enterprise announced by Retrofit Scotland aims to showcase upgrade solutions for all of Scotland’s generic house types.

## The Forum is very encouraged to see all this new work emerging and intends to closely track progress in this sector. The Scottish Government should continue to support this work and ensure there is a high priority placed on it.

Collective Switching and purchasing

## The Forum is aware of a collective switching report from DECC[[7]](#footnote-7) that shows it cost twice as much as it delivered (across a number of different schemes). The report also raised concerns about smaller suppliers’ ability to provide adequate levels of customer service (in the Changeworks project at least). In light of this evidence, the Forum is not against the concept of collective switching, but there is clearly a need to refine the approach.

## Furthermore, the Forum recognises the Retail Market Review (RMR) is leading to further simplification of the energy tariffs available and oblige suppliers to inform customers of their cheapest available tariff. The Forum is concerned that a push on collective switching now could result in consumers being tied into a tariff which makes them worse off than if they had awaited the outcome of the review. For example moving to a smaller supplier may exclude individual consumers from access to the Warm Homes Discount which provides £130 discount from energy bills to those on certain benefits.

## Householders would benefit from impartial advice and support on switching generally which would fit well with the energy efficiency advice being provided by Home Energy Scotland.

## To date collective switching has focused on mains gas and electricity. In rural areas of Scotland many householders use oil and LPG and are required to buy in bulk. Collective purchasing, possibly linked to local credit unions, ought to be explored.

Future Funding and Programmes

## The Scottish Government’s spending plans for 2014-15 and 2015-16 include a fuel poverty budget of £79m in both years. Indeed, on 3 March 2014 the Scottish Government announced £60 million will be invested in HEEPS: ABS in 2014/15. Around £42 million will be split between the 32 councils while the remaining £18 million will be made available to local authorities to develop larger scale schemes. The Forum is pleased to see the ongoing budgetary commitment from the Scottish Government and notes their intention to use this funding to lever in additional private sector funding from the utility companies. The Forum expects that the Scottish Government will provide regular updates on this spend so that the success of these schemes can be closely monitored.

## With around £19 million from their fuel poverty budget, the Scottish Government will launch a new national scheme to address fuel poverty to replace the existing Affordable Warmth and Energy Assistance schemes. Due to the recently proposed changes to ECO, the design of this scheme is still under consideration. Particular attention needs to be paid to the success of the Affordable Warmth provision where householders, although eligible, are not being provided with support by the utility companies. The Forum believes the scheme needs to provide a ‘safety net’ for those living out-with area based programmes, and that eligibility should continue to include families as supported through the current energy assistance scheme.  To ensure that those families with children currently eligible continue to have access to support with physical measures, it will be important to have eligibility criteria wider than the more restrictive affordable warmth group and in line with the current energy assistance scheme. It will be important though, that however the scheme is designed, it does not rely heavily on ECO policy, which, as we have recently witnessed, is subject to change. The Forum is involved in the design of the scheme which is expected to launch in Spring 2015.

## SMEs have a significant role to play in delivering measures through current and future schemes, and that the Scottish Government should actively encourage this. The benefits of using a trusted, local, business will encourage uptake within communities whilst boosting the local economy. Consumer Futures is currently undertaking some work looking at devolving Scotland’s share of carbon taxes to deliver energy efficiency programmes which could be useful in identifying wider benefits to local economies. The results should be available in early 2014 and the Forum will consider how these can be used.

**Concerns – impact on progress of Scottish Government programmes**

## A major challenge has now emerged that may, if not managed efficiently, throw the success of Scotland’s fuel poverty programmes into question. Proposed changes to ECO have already impacted on Scottish programmes, with some reports reaching the Forum that Council HEEPS programmes may now not be secure in the funding to support a full delivery of their original plans. It cannot be stressed highly enough that this change could be disastrous for our national programmes.

## The initial move from the Carbon Emission Reduction Target and the Community Energy Saving Programme (CERT &CESP) to the ECO was a challenging one. This change saw a period of inactivity in the provision of measures to support fuel poor and vulnerable households while one set of programmes tailed off and the other, with newer rules and regulations commenced. The new ECO programme was reported to be more of an administrative burden, making it harder to deliver measures to customers. It was originally designed to move the market away from lower cost loft and cavity wall insulation and towards hard-to-treat properties. The greatest challenge, however, was integrating this with the new HEEPS programmes. The Forum is pleased to have the three main Scottish energy suppliers as members and is working hard with them to ensure that wherever possible they can work effectively to bring funding to the Scottish Government programmes.

## An issue highlighted to the Forum is the suitability of measures installed under HEEPS and ECO; for example insisting on free or lower cost measures such as electric heating when their running costs might be higher. This can be the case when replacing an existing oil heating system with electric heating. The Scottish Government needs to consider this issue and put measures in place to ensure that households are not given inappropriate heating systems.

## Consumer Futures[[8]](#footnote-8) recent work on mixed tenure blocks highlighted both technical problems with measures and administrative barriers (i.e. difficulties of agreement), and problems this can create. The Consumer Futures report makes some specific recommendations that the Forum supports, for example, ‘tenement action areas’ to ensure that Scottish Government energy efficiency programmes deliver measures and support those living in tenements[[9]](#footnote-9).

## The Forum recognises that not all homes in Scotland have gas or electricity as the main heating source and notes that there has to be innovation in funding for those homes reliant in other forms of heating such as oil, LPG and solid fuel.

## In urban areas, the Forum supports the development of district heating schemes; these should be prioritised to target those using electric heating in the first instance. The changes to ECO and the proposed new rules may well support greater growth in the delivery of new projects such as those proposed by Craighall Energy and the expansion of schemes such as Aberdeen Heat and Power which already delivers low cost heating to fuel poor consumers. The Forum is supportive of this and also sees a supporting role for DNOs. However, the Forum notes that widespread adoption of district heating schemes brings with it a challenge for consumer protection. Potential issues caused by consumers being unable to switch energy provider for example, or a lack of a clear redress mechanism in the event of disputes between individual consumers and landlords highlight the need for a robust consumer protection regime for district heating consumers.

## Much of the focus of this final report is on the importance of physical measures to the housing stock. However, fuel poverty is a complex area and many people cannot afford to pay their fuel bills for a number of complex and interrelated reasons. In addition to an area-based physical measures approach, people focused solutions are required.

## Households need access to a range of support so they can tackle fuel costs and other key element of household budgets, such as food costs. Key requirements are benefits checks, to help them maximise their income, and to provide support for them to have the confidence to communicate with their supplier about payment plans and switching if there is a better deal. Householders also need further advice and support on how they can make the best use of the heating systems and this should be reinforced regularly.

## The Scottish Government’s announcement to reallocate £10 million from this year’s Fuel Poverty Budgets to mitigate the impact of the Bedroom Tax was questioned by the Forum. The Forum notes that this reallocation was made for justifiable reasons but wants to make sure it does not happen in future years.

**Recommendations**

## It is vital that the success of the schemes in place must be measurable. **The Scottish Government should build on and improve the existing reporting mechanisms in place where possible, to ensure that any gaps in reporting are filled**. Reporting should be comprehensive and cover:

## Support to householders through Home Energy Scotland provided by the Energy Saving Trust.

## Installed measures for area-based schemes provided by local authorities.

## Affordable Warmth schemes provided by utility companies.

## Energy Assistance Scheme installs provided by the contractor.

## Householders are already seeing the benefits of coordinating HEEPS ABS funding with ECO. **The Scottish Government should do more to promote successful schemes through publishing case studies and working closely with DECC to minimise any detrimental impact to Scottish programmes that might result from any changes to the scheme**. Local authorities may also benefit from more joint working and seeking external expert support.

## Designing schemes that focus on specific types of housing and measures may lead to higher rates of success - this is inherent in the ECO framework. However, this may not fit with the desire to implement an area-based approach nor fit with the wider objectives of a Scotland wide approach to tackling fuel poverty. **Flexibility is required in terms of area definition, the interaction between reactive and area based schemes and the level of ECO leverage required**.

## **Future Scottish Government programmes should build on the success of previous programmes, as we are beginning to do, to tackle harder elements** (flats, tenements, off gas, mixed tenure etc.).

## **The Scottish Government should do more to support SMEs to be part of the solution to engaging harder to reach communities.** This will include supporting up-skilling of local contractors and promoting the associated local economic benefits.

## **Greater links should be made between Scottish Government programmes and initiatives so that there can be greater coherence across housing, energy and skills policies in tackling fuel poverty.** For example, more connection with Climate Challenge Fund, the Warm Homes Fund and Community Renewables should be explored. Other countries using community renewables have directly linked them to local consumption, significantly reducing costs for consumers. This is especially relevant in rural areas where Fuel Poverty and carbon intense fuels are highest.

## Addressing the need to support and co-ordinate householders and landlords, particularly where the agreement of many householders is required, can improve programme delivery. **Independent trusted support is often key to the delivery of such measures and needs to be factored into the programmes.** **Trusted intermediaries, including health professionals, can help address the additional challenge of hard to engage consumers.** There are already many well established organisations that engage and support low income and vulnerable householders such as Citizens Advice Bureau, Royal Voluntary Service, community groups and other third sector organisations who have a role to play in terms of fuel poverty.

## **The Forum would wish to review the costs and benefits of collective switching after all Ofgem’s reforms following the Retail Market Review are in place.**

## **The Scottish Government should work closely with trading standards services, the Combined Heat and Power Association and the UK Government to develop and implement a consumer protection regime for district heating consumers**.

**Chapter 4**

# **Reserved Functions and Options for the Future**

**Progress made**

UK Government activity

## The UK Government are reviewing ECO as part of a wider consideration of social and environmental policies funded via energy companies. In their review they have announced that households will see an average saving of £50 a year but that this will be achieved through altering the commitments that energy companies have to make to cut carbon emissions. This may mean that energy companies will reduce their investment in 'hard-to-treat' houses. These types of homes are expensive to heat and require more work to improve their energy efficiency and the Forum is concerned that a shift in focus from hard to treat homes will have serious implications for the future of ECO delivery in Scotland, particularly in more remote areas. We do however welcome the proposal for a scoring uplift for measures installed in non-gas fuelled properties and the intention to provide that electric storage heaters, receive a higher notional bill saving.

## The Forum would further suggest that with the anticipated changes to ECO the Scottish Government examines how HEEPS and EU Structural funds can be used to support energy efficiency, renewable heat and district heating, particularly taking account of the areas where ECO would not fund before; or where ECO has been lost; and where there is a real depth to fuel poverty.

## The latest set of changes to ECO will mean a new issuing of guidance from Ofgem and will ultimately mean that additional guidance to local authorities from the Scottish Government will be necessary. To this end, it will be important that the proposed changes come into effect in legislation as soon as is practicably possible and that in the meantime Ofgem provide as much certainty as possible to allow suppliers to continue delivering measures compliantly, to prevent a hiatus in the market

## The Forum notes that the figures from DECC[[10]](#footnote-10) on the Green Deal show that there has been significant uptake of Green Deal Advice Reports (GDARs), with 145,110 GDARs lodged up to the end of December 2013. However, so far, only 0.5% of these (746) have gone on to become ‘live’ Green Deal Plans on the Green Deal Central Charge Database (GDCCDB) which shows the potential for Green Deal to transform the energy efficiency market has not been realised.

## We strongly support the underlying objective of the Green Deal. It is right that investment in energy efficiency continues, and that, to the greatest extent possible, it does so through spending decisions made by customers rather than through subsidies paid for through energy bills. However, it is clear from these Government’s statistics that uptake of GDARs has been led by ECO; where the CERO and CSCO elements of the obligation currently require either a GDAR or a Chartered Surveyor Report as evidence that the ECO measure has been ‘recommended’. Whilst this will have raised awareness of the Green Deal brand, Green Deal finance and/or Green Deal Plans. Green Deal Plans have either not been widely promoted and/or the proposition is not attractive to the consumer. The significant number of GDARs that have been produced to date compared with the number of ‘live’ Green Deal finance plans would suggest that consumers are installing energy efficiency measures in response to Green Deal advice but not using Green Deal finance.

## The Forum welcomes the fact that Scotland leads the way in terms of encouraging people to have Green Deal assessments carried out. We believe this is due to the success of the Green Homes Cash Back which gives householders £1,200 for measures but has not normally resulted in Green Deal being used. The Forum believes that, despite the slow start, Green Deal will develop a place in the spectrum of opportunities for households to receive the measures they need.

## Green Deal was to be an integral part of the ECO and it is disappointing that it has not been well received to date. The reasons that very few actual Green Deal packages are in place are no doubt complex but nonetheless the very fact that there are so few shows that the programme is flawed and as such needs to be overhauled to make it fit for purpose. There are a number of changes that could be made that would increase uptake which the Forum believes the Energy Suppliers have shared with DECC. These include simplifying the proposition and offering alternative and simpler finance options alongside the ability to over-ride the golden rule and making it easier for new finance providers and installers to enter this market.

Scottish Government commitments

## There has been much in the media of the desire by Governments both at Westminster and Holyrood to reduce the burden on energy bills for the ordinary consumer. This has seen a range of political parties bringing forward their ideas to reduce bills by, either enforcing a price freeze, reducing bills via the removal of the green taxes/levies or by giving some form of rebate to the consumer. Indeed the Scottish Government’s White Paper on Independence includes a commitment that, following a “yes” vote, a future Scottish Government would remove around £70 per annum from every consumer’s bill and still deliver fuel poverty and energy efficiency programmes by then gathering the money currently collected via fuel bills from general taxation.

## The Scottish Government argues that this would allow them to distribute the funding directly against its own targets for fuel poverty. This would move the focus away from a market driven approach for carbon and fuel bill saving to a more social set of programmes reflecting better the need of Scottish consumers and ensuring that eligibility results in support being provided. The Forum will be giving further consideration to these issues and will report more fully in subsequent Forum Chair reports.

## Reporting on Excess Winter Mortality (excess winter deaths), the General Registrar for Scotland notes that there were 2,000 excess winter deaths in Scotland in 2012/2013, an increase of 600 deaths from the previous year. The Forum still believes there is great potential to make firmer links between fuel poverty and health professionals. The Forum is looking to secure a permanent representative of the health profession and to work with them in recommending further action Scottish Ministers should take to move forward on this issue.

Consumer Energy Bills

## Following retail market review, Ofgem published a report that provides proposals for detailed rule changes that they believe will deliver a simpler, clearer and fairer energy market. Obligations on energy suppliers mean that along with a reduced number of available tariffs, consumers must be informed of their cheapest available tariff. The Forum supports the introduction of these new measures and expects regular updates from Ofgem in this respect.

## In the spring of 2013, the David Hume Institute asked a range of organisations to consider energy issues in the context of constitutional change. Consumer Futures contributed a paper which examined current electricity and mains gas bills, assessing the extent to which government decisions could influence the different components of bills. The analysis found that the level of Government influence over bills was limited, given that internationally-determined wholesale costs account for around 50% of consumers’ total costs, with transmission and distribution (wires and pipes) adding another 20%. Remaining elements of bills are suppliers’ costs and profits, environmental and social levies – of which the largest single component is currently ECO – and VAT. Consumer Futures, working with the Government’s Fuel Poverty Advisory Group for England (FPAG), set up a working group to investigate the impact of energy policy on consumers’ bills. They wanted to know who benefits and who loses from policy (including ECO) and how ‘losing households’ might be compensated. They commissioned the Centre for Sustainable Energy (CSE) to assess these issues in detail. Their report ‘The hardest hit: Going beyond the mean’ found that consumers with electric heating (11% of all consumers) are most affected by Government policies, yet tend to have lower incomes than those with other forms of heating. These consumers pay 9% of the total cost of energy policies yet only receive 7% of the benefits. Only 27% of consumers with electric heating receive some form of benefit, compared to 40% of all consumers.

## A number of Forum member organisations have argued for some time that the approach of raising funding for energy efficiency actions from bills is regressive. This is because energy costs form a much higher proportion of household spending for less well-off households than for better off ones. The paper therefore highlighted the benefits of transferring these costs from bills to taxpayer funding, a suggestion subsequently highlight by the Deputy First Minister. As discussed above, an additional benefit of this approach would be the potential to direct funding towards particular housing types and /or parts of Scotland which have not benefited from current programmes at a rate or in the numbers expected by the Forum.

## Further energy price rises in the autumn of 2013 have drawn attention back to other, longer term influences on bills. Energy suppliers have suggested that these price rises are a combination of rises in wholesale costs and transmission and distribution costs, as well as environmental and social levies. The debate on wholesale costs trends highlights the lack of transparency in energy markets. Greater separation between different parts of the energy supply chain is needed to address this – this would require Government action.

## It is also important to note that subsidies for low carbon energy, including recent announcements on nuclear electricity, will also add substantially to energy (most notably electricity) prices in coming years, even if these sources are cheaper in the longer term. Government decisions on how best to achieve carbon reductions will influence bills. In addition to these direct subsidies, the EU Emissions Trading Scheme (EUETS) will put further pressure on bills. A number of forum members have therefore joined the Energy Bill Revolution campaign, which aims to recycle EUETS money towards energy efficiency programmes, thereby reducing fuel poverty, while at the same time reducing carbon emissions and creating employment through installation of measures.

## Progress on energy efficiency has not led to a parallel decline in fuel poverty because of rising prices. The outline above shows the range of issues involved, many of which, including innovation in tariff design, are being considered by the Expert Commission looking into energy markets in an independent Scotland.

## ScottishPower Energy Networks and Scottish and Southern Energy Power Distribution, own and manage electricity networks in the south and north of Scotland respectively. As distribution and transmission are monopoly services, these companies are required by Ofgem to produce business plans, and the prices they can charge are regulated through this process. The companies have published draft business plans for 2015-23. Following Ofgem guidance, the companies and their plans are required to consider social issues, including fuel poverty, to a greater extent than in the past.

## Consultation around the development of these plans highlighted that stakeholders welcomed this change, but also showed that more remains to be done to define exactly what role is appropriate for DNOs, as distinct from other agencies. The Forum hopes to actively engage both DNOs in Scotland to the advantage of fuel poor households who may benefit from the new role that these companies have been given by Ofgem.

## **Concerns – impact of UK Government schemes on support in Scotland**

## Although there is a legal obligation and targets to meet, due to the design of the ECO scheme which requires an RdSAP assessment on an individual property basis to calculate the actual savings, the first months of ECO have uncovered some issues that mean an offering is not being made to all who are eligible. This is a particular issue in remote and rural areas where the measures which are required do not allow cost effective savings to be made. To this end, from April 2015, we advocate a move to deemed ECO scores on a measure and property type basis using the RdSAP savings reported to Ofgem for ECO to date. We believe the benefits of moving to deemed savings are numerous. It not only avoids the cherry-picking of high saving households, it allows individual householders and area based scheme projects to have certainty over the level of funding available and removes any scoring inaccuracy and potential fraud risk associated with scoring on an individual property basis. We would also advocate off-gas/rural incentives to encourage delivery of the measures required in these areas. Scottish Government, Ofgem and DECC are discussing this issue and the Forum wishes to be informed of the outcome.

## Building fabric improvements (such as insulation measures) and reducing energy demand (for example installing more efficient heating systems), while the most sustainable means of reducing fuel bills and providing warmer homes, will not eradicate fuel poverty on their own. However, these can go a long way, and the Scottish Government must ensure that there are adequate resources directed at these types of interventions, in order to have the greatest impact in tackling fuel poverty.

## The Forum continues to be seriously concerned about the impact UK welfare cuts have on the ability of low income households to pay their energy bills. An estimated £2 billion a year[[11]](#footnote-11) in financial support is being removed from households in Scotland, with households with children and those affected by disability particularly hard hit.

## **Recommendations**

## **The Scottish Government should increase engagement with Energy Companies, Ofgem and DECC in order to enable local authorities, particularly in rural locations, to access ECO.**

## **The Scottish Government must work with the Forum to explore all funding routes to match the shortfall from the reduction of ECO funding, to ensure that their area based programmes remain on track to deliver against targets.**

## **Ofgem’s work with the DNOs between now and 2023, alongside the changes to consumers bills following the RMR, including the availability of a reduced number of tariffs, demonstrates their key role in supporting vulnerable consumers’ and it should have greater involvement in the Forum**.

## **In the event of independence, the Forum will consider and engage in the process of taking forward any recommendation relating to tariffs from the Scottish Government’s Expert Commission on Energy Regulation.**

## Given that we have a GB Energy Market there is a need for the Forum to forge **greater links with UK bodies, such as the Fuel Poverty Advisory Group**, to grow our understanding and promote best practice.

## The Forum urges the **UK government to review its approach to social security cuts, assessing and taking account of their impact on fuel poor households’ ability to afford energy bills**.

**Chapter 5**

# **Conclusion**

## The Scottish Fuel Poverty Forum is very supportive of the Scottish Government’s drive to eradicate fuel poverty as far as is reasonably practicable by 2016, but notes that this is a statutory target laid down in legislation. The Government must do everything it can to achieve it. It is clear that there has been great progress in a number of areas and there are many householders who are benefiting from the support that has already been made available. However, it is also clear that the target set by Government has not yet been achieved and there are still householders living in fuel poverty that support has not yet reached. The remit of this Forum is to support but also to challenge the Government to identify and fill these gaps, and to press them to do more where it is needed. The Forum takes this responsibility seriously and collectively, our members are working together with Government to ensure changes are made for the better. Our members also recognise that individually, the organisations we represent have a role to play to help the Scottish Government achieve their fuel poverty aims. In this respect, we are also challenging ourselves to do more to support the Government, including an increase in partnership working to meet our common aim. A refreshed Terms of Reference for the Forum is attached to this document as an annex.

## The Forum Chair and Deputy Chair also believe that the time is right to examine the make-up and operation of the Forum. We will embrace wider activity of Forum members in order to encourage more innovation in our thinking in order to provide as much support to Scottish Ministers in reaching the 2016 target date as possible. Much of the Forum’s work over the last 18 months or so has been on the implementation and monitoring of the new programmes. This is undoubtedly a very important role but one that is extremely time consuming which leaves little time for forward planning and strategic thinking to create and advise on future strategy at the same time as reaching out to other groups.

## There is clearly a need to take immediate action between now and the November 2016 target deadline and the timeline below sets out some of the key milestones in that timescale.

|  |  |  |
| --- | --- | --- |
|  | **Milestone** | **Timescale** |
| **Fuel Poverty Definition** | Publish research | April/May 2014 |
| **HEEPS:ABS** | Annual announcement of funding | February 2014 |
| **DECC ECO Review** | Consultation | March-April 2014 |
|  | New regulations laid in UK Parliament | Late Summer 2014 |
|  | New ECO legislation takes effect | Autumn 2014 |

**ANNEX A**

**SCOTTISH FUEL POVERTY FORUM TERMS OF REFERENCE**

**1. Remit**

1.1To advise the Scottish Government on how it can improve progress towards the target to eradicate fuel poverty, as far as is reasonably practicable by 2016, within the available public resources.

**2. Membership**

2.1 The Forum is chaired independently by Professor David Sigsworth (Deputy Chair – Norman Kerr) and the following organisations are members*:*

* Age Scotland
* Association for the Conservation of Energy
* Children’s Fuel Poverty Coalition
* Citizens Advice Scotland
* COSLA
* Energy Action Scotland
* Energy Saving Trust
* Poverty Alliance
* Save the Children
* Scottish Gas
* Scottish Federation of Housing Associations
* Scottish Power
* SSE
* The Scottish Home Energy Conservation Act Officers Network
* Ofgem (as observers)
* ScottishPower Energy Networks (as observers)
* Scottish and Southern Energy Power Distribution Networks (as observers)

**3. Secretariat**

3.1 Scottish Government will provide secretariat with additional support from Energy Action Scotland where required.

* 1. Agenda and papers will be circulated one week in advance of meetings

3.3 Minutes of meetings will be published on the Scottish Government website.

**4. Meeting schedule**

* 1. Meetings will be held quarterly in Glasgow and Edinburgh alternately,

**5. Decision Making**

5.1 All members of the Forum are expected to actively contribute both during discussions at meetings and by way of commenting on documents circulated.

5.2 Sub-groups will be established and dissolved as directed by the Chair. Any subgroup established shall minute their meetings and report back on findings to the Forum.

5.3 Decisions and subsequent actions will be recorded within the notes of the Forum’s meeting.

**6. Substitutes**

6.1 Members unable to attend the steering group meeting in person should arrange for a substitute to attend with an equivalent level of authority to aid decision making at meetings. This should be communicated to the Group Secretariat in advance of the meeting.

**GLOSSARY**

CARES Community And Renewable Energy Scheme

CERO Carbon Emissions Reduction Obligation

CERT Carbon Emissions Reduction Target

CESP Community Energy Saving Programme

CSCO Carbon Saving Communities Obligation

CSE Centre for Sustainable Energy

DECC Department of Energy & Climate Change

DNO District Network Operator

ECO Energy Companies Obligation

EUETS European Union Emissions Trading Scheme

EWD Excess Winter Deaths

FPAG Fuel Poverty Advisory Group for England

GB Great Britain

GDAR Green Deal Advice Report

GDCCB Green Deal Central Charge Database

HEEPS Home Energy Efficiency Programmes for Scotland

HEEPS-ABS Home Energy Efficiency Programmes for Scotland – Area-based Schemes

HHCRO Home Heating Cost Reduction Obligation

LPG Liquefied Petroleum Gas

Ofgem Office of Gas & Electricity Markets

RdSAP Reduced Data Standard Assessment Procedure

RMR Retail Market Review

RSL Registered Social Landlord

SHCS Scottish House Condition Survey

SME Small and medium sized enterprises

SQA Scottish Qualifications Authority

WHO World Health Organisation

1. <http://www.scotland.gov.uk/Resource/0043/00439879.pdf> [↑](#footnote-ref-1)
2. SHCS 2012 “Figure 15: Fuel Poverty and Extreme Fuel Poverty since 2003/4” [↑](#footnote-ref-2)
3. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf> [↑](#footnote-ref-3)
4. <http://www.scotland.gov.uk/Resource/0039/00398798.pdf> [↑](#footnote-ref-4)
5. <http://www.energysavingtrust.org.uk/scotland/Take-action/Home-Energy-Scotland/Home-Energy-Efficiency-Programmes-for-Scotland/What-is-offered-and-who-is-eligible> [↑](#footnote-ref-5)
6. <https://www.ofgem.gov.uk/ofgempublications/85595/energycompaniesobligationecocomplianceupdateandquarterlyannex-january2014.pdf> [↑](#footnote-ref-6)
7. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253862/Helping_Customers_Switch_Collective_Switching_and_Beyond_final__2_.pdf> [↑](#footnote-ref-7)
8. Consumer Futures is the statutory representative for consumers of postal services across the United Kingdom, for energy consumers across Great Britain and for water consumers in Scotland. It maintains the powers, responsibilities and duties of Consumer Focus. [↑](#footnote-ref-8)
9. <http://www.consumerfutures.org.uk/files/2013/05/Communal-improvements.pdf> [↑](#footnote-ref-9)
10. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/282915/Statistical_Release_-_Green_Deal_and_Energy_Company_Obligation_in_Great_Britain_-_20_Feb_2014.pdf> [↑](#footnote-ref-10)
11. <http://www.scotland.gov.uk/Topics/People/welfarereform/analysis/welfareexpenditurecuts> [↑](#footnote-ref-11)