Existing Homes Alliance Scotland Submission to Economy, Jobs and Fair Work Committee

Introduction

1. The Existing Homes Alliance welcomes the opportunity to submit evidence to the Economy, Jobs and Fair Work Committee ahead of its scrutiny of the Scottish Government’s draft budget for 2017/18. Budget decisions will have a significant bearing on the delivery of the Scottish Government’s flagship policy to tackle fuel poverty - schemes to improve the energy efficiency of existing homes. Given the Committee’s remit for energy and particular interest in fuel poverty, the Committee has a vital role to play to ensure that these schemes are funded at the scale necessary to deliver against ambitions to eradicate fuel poverty.

2. We welcomed the decision by the Scottish Government in June 2015 to designate energy efficiency as a National Infrastructure Priority, and the commitment in the Programme for Government to invest £500m over the course of the Parliament (to 2020). This represents a small increase in annual spend (though less than in 15/16), but this briefing shows that funding would remain well short of what is required to deliver the National Infrastructure Priority.

3. The Scottish Fuel Poverty Strategic Working Group, which was tasked with making recommendations for a new fuel poverty strategy, recommended that all four drivers of fuel poverty must be addressed: income, energy costs, energy performance, and how energy is used in the home. This briefing focuses on energy performance as it is the focus of the Alliance’s work.

4. The Scottish Government is developing Scotland’s Energy Efficiency Programme (SEEP) as the cornerstone of the National Infrastructure Priority. We fully support the Strategic Working Group’s recommendation that SEEP “should have a central objective to eliminate poor energy performance of a property as a driver of fuel poverty throughout all of Scotland including rural areas.”

5. With SEEP due to start in 2018 (Scotland’s Energy Efficiency Programme), we believe that as a transitional year funding in 2017/18 should be increased to reflect both the National Infrastructure Priority and the increased scale of activity that will be required to remove poor energy efficiency of buildings as a cause of fuel poverty and to meet climate change targets. Energy efficiency represents good value for money and will also help achieve other Scottish Government objectives on reducing inequalities, improving health and supporting jobs.

Key points:

- Investment in the energy efficiency of existing homes is essential to tackling fuel poverty, meeting climate change targets and represents good value for money with many wider benefits.

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1 A Scotland without fuel poverty is a fairer Scotland, October 2016, report of the Scottish Fuel Poverty Strategic Working Group.
More than 20 business leaders in energy efficiency and heat supply chains are calling for increased investment to support a growing industry which could create 8-9000 jobs per year.

Over 50 civic organisations support the call for the National Infrastructure Priority should have the objective of improving all homes to reach at least a ‘C’ EPC rating by 2025 – this would be commensurate with the scale of the challenge of eradicating fuel poverty and deliver the emissions abatement required from housing by 2025 in line with the UK Committee on Climate Change pathway.

The Alliance estimates that £450m per annum (average) for 10 years of public funding is required to deliver this, though the budget will be ramped up over time. Private financing would be leveraged through the use of loan guarantees, tax incentives and regulation.

As a transitional year, the 2017/18 Scottish Budget should allocate in the region of £190m for fuel poverty and energy efficiency, alongside a projected £60m from the Energy Company Obligation, increasing total public spend to £250m for the year 2017/18.

This would allow for expansion of existing schemes and pilots, providing confidence to supply chains as the industry scales up for the start of Scotland’s new energy efficiency programme (SEEP).

Tackling fuel poverty

6. The latest Scottish House Condition Survey Key Findings show that there has been a drop in fuel poverty rates to 31%. This is welcome news and is due, in part, to government investment in raising the energy efficiency of properties. It is also related to lower fuel prices, which can only be a temporary fix at best. However, this still leaves Scotland with nearly 750,000 households in fuel poverty, almost one home in three, and 200,000 households in extreme fuel poverty. These findings are strong evidence of the need for greater investment in fuel poverty and energy efficiency programmes in the 2017/18 budget.

7. The statutory target for eradicating fuel poverty, which passed in November 2016, was not been met, and this should spur a re-doubling of efforts to eradicate fuel poverty in Scotland. The recently published report of the Scottish Fuel Poverty Strategic Working Group made a number of different recommendations in relation to improving the energy performance of Scotland’s homes which we support:

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3 SHCS Key findings 2015
Recommendation 24: The SEEP Programme should have a central objective to eliminate poor energy performance of a property as a driver of fuel poverty throughout all of Scotland including rural areas.

Recommendation 25: The SEEP Programme should include a milestone towards achieving this anti-fuel poverty aim, with all properties of fuel poor households upgraded to at least an EPC band C by 2025 with five-yearly targets set for progress towards EPC band B thereafter.

Recommendation 26: The SEEP Programme should consider the use of higher standards and incentives to promote new and 'deep-retrofit' low energy homes in the social and private housing sector to help eradicate fuel poverty, reducing climate emissions as well as producing other benefits such as jobs and health and wellbeing.

Recommendation 28: The SEEP Programme should be targeted at those properties for which the energy efficiency is the main driver for fuel poverty, with additional weighting on extreme fuel poverty. This will result in, for example, a greater focus on rural and remote rural properties which are disproportionately represented against these criteria. Clear measurement of performance is required.

8. The 2017/18 budget should reflect these recommendations. Poorly heated, damp and cold homes can pose significant health risks to their occupants, and there continues to be a health cost to fuel poverty in Scotland. Last winter (2015/16), an additional 2,850 people died during the winter months, when compared to the average for the rest of the year. It is likely that some of these mortalities could have been avoided if all homes in Scotland were adequately insulated and heated - the World Health Organisation has in the past estimated that 30% of such deaths are attributable to cold homes. Similarly, the Existing Homes Alliance has estimated that if an objective of supporting all homes to reach at least a 'C' EPC rating by 2025 could save the NHS up to £80m per year by reducing the incidence of cold-related illnesses.

9. We have estimated that to bring all homes to at least EPC C by 2025 will require approximately £10.7bn over 10 years of which £4.5bn would be made up of public investment. The programme would be funded by a combination of government grants for the fuel poor, incentives and low interest loans for the able to pay, and investment from homeowners, landlords, and other sources such as the energy supplier obligation (ECO).

Jobs and wider economic benefits

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4 The World Health Organisation estimates that 30% of such deaths are attributable to cold homes - see p.88 here: [http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf](http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf)

5 Building the Future: The economic and fiscal impacts of making homes more energy efficient, 2014, Consumer Futures
10. An ambitious National Infrastructure Project on energy efficiency would deliver against many government objectives in addition to helping many families afford warm, dry homes. It is estimated such a programme would create 8-9000 jobs per year, spread around Scotland. The additional £800 million in infrastructure spending for Scotland based on the UK Autumn Statement presents new opportunities for investment. Unlike other infrastructure projects, a large proportion of the jobs would be with small- and medium-sized businesses, and boost economic productivity by shifting spending from energy to more productive uses.

11. Economists have previously described energy efficiency investment as a ‘direct shot in the arm’ for the economy⁶, because it delivers a relatively rapid economic stimulus, in comparison to other forms of infrastructure investment. On that basis, Dimitri Zenghlis of the London School of Economics welcomed the infrastructure investment into energy efficiency that the Scottish Government made as part of its post-EU referendum stimulus package, saying that it showed the Scottish Government ‘recognise the immediate economic benefit and value of channelling new infrastructure investment into scaled-up home energy efficiency programmes.’ However, he went on to say that the package was small in relation to the size of the Scottish economy and that, ‘if the Scottish Government were to increase its warm homes spending, it would find its investment paid back many times over.’⁷

12. Business leaders in energy efficiency and heat supply chains certainly agree, and have written to the Cabinet Secretary for Economy, Jobs and Fair Work, saying, “with policy certainty about the government’s ambitions for tackling fuel poverty and climate change we hope to be able to grow our businesses, supporting Scotland’s wider economic ambitions.”

**Meeting climate targets**

13. In order to meet our 2030 climate targets the scale of energy efficiency programmes will need to be increased.

14. The Scottish Government’s independent advisors on climate change, the Committee on Climate Change, recommend that an extensive upgrade of a significant number of homes in Scotland by 2030 will keep us on the cost-effective path to meeting climate targets⁸. Analysis by the Existing Homes Alliance suggests that improving all homes to at least an Energy Performance Certificate rating of ‘C’ by 2025 would put the sector on track to deliver the emissions abatement recommended for the sector by the Committee by 2030, as well as eradicating fuel

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⁷ Dimitri Zenghelis was formerly Acting Chief Economist for the Global Commission on the Economy and Climate. For further information see also this comment piece from the Herald from Professor Turner of Strathclyde University, [http://www.heraldscotland.com/opinion/14798226.Making_buildings_energy_efficient_will_brin](http://www.heraldscotland.com/opinion/14798226.Making_buildings_energy_efficient_will_brin)

⁸ Committee on Climate Change (2016) Scottish Emissions Targets 2028 - 2032
poverty in Scotland. This objective for the programme is supported by more than 50 organisations in Scotland in a joint statement. This means about 127,000 homes would be upgraded every year between now and 2025, which we estimate could be four times the current numbers helped through the Home Energy Efficiency Programmes. Looking further ahead, emissions from the housing sector will need to continue to reduce as we head to 2050, eventually reaching near-zero.

Bridging the funding gap

15. A scaling-up of approach will require increased public investment by the Scottish Government: from around £120m per year at present, to at least £450m of total public funding per year by 2020, at the end of this Parliament. With a significant gap between current funding levels and those required to deliver the National Infrastructure Priority, funding will need to be stepped-up year on year as the scheme expands, to enable the industry to keep pace. As a transitional year, total public funding for energy efficiency schemes in Scotland should therefore be increased to £190m per year in the 2017/18 Budget alongside an expected £60m spend on energy efficiency in Scotland through the UK Government’s ECO scheme (this is only an estimate and actual spend in Scotland may be lower owing to significant changes to the policy made this year. If ECO funding is lower than expected, the Scottish Government would need to further increase its own spending). Additional funding in the next Scottish Government budget would allow existing programmes and pilots to be expanded, and provide confidence to the supply chain to begin scaling up for delivery of SEEP.

16. The table below sets out the recent mix of Scottish Government and UK funding for energy efficiency, what is required of this budget and the target spend that should be aimed for in 2020/21:

<table>
<thead>
<tr>
<th>Current and required public spending on energy efficiency in Scotland Historic spend</th>
<th>This budget (Scot Govt anticipated)</th>
<th>This budget required (ExHA recommended)</th>
<th>Target spend required (ExHA recommended)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Government spend</td>
<td>£119m</td>
<td>£105m</td>
<td>£125m</td>
</tr>
<tr>
<td>ECO spend in Scotland (funding raised by UK Govt. set rules)</td>
<td>Est. £93m</td>
<td>Est. £60m</td>
<td>Est. £60m</td>
</tr>
<tr>
<td>Total public spend in Scotland (est)</td>
<td>£219m</td>
<td>£165m</td>
<td>£185m</td>
</tr>
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10 Based on figures included in the Programme for Government.
17. This investment would represent a benefit cost ratio of over 2:1, and therefore falls into the category of ‘high’ value for money, and compares favourably in terms of value for money with other infrastructure projects. We expect that a proportion of Scottish Government funding could come through financial transactions funding allocated by HM Treasury to the Scottish Government. In recent years, these have largely come through Barnett consequentials for UK housing equity and loan schemes.

18. The Existing Homes Alliance Scotland is a coalition of environmental, anti-poverty, consumer, and housing organisations that believes Scotland’s existing housing stock must be transformed to help tackle fuel poverty and climate change.

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13 The Scottish Government cannot use financial transactions funding as capital grant, but only for the provision of loans or equity investment beyond the public sector and it must be repaid to the UK Government in future years.

14 Building the Future: The economic and fiscal impacts of making homes more energy efficient, 2014, Consumer Futures