Financial Scrutiny Unit Briefing
Fuel Poverty in Scotland

18 February 2016

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There were an estimated 845,000 households living in fuel poverty in Scotland in 2014, or 34.9% of all households. The Scottish Government is aiming to eradicate fuel poverty in Scotland “as far as is reasonably practicable” by November 2016. This briefing looks at the statistics, summarises the policy measures in place and the associated levels of spending directed at tackling fuel poverty. The briefing also includes two case studies which attempt to show how Scottish Government schemes currently complement the UK-wide Energy Company Obligation programme (ECO) at a local level.

This briefing updates the March 2015 SPICe briefing of the same name.

Photos: Dundee City Council
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EXECUTIVE SUMMARY

- A household is considered to be in fuel poverty if it is required to spend more than 10% of its disposable income (including housing benefit or income support for mortgage interest) on all household fuel use.

- The Scottish Government has pledged to ensure that by November 2016, so far as is reasonably practicable, people are not living in fuel poverty in Scotland.

- There were an estimated 845,000 households in fuel poverty in Scotland in 2014, equivalent to 34.9% of all households.

- The number of households in fuel poverty fell slightly, by around 15,000, between 2013 and 2014.

- Fuel poverty rates vary across Scotland. Eilean Siar, Highland and Orkney Islands have fuel poverty rates of 50% or over, whilst most Central Belt areas show rates of below 40%.

- The importance of gas price changes is highlighted by the Scottish Government:
  “…the majority of Scottish households heat their properties with gas (78%). Between 2003 and 2014 the price of the fuel mix required by the average Scottish household almost trebled. The increase in the last year alone was 3.5%” (Scottish Government, 2015a).

- The main Scottish Government schemes aimed at tackling fuel poverty are the Home Energy Efficiency Programmes for Scotland (HEEPS).

- The UK Government introduced the Green Deal and Energy Company Obligation (ECO) to provide finance mechanisms for energy efficiency measures to households across the UK.

- How ECO money is spent in Scotland will be devolved to the Scottish Parliament as part of the Smith Commission recommendations.

- The Scottish Government announced in June 2015 that improving the energy efficiency of buildings in Scotland will be designated a national infrastructure priority.
FUEL POVERTY DEFINITION AND STATISTICS

FUEL POVERTY DEFINITION

Fuel poverty is defined in the Fuel Poverty Statement, published in 2002 under section 88 of the Housing (Scotland) Act 2001, by the then Scottish Executive:

"A household is in fuel poverty if it would be required to spend more than 10% of its income (including Housing Benefit or Income Support for Mortgage Interest) on all household fuel use." (Scottish Executive, 2002)

The Scottish Government defines an ‘adequate standard of warmth’ to be 21°C in the living room and 18°C in other rooms for a period of 9 hours in every 24 (or 16 in 24 over the weekend), with two hours being in the morning and seven hours in the evening. For elderly and infirm households, a higher standard temperature of 23°C in the living room and 18°C in other rooms is required to be achieved for 16 hours in every 24. Extreme fuel poverty is defined as the need to spend more than 20% of disposable income in order to meet these standards.

The definition of household income, used by the Scottish House Condition Survey (SHCS), includes the incomes of the Highest Income Householder (HIH) plus that of his or her spouse/partner. Income from employment/self-employment, private pensions, investments and social security benefits are all taken into account. For the measurement of fuel poverty, disposable income before housing costs is used, i.e. income after income tax, national insurance and council tax, but before mortgage or rent payments.

The Scottish House Condition Survey (SHCS)

Fuel poverty data for Scotland is derived from the SHCS. This is a continuous survey, commissioned by the Scottish Government, which involves a Scotland-wide sample of around 3,000 households per year. As well as questions on heating and fuel bills the SHCS covers a variety of other topics such as repairs, neighbourhood environment, household income, tenure and composition. Data from interviews and questionnaires is processed and weighted to create Scotland-wide, and some local authority area, estimates for various indicators, including fuel poverty.

The model used to estimate fuel poverty levels in Scotland changed before the 2013 SCHS, ‘to better reflect the current industry standard of assessing home energy performance’ (Scottish Government, 2014a) and changed again before the 2014 survey. Although the most recent methodology takes into account regional differences in fuel prices, all these changes to methodology make comparability over several years very difficult.
FUEL POVERTY LEVELS, RATES AND TRENDS

The Scottish House Condition Survey 2014 estimates 845,000 households were in fuel poverty in Scotland in 2014, equivalent to 34.9% of all Scottish households. This means 15,000 fewer households were fuel poor in 2014 compared to 2013 (Scottish Government, 2015a). The number of households estimated to be in extreme fuel poverty was 229,000, or 9.5% of all Scottish households in 2014.

The Scottish Government has changed the methodology used to measure fuel poverty levels a number of times over the past five years. Therefore, comparing recent figures with pre-2010 rates and levels is problematic as the methodology used to estimate energy demand has been substantially changed. The following chart shows fuel poverty rates for each year between 2003/04 and 2009 using the methods and modelling as accepted at the time, as well as updated figures for 2010 onwards. The darker shaded bars show rates for 2011 to 2014 using updated methodologies and modelling.

Figure 1: Fuel poverty rates (using different modelling methods)

According to the Scottish House Condition Survey, fuel poverty is more likely to affect:

- Those living in older properties (43% of households in pre-1919 houses are fuel poor, whereas 21% of people living in post-1982 builds are living in fuel poverty)
- Households in dwellings with lower energy efficiency (73% of households with EPC F-G ratings are living in fuel poverty compared with 19% living in the most energy efficient dwellings)
- Those reliant on electricity, oil or fuel types other than gas (43% of households off the gas grid are fuel poor).
- Rural households (50% of households in rural areas suffer from fuel poverty, compared to 32% of urban households)
- Elderly households (58% of single pensioner households suffer from fuel poverty)
- Lower income households (for example 90% of those with a household disposable income of less than £200 per week are fuel poor).
The largest rise in fuel poverty between 2013 and 2014 was seen in the ‘private rented sector’, which saw an increase of 27,000 households (a 30% increase over the year).

**Variations within Scotland**

Fuel poverty rates vary across Scotland (see Table 3 and Map 1), as shown by the Scottish House Condition Survey 2012-14 local authority analysis.

**Table 1: Percentage of households in fuel poverty by local authority (2012-14)**

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>Fuel Poor</th>
<th>Local Authority</th>
<th>Fuel Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen City</td>
<td>29%</td>
<td>Highland</td>
<td>55%</td>
</tr>
<tr>
<td>Aberdeenshire</td>
<td>39%</td>
<td>Inverclyde</td>
<td>43%</td>
</tr>
<tr>
<td>Angus</td>
<td>42%</td>
<td>Midlothian</td>
<td>30%</td>
</tr>
<tr>
<td>Argyll and Bute</td>
<td>40%</td>
<td>Moray</td>
<td>40%</td>
</tr>
<tr>
<td>Clackmannanshire</td>
<td>32%</td>
<td>North Ayrshire</td>
<td>40%</td>
</tr>
<tr>
<td>Dumfries and Galloway</td>
<td>46%</td>
<td>North Lanarkshire</td>
<td>34%</td>
</tr>
<tr>
<td>Dundee City</td>
<td>41%</td>
<td>Orkney Islands</td>
<td>63%</td>
</tr>
<tr>
<td>East Ayrshire</td>
<td>38%</td>
<td>Perth and Kinross</td>
<td>38%</td>
</tr>
<tr>
<td>East Dunbartonshire</td>
<td>28%</td>
<td>Renfrewshire</td>
<td>29%</td>
</tr>
<tr>
<td>East Lothian</td>
<td>33%</td>
<td>Scottish Borders</td>
<td>39%</td>
</tr>
<tr>
<td>East Renfrewshire</td>
<td>32%</td>
<td>Shetland Islands</td>
<td>53%</td>
</tr>
<tr>
<td>City of Edinburgh</td>
<td>25%</td>
<td>South Ayrshire</td>
<td>35%</td>
</tr>
<tr>
<td>Eilean Siar</td>
<td>62%</td>
<td>South Lanarkshire</td>
<td>30%</td>
</tr>
<tr>
<td>Falkirk</td>
<td>28%</td>
<td>Stirling</td>
<td>34%</td>
</tr>
<tr>
<td>Fife</td>
<td>36%</td>
<td>West Dunbartonshire</td>
<td>29%</td>
</tr>
<tr>
<td>Glasgow City</td>
<td>34%</td>
<td>West Lothian</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Scottish Government, 2016

Eilean Siar, Orkney Islands and Highland have the highest rates of fuel poverty in Scotland whereas Central Belt areas show much lower rates. This variation is partly due to the limited coverage of the mains gas network which leads to some rural communities in Scotland being off-grid. Households in these areas are often more dependent on expensive alternatives to mains gas such as heating oil.
Map 1: Fuel poverty rates by local authority area

% of Fuel Poor Households
By Local Authority

- Between 24.8% and 30.3%
- Between 30.3% and 35.0%
- Between 35.0% and 45.9%
- Between 45.9% and 63.4%

Source: Scottish Government (2015a), map by SPICe
International comparisons

International comparisons of fuel poverty are not available as there is no commonly accepted definition of fuel poverty. As acknowledged by the European Union Fuel Poverty Network (EUFPN), the UK is one of only three European countries to define and measure fuel poverty – the others being France and the Republic of Ireland. At the European level, ‘there is no dedicated survey of fuel poverty, energy poverty, or energy affordability, and an absence of standardised household micro data on fuel expenditure’ (EUFPN, 2013). Even comparing with other countries or regions of the UK is not recommended due to differences in data collection, measurement and modelling.

FACTORS INFLUENCING FUEL POVERTY

The main factors influencing fuel poverty are household incomes, fuel costs and the energy efficiency of homes. If fuel prices rise above the rate of growth in household incomes then fuel poverty rates will increase, as a larger proportion of household income is required to heat homes to the same level. However, if fuel prices and household incomes remain stable over time then improved energy efficiency measures, such as those delivered by the Scottish Government, should lead to lower energy bills and a reduction in fuel poverty levels.

Explaining changes to the fuel poverty rate between 2013 and 2014, the Scottish Government states:

“Average fuel prices increased by 3.5% between 2013 and 2014. The impact of this increase on fuel poverty was mitigated by a 2.7% nominal increase in average household incomes (with greater increases in lower income bands), improvements in the overall energy efficiency of the housing stock, and the operation of policies delivering fuel bill rebates (Scottish Government, 2015a)

SCOTTISH GOVERNMENT POLICY

The Housing (Scotland) Act 2001 requires the Scottish Government to eradicate fuel poverty by November 2016 “so far as reasonably practicable” (National Archives, 2001). The Act also requires Ministers to publish regular statements detailing the measures they have introduced to tackle fuel poverty. The 2014 Progress Report, for example, sets out how the Scottish Government has tackled fuel poverty since 2010. The Scottish Government has invested over half a billion pounds “on a raft of fuel poverty and energy efficiency programmes” since 2009 (Scottish Government, 2014d), and are keen to stress that over 40% of all Scottish homes are now at EPC band C or better, an increase of 71% since 2010 (Scottish Government, 2015a) 1.

National infrastructure priority and Scotland’s Energy Efficiency Programme

The Scottish Government announced in June 2015 that improving the energy efficiency of buildings in Scotland will be designated a national infrastructure priority with a focus on the energy efficiency of existing buildings. A key part of this is the development of Scotland’s Energy Efficiency Programme (SEEP), which will “bring together action on the domestic and non-domestic sectors and provide an offer of support to help homes, businesses and public

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1 Energy Performance Certificates (EPCs) were introduced in January 2009 under the requirements of the EU Energy Performance Building Directive (EPBD). They provide energy and environmental impact ratings for buildings based on standardized usage. EPCs are required when a property is either sold or rented to a new tenant. They are presented over 7 bands, labelled A to G. Band A represents low energy cost and high energy efficiency, while band G denotes high energy cost (and low energy efficiency).
buildings achieve a good energy efficiency rating” (Scottish Government, personal correspondence). Details of the programme will be developed and piloted over the next two years, including the planned devolution of new powers over design and delivery in Scotland of the Energy Company Obligation under the Scotland Bill.

The Scottish Government published a refreshed Infrastructure Investment Plan, alongside the Draft Budget for 2016-17, on 16 December 2015. It included further detail on SEEP, noting that

“Through SEEP, we will:
- continue to provide support to households suffering from fuel poverty, helping to tackle inequality and improve broader outcomes such as health and wellbeing;
- seek to leverage in private investment to support the development of loan schemes to enable households and businesses to spread the upfront costs of investment in energy efficiency;
- take forward standards and introduce regulatory frameworks that give certainty to consumers and make it as easy as possible and the norm to invest in energy and heat efficiency;
- introduce for the first time multi-year funding which will give our delivery partners the certainty they need to deliver ambitious energy efficiency projects; and
- include the development of supply chains, education and awareness raising opportunities so that people value energy efficiency and look to make improvements”

On 22nd January the Cabinet Secretary for Communities, Social Justice and Pensioners’ Rights launched a call for pilot projects from local authorities which will integrate support for domestic and non-domestic energy efficiency. Up to £14 million will be available from the Home Energy Efficiency Programmes for Scotland and Low Carbon Infrastructure Transition Programme to support the piloting. The investment is intended to help demonstrate the most effective ways to delivering an integrated programme in order to roll out SEEP from 2018.

Scottish Fuel Poverty Forum and the Scottish Rural Fuel Poverty Task Force

The Scottish Fuel Poverty Forum, reconstituted in 2008, consists of representatives from various charities such as Age Scotland, Energy Action Scotland and Poverty Alliance. Other members include COSLA, three of the larger utilities companies and Ofgem. Its remit is to advise the Scottish Government on energy efficiency schemes and monitor progress towards the target of eradicating fuel poverty.

The Cabinet Secretary for Social Justice, Communities and Pensioners’ Rights recently announced that a new short life Strategic Working Group will be set up with the aim of reporting to Scottish Ministers by the end of 2016. Its main output will be a report outlining a new fuel poverty strategy, as well as looking at how new powers being devolved to Scotland (for example ECO implementation) can best be deployed to improve energy efficiency and tackle fuel poverty.

In addition, and in recognition that it can often be more difficult to deliver energy efficiency measures to those who need it most, the Scottish Government has established a new Scottish Rural Fuel Poverty Task Force that will explore issues around fuel poverty in rural areas and report on its findings in 2016.
Home Energy Efficiency Programme for Scotland (HEEPS)

One of the main recommendations of the Fuel Poverty Forum’s 2012 Interim Report was that ‘Scottish Government funding should be used to help maximise the leverage of ECO funding into the country by making Scotland the easiest and most cost-effective part of Britain in which to discharge the obligation’ (Scottish Government, 2012).

The Home Energy Efficiency Programme for Scotland (HEEPS) is now the Scottish Government’s main programme for tackling fuel poverty and improving domestic energy efficiency, replacing programmes such as the Energy Assistance Package, the Boiler Scrappage Scheme and the Universal Home Insulation Scheme.

In 2015-16, HEEPS consists of four separate programmes: Area Based Schemes (ABS), Warmer Homes Scotland (WHS), HEEPS: Cashback and HEEPS Loans. In addition there will be £9m available to fund advice and support services, primarily the Home Energy Scotland hotline and advice centres.

HEEPS Area-based Schemes (ABS)

The majority of the Scottish Government’s fuel poverty budget is committed to the HEEPS: ABS, with £65 million in 2015-16 going to Scotland’s 32 local authorities to provide a range of energy efficiency measures for private sector properties within fuel poor areas.

Around two-thirds of HEEPS-ABS funding, or £48 million, is allocated to local authorities through a 'needs-based' formula as set out by the Scottish Government. Councils can also bid for additional ABS money of around £17 million. The Scottish Government explains that 'local authorities will be expected to target areas of fuel poverty and work with Housing Associations, energy companies, installers, owner-occupiers and private rented landlords to ensure all households in that area receive an offer to have the energy efficiency of their home improved.' (Scottish Government, 2014c).

The case studies on pages 12-13 show how HEEPS:ABS, ECO and other funding streams are currently being used to improve the insulation and energy efficiency of housing stock in two local authority areas.

HEEPS: Warmer Homes Scotland

This national scheme, which is worth up to £16m per year, is available to vulnerable private sector households (tenants or owner-occupiers) in receipt of certain benefits as listed by the Scottish Government. Warmer Homes Scotland offers fabric measures, such as insulation, as well as heating measures to improve the energy efficiency of the Scottish housing stock and to sustainably reduce fuel bills. It also includes microgeneration measures to offer a wider range of heating options to off-gas households. The scheme is available across Scotland but being delivered on a regional basis by Warmworks Scotland (including a separate Islands region) to ensure that all households, including those living in more remote parts of the country, get the same level of service regardless of their location. The Scheme was officially launched by the First Minister and Cabinet Secretary for Social Justice, Communities and Pensioners’ Rights on 14 September 2015.
HEEPS: Cashback

HEEPS: Cashback Scheme (formerly Green Homes Cashback Voucher Scheme) was launched on 2 April 2015. The scheme, with funding of £15 million in total for 2015-16, is for householders across all tenures, including social landlords, and provides a contribution toward the installation of energy efficiency measures recommended on a Green Deal Assessment. There are two elements: £10 million is available for individual private sector households, and is restricted to properties in Council Tax bands A-C. The remaining £5 million is available for social landlords. The funding for Cashback is provided through consequential funding from the Department of Energy and Climate Change (DECC). On 23 July 2015 the UK Government announced the closure of its equivalent Green Deal Home Improvement fund which formed the basis of the funding for HEEPS: Cashback. As a result there will be no consequential funding and on 18 September Scottish Ministers announced that there would be no HEEPS: Cashback scheme in future years.

HEEPS: Loans

HEEPS: Loans launched in 2015 and is available to all private sector households in Scotland (both owner occupiers and private sector landlords) who wish to install energy efficiency measures. The Loans scheme has a budget of £14 million in 2015/16 and offers an interest-free loan of up to £10,000 per household. The loans can be combined with ECO, HEEPS: ABS and HEEPS: Cashback.
Case study – Dundee

Over £1.7 million HEEPS: ABS money was allocated to Dundee City Council in 2014/15 through the Scottish Government’s ‘needs-based formula’.

Dundee’s Housing Department lists areas which have high numbers of properties requiring solid wall insulation. These tend to be inter-war ‘two-up-two-down’ properties or pre-1918 tenements. Areas are ranked in order of priority according to their relative positions in the Scottish Index of Multiple Deprivation (SIMD), which is used in this instance as a proxy to fuel poverty rates.

HEEPS-ABS is used to pay for improvements to private sector housing stock. In Dundee, these are likely to be ex-council houses within ‘council estates’. A typical example of HEEPS spend in Dundee is where a multi-tenure block requiring external wall cladding includes four properties: two socially rented, one private-rented and one owner-occupied. The cost of treating the social-rented properties is covered mainly by Dundee City Council’s capital budget. However, a combination of HEEPS and ECO money is used to pay for the treatment of the two private sector properties in the block.

The cost of applying external wall insulation is high - approximately £8,000 per property, a sum which many owner-occupiers are unable to pay. HEEPS: ABS enables projects to proceed by ensuring low-income owner-occupier households are not required to pay any upfront costs for improved insulation. Thus the tenement block of which their property forms part can be insulated in its entirety, benefiting all residents.

Over the past year, 260 properties have received solid-wall insulation treatment in Dundee, at a total cost of £2.6 million. Around £720,000 of this came from the council’s capital budget, £1,500,000 from HEEPS: ABS and £260,000 from ECO.

The above pictures show external solid-wall insulation being applied to a house in the Graham Street area of Dundee, with the picture on the right showing the finished job. Dundee City Council co-ordinated the improvement of 240 mixed-tenure houses in the Graham Street area over the past year, mainly four in a block inter-War houses, at a cost of £35,000 per block (photos provided by Dundee City Council).

As well as paying for the capital costs of private-sector improvements, some HEEPS: ABS money, up to 15%, can be used for administrative or ‘enabling costs’ (Scottish Government, 2014d). In Dundee approximately £70,000 is used to pay for the project’s management staffing costs and resident liaison officers.
Case Study – Western Isles

Recent SHCS figures show that fuel poverty rates in the Western Isles are the highest of any local authority area in Scotland (at 62%), with pensioners especially finding it difficult to adequately heat their homes (79% of pensioners were living in fuel poverty in 2013). Unlike Dundee, the ‘typical’ fuel-poor house in the Western Isles is a privately-owned, detached house without access to the gas grid. Many houses requiring external insulation treatments were built between 1910 and 1940 in the traditional ‘white house’, crofting style.

Source: TIG

The local authority contracts a local ‘not for profit’ organisation, Tighean Innse Gall (TIG), to deliver their fuel poverty programme. In 2013/14 TIG helped treat 100 houses with external wall insulation, 175 houses with under-floor insulation, 95 lofts insulated, 30 with cavity wall insulation and 85 ‘room in the roof’ internal insulation jobs. The largest proportion of spend was on external wall insulation which is significantly more expensive per household on the Western Isles than in most urban areas. The average cost-per-house of external wall insulation in the Western Isles is £17,500, with larger wall areas to cover than more urban areas such as Dundee and added logistics costs (and with less opportunity for ‘economies of scale’ savings).

HEEPS money has to be coupled with ECO money; however with recent changes to the ECO programme (see below ‘ECO shock’), accessing required levels of ECO is becoming increasingly difficult. For an average external wall insulation job, TIG require the maximum HEEPS spend per house of £7,500, a customer contribution of £1,750, a recycled administrative/enabling fee from TIG of £3,000 and average ECO spend of around £5,000. Therefore the ratio of ECO money to HEEPS is very different from the £3 ECO to £1 HEEPS ratio which was the Scottish Government’s original ambition.
SCOTTISH GOVERNMENT FUEL POVERTY BUDGET

The following chart shows spending on tackling fuel poverty by the Scottish Government since 2008 (in cash terms).

**Figure 2: Fuel poverty spend, outturn, budget and planned budget (£m)**

![Graph showing fuel poverty spend, outturn, budget, and planned budget (2008/9 to 2015/16)](image)

DRAFT BUDGET 2016/17

Draft budget figures as published by the Scottish Government in December show an overall increase of £14m, or 16% over the year in the fuel poverty budget line compared to the draft budget for 2015-1.

**Table 2: Fuel poverty draft budget**

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £m</th>
<th>2016-17 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Poverty/Energy Efficiency</td>
<td>79.0</td>
<td>79.3</td>
<td>0.3%</td>
</tr>
<tr>
<td>Fuel Poverty/Energy Efficiency Financial Transactions</td>
<td>10.0</td>
<td>24.0</td>
<td>140.0%</td>
</tr>
<tr>
<td>Total Fuel Poverty</td>
<td>89.0</td>
<td>103.3</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

(Scottish Government, 2016a)

However, the addition of UK Government consequentials, an internal budget transfer between portfolios and extra funding announced at the time of the Stage 3 Budget debate last year by Cabinet Secretary John Swinney (and transferred at the time of the Autumn Budget Revision) means that the final budget made available in 2015/16 will be up to £119m.

Therefore, comparing Draft Budget 2016/17 with Draft Budget 2015/16, there’s an increase of £14m (as shown above). However, comparing Draft Budget (2016/17) with final budget (2015/16) shows a reduction of around £15m.

The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Swinney, defended the Scottish Government’s position at a recent meeting of EETC when challenged about budget changes by Patrick Harvie MSP:
“I would describe the budget as static. Mr Harvie is correct that it is higher than the 2015-16 published budget. I supplemented it during the financial year and I have preserved those resources in the budget that is available at around £103 million.”

And later in the session:

“There is a loss of £15 million of resources because the United Kingdom Government has terminated one of the energy efficiency programmes that we were passing on in Scotland.”

(Scottish Parliament, 2016)

The £15m Mr Swinney refers to is ‘Green Homes Cashback’ funding, which arose from Barnett consequentials during 2015/16.

The table above shows there has been an increase in the loan element of the fuel poverty budget (of £14m, or 140%). This will be used for the Home Energy Efficiency Programmes for Scotland (HEEPS): Loans and other loan schemes still to be developed. As documented above, the Scottish Government makes available interest free, unsecured loans of up to £10,000 to householders for installing a variety of measures such as solid wall insulation, double glazing or a new boiler. These loans are funded from the ‘financial transactions’ element of the budget.

**UK-WIDE MEASURES**

In addition to the Scottish Government’s support for fuel poverty mitigation, the UK Government has a number of schemes in place that benefit households across Scotland. Indeed, Scottish Government policies are designed as far as possible to complement and maximise spend from these UK-wide programmes.

**Energy Company Obligation (ECO)**

The Energy Act 2011 provided for the UK Government to introduce the Green Deal and Energy Company Obligation (ECO) in Autumn 2012.

The ECO is a UK Government scheme which aims to improve the energy efficiency of domestic premises in Great Britain. It is funded via obligated energy suppliers, with costs recouped through electricity bills, who liaise with occupiers and landlords in order to identify and implement suitable energy efficiency measures.

There are three elements of ECO: ‘Home Heating Cost Reduction Obligation (which offers energy efficiency support to low income and vulnerable customers), ‘Carbon Emission Reduction Obligation’ (primarily wall and roof insulation measures and connections to district heating systems, available to anyone) and ‘Carbon Saving Community Obligations’ (insulation measures available to anyone living in the most deprived 25% of areas and with a sub-target for those living in the most deprived 25% rural areas).

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2 Financial transactions relate to Barnett consequentials resulting from a range of UK Government housing-related equity/loan finance schemes. The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered. This means that the Scottish Government is not obliged to restrict these schemes to housing-related measures and is able to provide a different mix of equity/loan finance.
ECO in Scotland

Since ECO was introduced in January 2013 and up to June 2015 over 1,504,898 measures were delivered in Great Britain. In Scotland 173,320 measures have been delivered, representing 11.5% of the GB total. Of the measures delivered in Scotland, 78,202 (45%) were provided under the Carbon Saving Target (CERO), 52,610 (30%) under the Carbon Saving Communities Obligation (CSCO) and 42,508 (25%) under the Affordable Warmth (HHCRO) obligation. (DECC, 2015c).

The 2013 Autumn Statement ‘ECO shock’ – what is it and how does it impact Scotland

The UK Government announced proposals for a number of changes to ECO in December 2013, which were passed by Parliament on 5th December 2014. Following these changes the Carbon Saving Target across the GB energy market was reduced by 33% and the UK Government’s ‘levelisation mechanism’ (which provides a carbon uplift for measures installed before March 2014) reduced this even further. These Changes were opposed by Scottish Ministers on the basis that they would undermine investment in energy efficiency, jobs in the insulation industry and progress in tackling fuel poverty and climate change.

Based on Scotland’s share of each of the energy company sub obligations, the Scottish Government calculates that Scotland leveraged approximately £286m of ECO from Jan 2013 to June 2015. According to the Scottish Government:

“In 2013/14 we estimate the figure was around £170m. However, that has dropped to around £93m in 2014/15 as a result of the changes to ECO by the UK Government. Scottish Ministers committed unprecedented levels of funding for 2015/16 on fuel poverty and energy efficiency with a budget of £119m to help offset the reduced ECO investment” (personal correspondence with SG officials).

Smith Commission - devolution of powers over design and delivery in Scotland of ECO Warm Homes Discount

The Smith Commission report on further devolution of powers to the Scottish Parliament recommended the devolution of powers to determine how supplier obligations in relation to energy efficiency and fuel poverty, such as ECO and Warm Home Discount, are designed and implemented in Scotland (Smith Commission, 2014). The actual methods of collecting ECO funding from suppliers will remain reserved as will the overall size of the obligation and the apportionment or share of this to be delivered in Scotland. Clauses 50 and 51 of the Scotland Bill confirmed that powers over ECO implementation in Scotland will be devolved (House of Commons, 2015) but that Scottish Ministers must obtain consent to exercise these from the UK Secretary of State. Further detail of the timescale for devolution of these powers and any transition is still to be determined.
Green Deal

Under the Green Deal, individuals and businesses implement energy efficiency improvements to their properties at no upfront capital cost. The capital costs are recouped over time through regular instalments on electricity bills. The Green Deal ‘Golden Rule’ specifies that repayment charges must be less than the expected savings from the energy efficiency measure, so that customers’ total bills should not increase (unless they make other lifestyle changes which affect their energy consumption). The UK Government estimates that the combined effect of its policies will be to add £280 to the average annual household energy bill by 2020. However, it also claims that the same policies will deliver average annual savings of £373, giving a net reduction in average annual energy bills of £94 (DECC, 2012).

The UK Government announced on 23 July 2015 that it would no longer fund the Green Deal Finance Company due to low take up and concerns about industry standards. According to Scottish Government officials:

“No replacement scheme has been announced at this stage causing uncertainty in the energy efficiency landscape. The Scottish Government had no prior notice of the ending of funding to the Green Deal Finance Company and has called upon the UK Government to ensure that the interests of industry and consumers in Scotland are protected and fully reflected in the proposed development of a new approach” (personal correspondence, October 2015).

WINTER FUEL ALLOWANCES

The UK Government also provides winter fuel payments of £100-£300 to all people of state pension age. In addition, the Warm Home Discount scheme offers rebates of £140 on electricity bills to eligible groups of individuals, primarily pensioners on benefits. Both Winter Fuel Payments and the Warm Home Discount are to be devolved to the Scottish Parliament via the Scotland Bill as a recommendation of the Smith Commission.


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