Scottish Parliament Economy Energy and Tourism Committee Inquiry into the Scottish Government’s Renewable Energy Targets: Consumer Focus Scotland Supplementary Evidence on Addressing Fuel Poverty

June 2012
About Consumer Focus Scotland

Consumer Focus Scotland is the independent consumer champion for Scotland. We are rooted in over 30 years of work promoting the interests of consumers, particularly those who experience disadvantage in society.

Part of Consumer Focus, our structure reflects the devolved nature of the UK. Consumer Focus Scotland works on issues that affect consumers in Scotland, while at the same time feeding into and drawing on work done at a GB, UK and European level.

We work to secure a fair deal for consumers in different aspects of their lives by promoting fairer markets, greater value for money, improved customer service and more responsive public services. We represent consumers of all kinds: tenants, householders, patients, parents, energy users, solicitors' clients, postal service users or shoppers.

We aim to influence change and shape policy to reflect the needs of consumers. We do this in an informed way based on the evidence we gather through research and our unique knowledge of consumer issues.
Introduction
Consumer Focus Scotland submitted evidence to the Committee on March 7th 2012 and subsequently provided supplementary evidence before appearing at the Committee session on May 30th. At that session, the topic of fuel poverty was raised by Committee members. We offered to provide further details to the Committee on what we would regard as the key priorities for addressing fuel poverty and energy efficiency in Scotland.

Accordingly, this paper outlines the scale and causes of fuel poverty. It then summarises past and present approaches, and provides suggestions on what more could be done to help address the problem. This draws both on our own policy work, and also on discussions with other stakeholders in the Scottish Fuel Poverty Forum, of which Consumer Focus Scotland is a member.

We would suggest that the Committee could help encourage an integrated approach to addressing fuel poverty, as the issue crosses economic, social and environmental portfolios. More specifically, the Committee could also:

- Consider the economic, social and environmental benefits associated with action on energy efficiency and fuel poverty, and influence the allocation of Scottish Government resources accordingly;
- Add weight to the Energy Bill Revolution campaign, which aims to recycle funds raised from consumers under the EU Emissions Trading Scheme towards energy efficiency; and
- Influence the use of Community Benefit Funds associated with renewable energy development, so that a proportion of the money is used to improve energy efficiency at local level.

More detail on these points are provided below.

1. Scale and Causes of Fuel Poverty
We have undertaken in 2010 and again in 2012, surveys which explore consumers’ attitudes to energy issues, including the affordability of energy. These surveys, detailed in our previous submissions, show that increasing proportions of consumers in Scotland report that they ‘sometimes or always struggle to pay’ energy bills.

There is close correlation between the numbers of consumers who describe themselves in these categories – 37% in our 2012 survey - and the official Scottish Government estimates for fuel poverty, which are currently around 35%.

Fuel poverty is the result of a combination of:

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- Low energy efficiency (rates of fuel poverty are twice as high as the average in houses rated ‘poor’ in terms of energy efficiency)
- Low incomes
- Energy prices

Of these, the Scottish Government has very limited influence on energy prices and on income for consumers dependent on benefits or low incomes. In both cases, however, fuel poverty programmes can have positive impacts by providing advice on energy tariffs or on benefit entitlements or tax credits.

The Scottish Government has much more influence over energy efficiency, and official data show that there have been consistent and significant improvements in the energy efficiency of Scottish housing. These improvements are very welcome, and rates of fuel poverty would be considerably higher had that work not taken place. However, the scale of energy price rises, at a time of falling real incomes, has offset the gains made from energy efficiency.

It is also important to emphasise that energy efficiency improvements have been concentrated in certain types and tenures of housing. The standards required of new build housing have increased progressively, and heating costs reduced as a result. In addition, the combination of the needs to meet the Scottish Housing Quality Standard and to deliver affordable warmth for tenants have led to very significant improvements in the average energy efficiency of both existing and new build social housing; large scale refurbishment programmes offered opportunities to deliver the most cost effective solutions (loft and cavity wall insulation), often benefiting tenants among the most vulnerable groups.

Scottish Government data suggest that high rates of fuel poverty among social housing tenants are, at least in part, a consequence of energy prices and low incomes, rather than poor energy efficiency. This highlights the need for fuel poverty programmes to provide advice on these areas to complement energy efficiency work.

Progress in improving the energy efficiency of existing housing, particularly older, solid wall properties, those without access to mains gas and those in the Private Rented Sector (PRS), has been considerably slower. Energy efficiency solutions in these houses are often more expensive, as they are likely to require solid wall insulation and possibly renewable heating systems. In addition, there are long standing barriers to improving energy efficiency in the PRS, as landlords can be reluctant to invest in measures for which they bear the cost, but tenants benefit through lower bills.

While there are varying estimates of the total costs of delivering these measures for fuel poor consumers, it is clear that the level of resource needed is considerably larger than that available at present. As an example, the Scottish Government suggests that some £3.4bn above current spending would be necessary to meet 2020 climate change targets\(^2\), although the sum needed to address fuel poverty would be less than this.

\(^2\) Report on Proposals and Policies, 
http://www.scotland.gov.uk/Topics/Environment/climatechange/scotlands-action/lowcarbon/rrp
2. Existing Actions to Address Fuel Poverty

We, and other stakeholders, consider that fuel poor consumers need access to a comprehensive range of services, covering energy efficiency services (both advice and installation of physical measures), assistance to ensure they are able to access the most appropriate tariff to meet their household needs, and income maximisation advice.

The response of the public sector in Scotland reflected this. In addition to the work to improve social housing, summarised above, the Scottish Government introduced the Energy Assistance Package (EAP). The EAP was designed to provide comprehensive solutions, including advice on income maximisation and to some extent on tariffs, alongside insulation and new heating systems. It is targeted at individual households in greatest need, using receipt of benefits and low energy efficiency of the house as qualifying criteria.

However, we would suggest that much of the thinking on addressing fuel poverty took place at a time when energy prices were relatively low (at least from today’s perspective), when real incomes were rising, and when opportunities existed to make significant improvements in energy efficiency at relatively low cost. There have clearly been significant rises in energy prices in recent years, and, as highlighted to the Committee by a number of respondents, it is also clear that there are further pressures on future energy prices. In addition, there is now more emphasis on the need to improve energy efficiency in order to reduce climate change emissions.

The combination of these factors led to the introduction and growth of area-based energy efficiency programmes. The Universal Home Insulation Scheme which replaced the earlier Home Insulation Scheme, is the most significant programme in Scotland, and selection of projects was informed by our report Energising Communities, which highlights success factors in delivery of area-based energy efficiency projects. Typically, projects funded through UHIS:

- Are targeted at wards identified by local authorities as being at greater risk of fuel poverty
- Provide basic measures (loft and cavity wall insulation) free to householders: the delivery of these measures is generally subsidised by the Carbon Emissions Reduction Target (CERT)
- Are delivered on a street by street and door by door basis, helping generate momentum and economies of scale at community level
- Help identify hard to reach consumers who are eligible for more in-depth support under EAP.

Information provided by the Scottish Government to members of the Scottish Fuel Poverty Forum suggests strongly that, delivered well, the area-based approach has a number of advantages over traditional schemes. These advantages include:

- the potential to work with and through trusted local organisations to help reach consumers who might not otherwise respond to traditional promotions

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3 See, for example, the aims of the Existing Homes Alliance Scotland, which highlight the need to address both fuel poverty and reduce emissions. [http://www.existinghomesalliancescotland.co.uk/](http://www.existinghomesalliancescotland.co.uk/)

- the ability to improve take up of insulation measures in tenements and flats, where individual owners can otherwise block communal actions by refusing to pay for them
- the opportunity to provide face to face advice to consumers which can be tailored to their needs

Energy efficiency and fuel poverty programmes in Scotland (EAP and UHIS) are currently under review. This is because the current programmes are designed to integrate energy efficiency funding provided, via levies on consumers bills, by energy companies.

This funding stream, of which CERT is the largest part, is expected to be closed at the end of 2012. After that time, the new Energy Company Obligation is being introduced by the UK Government, alongside the pay-as-you-save Green Deal. The aim of these new programmes is to widen access to energy efficiency measures.

While welcoming the overall aim, we have undertaken work with consumers which suggests that there remain significant challenges in developing the Green Deal so it is attractive to consumers. Concerns raised include the independence of assessors who would identify measures for consumers, and the reliability of savings identified. We also believe that the resources likely to be available under the ECO – perhaps around £120m pa in Scotland - will not be sufficient to meet the challenge of improving the energy efficiency of housing in Scotland. These issues are explored in detail in our consultation response on the Green Deal5.

3. Future Challenges

Following from the above, we would suggest that there are two distinct and interlinked challenges which must be overcome to develop and deliver effective programmes to address fuel poverty in Scotland.

The first of these challenges is to design programmes and delivery structures which deliver comprehensive energy efficiency and fuel poverty solutions for consumers, building on what has been done successfully in the past. These programmes must be capable of integrating, at the point of delivery for consumers, different funding streams, advice and support appropriate to local and individual needs.

There is already growing consensus (among Fuel Poverty Forum members) that area-based approaches are likely to provide the basis for such an approach, backed up by a smaller, central scheme which continues to provide higher levels of support for consumers in greatest need. However, a significant barrier to the detailed design of new programmes is the current lack of detail on the Green Deal and ECO. Without this detail, it is very difficult to determine how best to allocate Scottish Government resources most effectively.

The second challenge is to expand the scale of resource available to assist fuel poor consumers. The Green Deal is designed for consumers for whom savings in energy use will release money to repay the costs of up-front investments. However, the UK Government recognises that this approach will not be suitable for many of those in fuel poverty. This is because fuel poor consumers are likely

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to benefit from energy efficiency measures, at least in part, as it will allow them to heat their homes to a more appropriate standard. This means that at least some of the money saved would not be available to pay back initial costs.

As a result, the ECO will continue to provide funding for energy efficiency improvements for groups at greatest risk of fuel poverty. However, as noted above, the scale of funding available, even when combined with committed Scottish Government resources, will not be sufficient to deliver the required improvements.

**Key Points for the Committee**

We appreciate that fuel poverty is an issue which falls under the remit of different Scottish Government Ministers and Committees. We would suggest that the Economy, Energy and Tourism committee could help encourage collaborative working across the Scottish Government to ensure an integrated approach. In addition, the Committee could contribute to action on fuel poverty in three ways.

- Firstly, it would be helpful to consider the economic, social and environmental benefits of increasing levels of Scottish Government funding allocated towards energy efficiency work. This would also provide an opportunity to look at the contribution made by the use of renewable heating systems. Research in this area could look at, among other factors, the extent to which energy efficiency work creates training places and jobs, both during delivery of measures, and in the longer term, by releasing consumer spending at local level, and also at the contribution made to the Scottish Government’s climate change emission targets. Funding for energy efficiency measures should reflect the extent to which these benefits are delivered.

- Secondly, the Committee could add its weight to the Energy Bill Revolution campaign, of which Consumer Focus is a founder member. The central aim of the campaign is that money raised from energy consumers under the EU Emissions Trading System should be recycled towards energy efficiency measures. When phase three of EU ETS is introduced, the Treasury is expected to raise progressively larger sums, from £2 billion next year to £4 billion each year by 2020 and to £7 billion each year by 2027. Recycling this would provide enough revenue to super insulate more than 600,000 homes every year over the next 15 years. Similar approaches are being taken in other countries.

- Finally, the Committee could examine the potential for the use of Community Benefit Funds (CBFs) associated with renewable energy

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7 [http://www.energybillrevolution.org/](http://www.energybillrevolution.org/)

8 The Czech Republic has committed to earmark 50% of the EU ETS phase three revenue for climate protection [http://www.endseurope.com/27195?referrer=bulletin&DCMP=EMC-ENDS-EUROPE-DAILY](http://www.endseurope.com/27195?referrer=bulletin&DCMP=EMC-ENDS-EUROPE-DAILY). Similar approaches are being considered in Germany and Italy.

developments to be used, at least in part, to support energy efficiency measures. Our recent report *Reaping the Benefits of Renewables*\textsuperscript{10} explores this and other areas, including the need for a debate on the scale and use of the funds more generally. CBFs represent an increasing financial opportunity for communities, often in rural areas where rates of fuel poverty are highest, and the use of the money to support energy efficiency would have multiple benefits.