

Scottish Government Draft Budget 2016-17

Written submission to the Infrastructure and Capital investment Committee

Existing Homes Alliance Scotland

Introduction

The Existing Homes Alliance Scotland (ExHAS) welcomes the opportunity to provide written evidence to the Infrastructure and Capital Investment (ICI) Committee on the 2015/16 draft budget. We understand the focus of the ICI Committee's scrutiny is in relation to how the budget is aligned with meeting Scotland's climate change targets, and what more is needed in 2016-17 and beyond.

In our evidence last year, we called for a substantial increase in funding for energy efficiency, and for energy efficiency to be made a National Infrastructure Priority in order to make sure housing fulfilled its potential to help meet climate targets and eradicate fuel poverty. Since then, Scotland has missed the fourth annual emissions reduction target in a row, and levels of fuel poverty have risen to 39%, placing ever more urgency on the need to tackle our cold and draughty homes.

The Scottish Government did make a welcome, though small, increase in the budget for Scotland's Home Energy Efficiency Programmes of £20 million for 2015/16, and the programmes are achieving good results. We are pleased that the government has committed to making the energy efficiency of our buildings a National Infrastructure Priority (NIP) and now is the time to indicate it will have sufficient scale and ambition to address both climate change and fuel poverty. Even in a challenging budgetary environment, we believe that the NIP represents good value for money and will also help achieve other Scottish Government objectives on reducing inequalities and supporting jobs.

In this briefing, we highlight the following points:

- **Investment in energy efficient housing is essential to meeting climate change targets and represents good value for money.**
- **The Alliance estimates the need is £450m per annum (average) for 10 years, though the budget will be ramped up over time¹.**
- **The National Infrastructure Priority should have the objective of all homes reaching an EPC 'C' band or higher by 2025.**
- **The Scottish Government should produce its own estimate of costings to meet its objectives for the National Infrastructure Priority that are aligned with climate change targets and fuel poverty eradication.**
- **Funding in 2016/17 as a transitional year should reflect the commitment to infrastructure priority.**
- **The 2016/17 budget should be sufficient to maintain and enhance current programmes, compensate for cuts in UK policies and programmes, and funding pilots to test new approaches.**

¹ This estimate is for programmes up to 2025 to match emissions reduction commitments. It is likely further resources will be required to meet 2050 targets.

- **The new Scotland's Energy Efficiency Programme needs a combination of grants, loans, incentives, support and regulation.**

Scottish budget, housing and climate change

The Alliance believes that the homes and communities sector is not on target to reach the 37% reduction in emissions envisioned in the Scottish Government's Climate Action Plan (RPP2), and there is no clear plan on how the 51% reduction by 2027 will be met. The latest 2013 greenhouse gas emissions inventory shows that the residential sector has reduced emissions by only 12.4% since 1990 and annual fluctuations are still occurring, despite a commitment from the Scottish Government to "design out" this "regular vulnerability ... through tackling energy efficiency and decarbonisation of electricity and heat generation."²

The development of RPP3 and the NIP should clarify the policies and programmes that will deliver the level of ambition required from the housing sector to meet annual targets, renewable heat targets, and the 2020 and 2050 targets. There is little doubt housing has a big role to play - it accounts for one-quarter of our carbon emissions³, and our demand for heat (for all buildings) account for over half of Scotland's energy consumption and greenhouse gas emissions. 85% of our existing homes will still be lived in by 2050, so it is essential that we invest in our housing structure now, and lock in annual emissions savings going forward. Though the housing stock is improving, the UK is still the 'cold man [woman and child] of Europe' according to recent research by the Association of Conservation of Energy⁴ – despite the fact that we have amongst the lowest energy prices, we rank 14 out of 16 in terms of fuel poverty and affordability of space heating. One of the main reasons is the poor state of repair and energy performance of our homes.

National Infrastructure Priority and the budget

Despite the Scottish Government's welcome commitment to the NIP in June, to help all buildings achieve a good energy performance rating⁵ and explicitly linked to delivering climate change targets, it has yet to set any clear objectives or ambition for the programme. The Alliance, along with 50 high-profile organisations produced a [joint statement](#) calling for a national infrastructure priority with ambitious objectives that are aligned with climate change objectives, and help eradicate fuel poverty. The Alliance, and the other business and civic signatories of the joint statement, think the overall goal of the project should be for all housing to reach a minimum of an Energy Performance Certificate (EPC) band C by 2025, with an interim milestone of 70% of homes to meet EPC band C by 2020. This means at least 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.

² Paul Wheelhouse MSP, then Minister for Environment & Climate Change, 10th June 2014: <http://bit.ly/1kveFSt>

³ This figure is on an end user basis, including heat and electricity.

⁴ Still the cold man of Europe – briefing, November 2015, ACE. Note separate figures not available for Scotland.

⁵ Scottish Government press release, June 2015 <http://news.scotland.gov.uk/News/Climate-change-action-heats-up-19c8.aspx>

There will be a need for limited exceptions for properties which struggle to meet this target, but every effort should be made to overcome any barriers.

We have estimated the overall cost of the housing component of the infrastructure priority at approximately £10.7bn over 10 years⁶ of which £4.5bn would be made up of public investment. 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.⁷ 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 energy supplier obligation. We expect that a significant 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 consequential for UK housing equity and loan schemes⁸.

European funding could also play a role – for example directing some of the European Structural and Investment Funding 2014-2020 into 'renovation loans'⁹. We would expect government support for loans to lever in more than twice as much funding from private householders, and in time loans would be paid back, replenishing government budgets. To ensure that the predicted savings from measures are maximised, behaviour change support would be an integral part of the programme. A scenario for the breakdown of public and private expenditure for a programme raising all homes to EPC 'C' band by 2025 could be¹⁰:

Average Public Investment 2016-2025	Average Private Investment 2016-2025
£2.2 bn grants	£6.15bn
£2.3 bn loans	
TOTAL £4.5 bn / £450m per annum	TOTAL £6.15bn / £615m pa
<i>OR £350m per annum if ECO or equivalent included</i>	

These estimates do not include funding from any current or future obligation on energy providers which could off-set public expenditure by approximately £100m per year. Given proposals to devolve the design and implementation of the supplier obligation in Scotland, there could be even more opportunities to maximise the impact of this spend.

⁶ Building the Future: The economic and fiscal impacts of making homes more energy efficient, 2014, Consumer Futures.

⁷ Ibid.

⁸ 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.

⁹ DG Regio has provided guidance draft term-sheets for such "renovation loan" structures offering a model approach for Member States wishing to develop such approaches and it appears that initial concerns over State Aid rules are considered and dealt with through such models. *Helping hard working families to reduce their energy bills*, 2015, UKGBC.

¹⁰ Ibid.

The NIP should also be designed to boost investment in renewable heat. Currently, just under 4% of heat comes from renewables and only 1% is provided by district heating. If Scotland is to enjoy affordable warm homes and ensure it cuts its greenhouse gas emissions we need a bold, new, strategic approach to supporting the uptake of low carbon heat.

Setting targets and costings

The Scottish Government is undertaking extensive energy systems modelling to inform the development of RPP3. This should provide an indication of sectoral contributions to emissions reductions, as well as the cost-optimal pathway to achieving that contribution. In our view, the housing sector can and must play a significant role because it is cost-effective and delivers multiple benefits.

To inform investment decisions, we urge the Scottish Government to model what the housing stock profile will need to be in 2020 and beyond by EPC bandings and more generally, in order to achieve the necessary emissions reductions (a similar and linked exercise is required regarding the eradication of fuel poverty). The modelling should also provide an understanding of the expected break-down of heating sources as we transition to renewable and low carbon forms of heating. Finally, this information will allow the government to produce cost estimates for the NIP, and plan a route map for energy efficiency upgrades. Ultimately, we believe we need a vision of net-zero carbon homes by 2050, with a plan for the best and most cost effective route to get there.

Minimum standards of energy performance

An important tool for the NIP will be minimum standards of energy performance for all housing. While grants and loans will ‘pull’ progress through energy efficiency policies and programmes, regulation is needed to ‘push’ the worst performing properties which are lagging behind and not taking up voluntary measures. The Scottish Government intends to consult in the next parliamentary session on draft regulations which would require a minimum energy efficiency standard at the point of sale or rental (Regulation for Energy Efficiency in the Private Sector – REEPS). This regulation will be an important driver for change and encourage a transformation in the market for energy efficient homes. It will also help to lever in private funding for the NIP from those who are able to pay.

Benefits

An ambitious National Infrastructure Project on energy efficiency would deliver against many government objectives. These ‘co-benefits’ (based on raising all domestic properties to EPC ‘C’ band or above) should, where possible, be costed and evaluated to document this return on investment.

- *Climate change emissions reduction:* reduce carbon dioxide emissions by more than 1.34MtCO₂ p.a. by 2025.
- *Fuel poverty:* a significant mitigating impact on fuel poverty.
- *Jobs:* a net increase in jobs of 8-9000 per year, spread around Scotland unlike other infrastructure projects. It would also be a ‘value for money’ project

- creating more jobs and benefits for the wider economy than a fiscally equivalent spending package¹¹.
- Fuel bill savings: reduce fuel cost by £552 pa for current fuel poor households.
- *Health*: reduce costs to the NHS. The cost of fuel poverty to the NHS is estimated at £48m - £80m per annum.
- *Energy security*: The economy would be less vulnerable to energy price fluctuations, and less dependent on imports and fossil fuels.

Recommendations:

- **The Scottish Government's 2016/17 budget should reflect the new commitment to making energy efficiency a National Infrastructure Priority and be aligned with Scotland's climate change targets.**
- **The National Infrastructure Priority should have the objective of all homes reaching an EPC 'C' band or higher by 2025.**
- **2016/17 is a transitional year and the budget should be sufficient to allow for current programmes to continue, compensate for cuts in UK programmes, and piloting new programmes on behaviour change and loans.**
- **Looking ahead, we estimate that the housing component of the National Infrastructure Priority will require £450m per annum over ten years on average for grants and loans. This should lever in £615m in private funding for a total fund of £10.7 bn over 10 years.**
- **The Scottish Government should produce its own estimate of costings to meet the objectives of a National Infrastructure Priority on energy efficiency that is aligned with the RPP3 and climate change targets.**
- **In addition to funding, the National Infrastructure Priority should be complemented by policies and regulation which will drive and support a market transformation in how we value energy efficiency.**

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.

**Existing Homes Alliance Scotland
19 November 2015**

¹¹ Ibid.