



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 28 October 2015

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ECONOMY, ENERGY AND TOURISM COMMITTEE

26th Meeting 2015, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Chic Brodie (South Scotland) (SNP)

*Patrick Harvie (Glasgow) (Green)

*Johann Lamont (Glasgow Pollok) (Lab)

*Richard Lyle (Central Scotland) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Lewis Macdonald (North East Scotland) (Lab)

*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Fergus Ewing (Minister for Business, Energy and Tourism)

Norman Kerr (Energy Action Scotland)

Heather McQuillan (Dundee City Council)

Professor David Sigsworth

Karen Whitefield (Union of Shop, Distributive and Allied Workers)

Stewart Wilson (Tighean Innse Gall)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 28 October 2015

[The Convener opened the meeting at 09:33]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 26th meeting in 2015 of the Economy, Energy and Tourism Committee. I welcome members, our witnesses and any visitors in the gallery. I remind everyone to please turn off, or at least turn to silent, all mobile phones and other electronic devices.

Under agenda item 1, I ask members whether they are content to take item 6 in private. Is that agreed?

Members indicated agreement.

The Convener: Are members content to review in private the evidence heard at future meetings in connection with the scrutiny of Scotland's budget?

Members indicated agreement.

Subordinate Legislation

Renewables Obligation (Scotland) Amendment Order 2015 [Draft]

09:34

The Convener: Under agenda item 2, we will consider the draft Renewables Obligation (Scotland) Amendment Order 2015. I welcome Fergus Ewing, the Minister for Business, Energy and Tourism. He is joined by Fiona Hepplewhite, who is a policy adviser to the Scottish Government; Jason Hubert, who is head of business development at Forestry Commission Scotland; and Olive Hogg, who is a Scottish Government solicitor. Welcome to you all.

I invite the minister to speak to the instrument.

The Minister for Business, Energy and Tourism (Fergus Ewing): Thank you, convener, and good morning to everyone.

I have in front of me three pages that set out the extraordinary success of the Scottish Government in promoting work through the renewables obligation, but as I have to be at Newbattle abbey by 10 o'clock to convene the opencast task force—at which I will submit your apologies, convener—I will just stick to the order, if I may.

The order implements policy decisions in relation to the reporting requirements and sustainability criteria for stations using solid biomass and biogas feedstocks to generate electricity. Reporting requirements on the use of solid and gaseous biomass under the renewables obligation were first introduced in Scotland in 2009 to ensure that biomass material is sourced responsibly and in a way that minimises and eliminates any adverse impacts. The requirements were enhanced in 2011 and again in 2014. The proposed amendments are designed to ensure that the legislation remains fit for purpose. We see no reason for a divergence from the rest of the United Kingdom on biomass sustainability issues, so the amendments mirror those that are being made to the RO mechanisms in England and Wales and in Northern Ireland. That approach is favoured by industry.

The first of the proposed changes relates to making compliance with the biomass sustainability criteria mandatory in order to receive support. Under the renewables obligation Scotland, generators are required to submit information on the sustainability of their biomass fuels—including information on land use and greenhouse gas emissions—to the Office of Gas and Electricity Markets.

The committee will remember that, last year, it approved an amendment to the renewables obligation order that introduced, first, tighter sustainability standards for electricity generated by solid biomass and, secondly, a new requirement for generating stations of 1MW and above to provide an annual independent audit report. Those changes were introduced on a reporting-only basis to allow generators time to become familiar with what is required in practice. The current amending order would make compliance with the sustainability criteria mandatory. Generating stations of 1MW and above that use solid biomass and biogas will be required to report and to meet the sustainability criteria in order to claim renewable obligation certificates.

The second change relates to greenhouse gas emissions targets. Operators are required to account for the life-cycle greenhouse gas emissions for the biomass that is used to generate electricity. To ensure that biomass power delivers genuine greenhouse gas savings and to promote good practice and innovation across the supply chain, we are introducing a tightening greenhouse gas emissions target. Biomass power is already required to meet a greenhouse gas savings target of at least 60 per cent compared with the European Union fossil fuel average, and that target will become tighter in 2020 and 2025. The tightening greenhouse gas emissions targets will be applied as an annual average to allow generators to better manage procurement risks. That is subject to the provision that a consignment of biomass must not exceed an overall ceiling to ensure that each consignment delivers a good level of savings.

Finally, we are making a number of technical adjustments to the reporting requirements and sustainability criteria. Those minor adjustments and clarifications have been identified as areas that will help to ensure the effective operation of the scheme and lead to more accurate reporting by operators. Ofgem will continue to regulate compliance with the mandatory sustainability criteria.

To sum up, the proposed changes will improve the efficiency and sustainability of the renewables obligation and ensure that the legislation remains fit for purpose. Before I formally move the motion that recommends that the order be approved, I would be happy to respond to any questions that members may have.

The Convener: Thank you, minister. I hope that you will not break any speed limits on your way to Newbattle abbey; you tried your best to break them in your reading of that statement.

Do members have any questions on the order that they want to put to the minister?

Members: No.

The Convener: In that case, we will move on to agenda item 3. I invite the minister to move motion S4M-14576.

Motion moved,

That the Economy, Energy and Tourism Committee recommends that the Renewables Obligation (Scotland) Amendment Order 2015 [draft] be approved.—[*Fergus Ewing.*]

Motion agreed to.

The Convener: Thank you very much. Is the committee content for the convener and the clerk to produce a short factual report of the committee's decisions and to arrange to have that published?

Members indicated agreement.

The Convener: I thank the minister and his officials for coming.

We will have a short suspension.

09:39

Meeting suspended.

09:51

On resuming—

Pre-budget Scrutiny 2016-17

The Convener: We come to agenda item 4. As a committee, we are commencing our pre-budget scrutiny in relation to the Scottish Government's budget for 2016-17. The budget for 2016-17 has not yet been published, but because of the parliamentary timetable, we are required to start our budget scrutiny work. We will do that in anticipation of the budget's publication in a few weeks' time.

I welcome our panel. We are joined by Norman Kerr from Energy Action Scotland; Professor David Sigsworth, who recently stepped down as chair of the Scottish fuel poverty forum; Stewart Wilson of Tighean Innse Gall—I hope that I pronounced that properly, Mr Wilson—

Stewart Wilson (Tighean Innse Gall): Almost.

The Convener: Thank you. We also have with us Heather McQuillan, who is from Dundee City Council. Welcome to you all.

The theme for this session is fuel poverty. We will run the discussion for just over an hour, until about 11 o'clock or so. As there are four of you on the panel, I ask members to direct their questions initially to one panel member instead of making them open. If you would like to respond to a question that is directed to somebody else, just catch my eye and I will bring you in as best I can as time allows. If members keep their questions short and to the point and the witnesses do the same with their answers, that will be very helpful in allowing us to get through the topics in the time available.

I will start off by asking about the background to where we are with fuel poverty. Maybe I could start with Mr Kerr and bring in Professor Sigsworth thereafter. As far as the trajectory of fuel poverty is concerned, we know that there are essentially three components: household incomes, energy prices and measures to reduce energy consumption.

In relation to the first two, household incomes seem, in general, to be improving as we are coming out of economic recession, and energy prices, which have gone up substantially in recent years, seem to have plateaued, and there is some indication that they may in fact be reducing. Mr Kerr, what is your sense of the impact that those wider economic changes might have on fuel poverty figures in the coming year?

Norman Kerr (Energy Action Scotland): You note that prices have plateaued. As we look to the future and at where we might be bringing our

energy from, there is no guarantee that that plateau will remain. I think that the trajectory for fuel prices continues to be one that will increase. How steeply it increases depends on where we bring that energy from, given that we are—I must stress this point—in a global market.

That will undoubtedly have some impact on fuel poverty. The comment has been made that, if fuel prices had risen at the same rate as inflation since 2002, fuel poverty levels would be a lot lower than they are. I think that that is quite false, because we all knew that 2002 was the rock bottom for prices and that the energy industry could not sustain those prices. From that point, prices were always going to be on an upward trajectory.

If we look at the prices in the early 1980s, before privatisation, and do an economic recalculation, we find that they are the same as today's prices. In real terms, the price that people were paying in the early 1980s is the same price that people are paying today. In other words, we have not seen a great fall or a great rise in energy prices; they have remained fairly static.

However, we know that there are more impacts to come along on fuel prices, which may well drive prices up. For example, the way in which our distribution network is arranged and the way in which we will bring new generation on will all have an impact there.

You said that there has been economic growth for the fuel poor, but that is not necessarily the case. If you listen to organisations such as the Poverty Alliance or the Child Poverty Action Group, you will get a different story. I know that the Scottish Government is promoting very heavily the living wage, but many fuel-poor households are in work as opposed to living on benefits. It is in-work poverty that we are seeing. I do not have great optimism for the future in those two particular areas.

The Convener: Professor Sigsworth, do you want to add anything to that?

Professor David Sigsworth: I have three additional points to make. Norrie Kerr is right that fuel prices have plateaued, but the most recent published statistics that we have for fuel poverty are the 2013 figures for Scotland. Between 2013 and 2014, which is outside the range of those figures, average fuel prices as published by the Department of Energy and Climate Change for the whole of the UK rose by about 3 per cent, so we are still seeing some increase. We do not have up-to-date data, but I suspect that that is still true.

I stress that those are average figures. When we look into what "average" means, we are talking about basing that on an average bill of between around £1,300 and £1,340 a year. That is for a dual-fuel property such as a three-bedroom semi-

detached house. In our rural and island areas, the cost for a similar type of property could be £2,000, and that difference has great significance for any average that is produced.

On top of that, our biggest problem in fuel poverty has been the fact that the wider span of governmental assistance has involved the use of the Scottish Government's own money and things such as energy company obligation funds, which have had to be deployed in a particular way. That has not given us the means to treat the hard-to-treat properties that are in more remote locations.

The convener mentioned the three drivers; I think that there is a fourth, which I will come back to. Of those three issues, if we take the fuel price, there is the disadvantage of not being a dual-fuel customer and not getting a dual-fuel discount. Last week, we saw Ofgem's report on distribution pricing, in which there is some recognition that distribution charges in our remoter areas are also much higher. In addition, people who are on electric heating are locked into fuel prices and unit prices that are far higher. All those factors are contributing towards our worst problem, which is still finding a way of tackling hard-to-treat properties in more remote locations.

The Convener: I know that other members want to talk about the rural areas in particular, but I would like to follow up on that point. I live just outside Perth, so we are not on the gas main. We have oil heating. The cost of my oil heating has come down by 50 per cent in the past two years. I am paying half what I was paying two years ago, so there must be a beneficial impact on some of the rural households that you are talking about that rely on heating oil. They must have seen quite a substantial fall in some of their costs in the same period.

10:00

Professor Sigsworth: We do not have figures on that because it is not regulated. There will be significant differences between the fuel discounts that are available in those areas. Nationally, oil suppliers have tried in a concerted way to give an assurance that they are keeping prices in check, but that is not something that we can judge and gauge.

I would like to come back to the fourth issue. There is an increasing awareness that, when we provide measures to eradicate fuel poverty, unless the individual in the home has been trained and shown how to get the best out of them—and not just once—the measures will not work and we will find that they are only partially effective. We have to tackle that fourth issue, too. That involves how people live and how they use systems, and that will come from deeper integration of social care

with fuel poverty measures and primary healthcare.

The Convener: Mr Wilson, will you comment on the impact of fuel prices on rural communities?

Stewart Wilson: The oil price issue is an interesting one. The idea of using oil to impact on fuel poverty presumes that the household can afford to heat the home in the first place. We tend to find that people will, in effect, self-disconnect because they cannot afford to fill an oil tank. Usually, there are minimum amounts and people have to bulk buy to fill their tank, but we find that households simply cannot afford that.

The price has come down significantly, from a peak of 75p or 76p a litre to 35p or 36p a litre, in the past month or so. However, the most fuel poor—the extreme fuel poor—have been self-disconnecting anyway, and they could use only a limited amount of oil in the first place, so the price reduction does not necessarily have an immediate impact on the number of people in fuel poverty.

If I may, I will add a point about the average price per household. In the survey that we did reasonably recently, the average household bill in the Western Isles—some similar statistics came from our colleagues in Skye and Lochalsh—was about £2,300 to £2,400. That is about £1,000 higher than the national average, which is a significant difference.

Heather McQuillan (Dundee City Council): The price of fuel is important, but there is another important point. If the rowan berries are anything to go by, we are coming into a really bad winter, and a fourth factor is the quantity of fuel.

I echo what David Sigsworth said about the use of systems. My council is involved in large-scale external wall insulation, which in some ways is the holy grail. It is expensive, but with the home energy efficiency programmes for Scotland money from the Scottish Government, we are really going into it wholesale. You might think that external wall insulation has no moving parts because the building is wrapped up and that is the end of the story, but there is a requirement for advice there. We say to people, "You will save money on your fuel," but they do not realise that they have to turn down their thermostat or their thermostatic radiator valves. It is not just a case of letting it be, because there are lifestyle changes that come with it.

The Convener: Thank you for that. Before I bring in Dennis Robertson, who wants to pursue some of these issues, I will ask one more question. Maybe we can start with Mr Kerr again. We know that the Scottish Government has a target to eradicate fuel poverty

"so far as is reasonably practicable"

by November 2016. That will fall within the budget period that we are looking at. What are the chances of that target being met?

Norman Kerr: Sadly, there are none. This year's figure is not yet out—it will come out at the end of November—but last year's figure was 940,000 households. We do not treat anything like that number of households per year so, sadly, I have to say that the fuel poverty target will not be reached, and by some considerable way.

I can say that we know that fuel poverty levels would be significantly higher had it not been for the Scottish Government putting money from the public purse into grant programmes. Nonetheless, the fuel poverty target will not be achieved.

The Convener: Professor Sigsworth, do you agree or disagree with that?

Professor Sigsworth: We must remember that the 2016 target was set with a rider that says

“so far as is reasonably practicable”.

If we look at what has been done over many years within the limitations of the devolved powers, I think that we have made quite a substantial move forward. If we look at the improvement over the past five or six years in the number of energy performance certificate B and C-rated properties, we see that we are doing far better in percentage terms than England.

I am not saying that that is right. Given that, at present, the Scottish Government cannot regulate the fuel price and is not in control of household incomes, some would argue that quite a lot has been achieved as far as what is “reasonably practicable” is concerned. However, that does not alter the fact that, as Norrie Kerr has now said very publicly, we do not expect to be anywhere near eradication next year.

As I said in the report that I published recently, I am pleased that the national infrastructure priority gives us an opportunity to think about uniquely Scottish solutions that address many of the issues that we have been talking about.

The Convener: Are you advocating that the Scottish Government should have the right to regulate the fuel price?

Professor Sigsworth: I would like Ofgem to have some responsibilities to this Parliament and to be accountable for some of its measures in setting the context. We need different solutions from the ones that we see being spread more widely in urban and suburban areas across the rest of the UK.

Dennis Robertson (Aberdeenshire West) (SNP): Before I move on to a question about the fuel poverty groups, I have a question about prices. The convener mentioned the target and Mr

Kerr made a point about fuel prices and inflation. Do you agree that, if fuel prices had been in line with inflation, the percentage of households in fuel poverty would probably be about 11 per cent, albeit that that is still high, instead of 39 per cent?

Norman Kerr: Mr Robertson is entirely correct. That would have been the case. The point that I was making, though, is that the prices in 2002 were artificially low and they could not be maintained at that level. At that time, the market was at its worst or its best—we could say either. Energy companies were not in profit; they were actually losing money at that time. It was unsustainable.

We could argue that the fact that the regulator removed the price controls may not have helped. The regulator took away the price control mechanism of the retail prices index plus or minus X—the energy companies had to take that to the regulator when they wanted to increase prices—to encourage more competition. However, from 2002, we saw a reduction from 13 offerings to six, so we had a lot of joining together, and fuel prices rose at well above inflation.

The answer to your question is yes, but if we ask whether that was likely, the answer is no. That was never going to be the case. I think that people had a false hope that prices would be in line with inflation.

Dennis Robertson: Thank you for clarifying that.

I move on to my main question. Perhaps Mr Wilson could respond to it. At present, we have three fuel poverty action groups. Is that the right way to go? Would a single group be more appropriate? I know that one of the current groups is a short-term strategic group and one looks specifically at remote and rural issues, but is it the best solution to have three groups? Do they co-ordinate and work together? I am not sure that they do.

Stewart Wilson: Whichever structure is in place, people have to communicate with each other, and we have to recognise that there are differences across the country. I am not convinced that combining the groups into one would be a cure-all for that. The rural task force certainly has a job to do. I know from my participation in it that it is seriously picking up some of the key issues in rural areas, which I hope will be tagged into a report at the end.

Dennis Robertson: I welcome the fact that a task force is looking at the issues for remote and rural areas. In some cases, we look at average prices—Professor Sigsworth mentioned that—but prices in remote and rural areas of Scotland are certainly much higher. We need to identify the specific needs of our remote and rural areas. How

can we try to resolve some of the problems for those areas in line with what is happening within the bigger framework, say within central Scotland, and try to tackle fuel poverty across the board? Should there be a different scale for grants and subsidies for remote and rural areas?

Stewart Wilson: It comes down to how we prioritise the limited money that we have. Do we want to tackle the most fuel-poor areas first? How do we prioritise that? Those areas tend to be further from the big population centres, in the more rural areas, although there are some concentrated ones within the cities.

It is about how we prioritise funding for the most fuel-poor areas. In doing that, we have to recognise that the housing stock tends to be different in those areas. We need to consider the part of the triangle that we have quite close control over. Energy efficiency tends to cost more in the more rural areas, simply because the housing stock is different and it demands different solutions.

Dennis Robertson: The point that you made to the convener about people self-regulating and disconnecting because they do not have, for instance, the finances to fill an oil tank is important. People in remote and rural areas are often dependent on one fuel source, which tends to be electricity, because they are not connected to gas. Does that pose a larger problem for such areas? Are people looking at alternatives, which might involve solid fuel and people burning anything that they can find?

Stewart Wilson: Electricity prices in the islands, in particular, are extremely high. The point was made earlier that, with teleswitch meters, householders are in effect locked in. Technically, they are not locked in, but in some of the tariffs it is difficult for people who are on teleswitch meters to switch.

The Convener: Will you explain for our benefit what a teleswitch meter is?

Stewart Wilson: It is a dual meter. For instance, SSE, which is the biggest supplier in the north of Scotland, has a tariff called total heating total control, which has a 24-hour tariff for heating and hot water. That is on a low rate, but there is a standard rate for everything else in the property, so the customer's cooking, lighting, TV and hi-fi are all on a standard rate. There is a dual switch and the heating element is teleswitched—it is controlled by the power company in order to help with control of the grid.

However, for customers to go on to that tariff, they have to have that meter. SSE is the only supplier that offers that tariff, effectively. If someone goes to the comparison sites to try to switch, they will not find it. It is difficult to find and if

someone calls up to try to switch to another supplier, they will be told, "Sorry, I don't know what that meter is; we can't switch you." Although the company might have an obligation to switch someone, technically it finds it difficult to do so. If you are 65, 85 or whatever and somebody says, "I don't think we can do it," you tend to put the phone down at that point. It is difficult to switch across.

Although recently—literally the other day—the tariff came down, the standard rate of that tariff is much higher than the standard rates in other companies. We can find 10p a unit on the market at the moment for standard rates whereas, on the total heating total control tariff, the standard rate might be up at 19p.

10:15

The Convener: Professor Sigsworth, were you not a director of SSE until recently?

Professor Sigsworth: I was.

The Convener: Do you have anything to say on the issue?

Professor Sigsworth: I left SSE in 2005. These are solutions that were developed while I was working with the company, but I have had no contact with the company on that sort of basis since 2005.

Norman Kerr: We often talk about SSE as if it is the only relevant company in the debate. However, across Scotland, both the main electricity suppliers developed dynamic teleswitch tariffs as a means of flattening their generation curve. That applies equally in Dumfries and Galloway and in Orkney and Shetland. We have now reached a stage where the companies are reconsidering that tariff, because it is not serving the purpose that it was intended to when we had vertically integrated companies and the companies could dump excess energy at some point during the day, should they have it.

If we look to the future, there is an opportunity to adapt or adopt dynamic teleswitching in a situation in which we have a vast number of wind turbines, some tidal power or some solar power, which is growing. We will need ways of compensating within the system and of storing energy, and dynamic teleswitching gives us the opportunity to do that. Although the tariff is not serving the system well just now, that does not mean that, with some further investigation and some further infrastructure development by the companies, it cannot serve us well in the future. It is a fairly old and historical mechanism, but we have the opportunity to bring it up to date.

At the moment, the National Grid spends approximately £1 million a day on constraint payments—in other words, telling companies, "We

don't need your energy just now; please don't generate." Why are we doing that in remote rural communities that are living underneath turbines? Surely we should be finding an innovative solution by which to store that energy. Dynamic teleswitching gives us that opportunity, along with things such as battery storage. However, just now—Mr Wilson makes a very valid point—it is not the best solution for many customers, not just in the rural Highlands but along the Borders as well.

Dennis Robertson: Are customers in remote and rural areas being disadvantaged? Are they being penalised for not being on mainline gas and so on? They have to rely on electricity, regardless of how it is generated, and they perhaps do not have a storage facility at the moment. If they are being disadvantaged, should we be looking at some way to try to mitigate that?

Norman Kerr: There is already some mitigation. The hydro replacement scheme gives some compensation, but the Ofgem report that was published last week recognises that, because of the way in which we operate our system in those remote rural areas, the cost to the customer is around £60 a year. That is not an insignificant cost. Ofgem has stated that it has some sympathy with the idea of reopening that investigation to consider whether we have the infrastructure that we need.

Professor Sigsworth: I think that the root of this question is whether we need three elements to the fuel poverty forum. I chaired the fuel poverty forum from 2011 and found that it was difficult to move away from talking about measures, monitoring and the on-going development of those schemes.

The problem that I have seen—it has frustrated me for some time—is that measures will not solve fuel poverty completely. We now have homes in Scotland that are B and C rated where people are still living in fuel poverty. The solution requires a much wider look at the issues. Over the summer, I and some other members of the forum—Norrie Kerr was involved—spent quite a bit of time mapping all the direct and indirect connections to the fuel poverty issue. Those maps are complex and, to enable people to make sense of them, they need more work. However, they showed that many parts of the Government, non-governmental organisations and others have to collaborate, co-operate and join up in a way that is not happening completely at the moment.

I have provided those maps to the Government. They are just part of looking forward and ensuring that what comes forward has not only a different sort of structure but a different weight to the solution. In those rural areas, biomass energy systems and a lot of renewable solutions—which can be under the community's control and can be

maintained in a local economy if we ensure that the people in the local economy have the skills to install and maintain their systems—can lead to a completely different picture.

I have been asked to chair a short-life working group on that third element. It will not be examining the on-going situation—that will still be the preserve of the fuel poverty forum—but will be trying to bring together that long-term picture, independently, with a different group of experts, and put it to the Government. That is where I think that the difference can be made.

Dennis Robertson: That was extremely helpful, Professor Sigsworth. You anticipated my question, which was even more helpful.

Lewis Macdonald (North East Scotland) (Lab): I was struck by the reference to total heating total control and teleswitch systems. The witnesses will be aware of the Competition and Markets Authority's investigation into the energy market. When the CMA appeared before the committee, it undertook that it would consider that as one of the issues that merited investigation. Do the witnesses believe that there are other areas in which competition issues are a partial cause of fuel poverty, because people are not able to access a proper choice?

Norman Kerr: Some time ago, Ofgem took action to reduce the number of tariffs and asked the companies to pull the number back to four main ones. We believe that that has not necessarily been the right way to do things, as it stifles innovation. I think that Ofgem is now considering widening that out again.

Professor Sigsworth talked about renewable energy, but there is no dedicated tariff for renewable energy just now. If someone has an air-source heat pump or a ground-source heat pump, there is no dedicated tariff for that. If we want to expand that type of measure, we need the energy industry to come forward with specific tariffs. There is an extent to which competition is not working well because the regulator has stepped in.

Companies have the opportunity to go to the regulator to ask for a derogation if they have something new that they want to try. I think that the number of derogations that Ofgem has given has led it to believe that it needs to carry out that investigation a bit more. As we have heard, a number of suppliers would like to get into the dynamic teleswitch tariff. That is probably where the biggest barrier is.

In some ways, in Scotland, the issue is about brand loyalty. Many people in the north of Scotland remember the hydro board and have a lot of relatives who worked for it. It was a major employer in that area.

I suppose that, if we are getting someone to switch supplier, my question would be: are we getting them to switch supplier for the sake of switching or for a better deal? The reason I say that is that we are currently in the big energy saving week, in which people are being encouraged to look to change supplier. However, if someone is on a payment method that is the wrong one for them and they move to a different supplier but keep that payment method, they are no better off. Likewise, if someone is on the wrong tariff for them and they move to a different supplier but are still on the wrong tariff, they are no better off. As Heather McQuillan said earlier, we need to take the issue of education much more seriously, because we need to ensure that people understand what they are doing when they make a comparison.

Ofgem has worked with some of the switching sites, which, until recently, were unregulated. It has been useful to have more guidance in that regard, because a lot of them base their calculations on an assumption that you want to switch on that day, not in a month's time. That means that they show only a restricted number of tariffs, and they will not show some because they do not have a deal with a particular energy company. Organisations such as Citizens Advice Scotland might have a role to play in providing wider detailed information on what tariffs and payment methods are available for all members of the public. I think that we have more education to do before we can say that people will buy into competition for their benefit and not just for the sake of it.

Professor Sigsworth: I agree with everything that Norrie Kerr just said. I would like to go a bit further into different solutions, because he was talking about what I would call relatively conventional solutions. We know now that there is a huge enthusiasm in communities in Scotland for owning and operating their own energy assets and systems. Not too long ago, the Scottish Government put £20 million up for the first phase of a challenge fund for community energy. As I understand it—I may have these statistics wrong; I am dredging them up from the back of my mind—there were 140 applications for that first phase. That is the level of enthusiasm for community energy. A goodly portion of those proposals could not be taken forward for consideration because the regulatory frameworks that were required for them to work did not enable them, because of licensing or one thing or another, and many of them dropped out.

We have talked about Ofgem already. Ofgem is considering unconventional models of regulation as the markets develop, but we in Scotland have some of the most fertile opportunities for that and I think that we have to push on that front as well. A

lot of the renewable schemes—particularly for community ownership and operation—will need further enabling from Ofgem. That is why I said that we ought to be holding Ofgem to account here, too.

Lewis Macdonald: Will either Tighean Innse Gall or the fuel poverty forum make a submission to the Competition and Markets Authority inquiry on teleswitch meters and other matters?

Stewart Wilson: Yes—absolutely. It is our intention to do that.

Joan McAlpine (South Scotland) (SNP): Earlier in the discussion we spoke about three elements, one of which was household income. I sit on the Welfare Reform Committee, which earlier this year commissioned research from Sheffield Hallam University that showed that the impact of welfare reforms to date in Scotland was about £350 million for tax credits, and that some families had already lost about £1,800. Surely that must be having an effect on fuel poverty as well.

10:30

Heather McQuillan: Yes, of course it is. An additional role for our energy advisers is delivering Tesco vouchers, so they are getting dragged into dealing with food poverty as well as fuel poverty. I cannot really say any more.

Stewart Wilson: Yes—it absolutely is the case, particularly in the islands. The Western Isles region has one of the lowest average incomes in Scotland—the second or third lowest, I think—and it is clear that taking a few hundred pounds out of a monthly wage or income can have serious effects.

The immediate effect is that people will usually ration their energy and will not heat their homes to the recommended standard. Even if a home is B rated in its EPC, which means that it is efficient, the person cannot heat it as they cannot afford the heat. Although that appears to be reasonably good, it is not effective because the income side of the triangle prevents the person from heating their home.

There is a direct knock-on effect. We see it when we work with some of the utilities on debt relief: there are types of customers who go into debt and get caught in that spiral, and it is difficult to get them back out again.

The Convener: We need to move on, because we are getting behind the clock. I will bring in Chic Brodie to talk about the budget.

Chic Brodie (South Scotland) (SNP): Before I ask about the budget, I have a question for Heather McQuillan. In Dundee, funding is allocated from HEEPS area-based schemes to the

private sector and then to the council's capital budget. Is it realistic for you—and other councils—to apply the Scottish index of multiple deprivation? For example, you may be improving houses in Graham Street as opposed to houses in Whitfield, Fintry or Kirkton.

Heather McQuillan: Yes, we use SIMD—

Chic Brodie: Are you using it?

Heather McQuillan: We use it as a proxy for fuel poverty. Fuel poverty is notoriously difficult to measure and track. The measure is so dynamic, and fuel is so costly, that it is difficult to say that a household is fuel poor according to a certain definition. As soon as you open the door, you know that they are fuel poor. In the absence of any easier method, we want a quick way of identifying the worst so that we can get stuck right in and do something for those who are affected.

Chic Brodie: We would want to avoid divisions and complaints of relativity in terms of who is getting funding from where, which is relevant to the question that I am about to ask all the witnesses. What would you like to see in the forthcoming Scottish budget to address fuel poverty? I know that you are going to say, "More money," but is there anything else that you would consider?

Norman Kerr: I think that you have answered the question.

I had the pleasure of being at this committee some years ago, and I was asked about the level of funding that was needed. At that time I said that Energy Action Scotland had calculated that, from 2006 until 2016, we needed £200 million a year. The committee took up that recommendation and included it in its own recommendations, but that level of funding has not been achieved over that period of time.

We need continued funding. The budget—as you will have seen—has risen over the years. We have gone up from about £65 million, and bumped along for a couple of years, and the Scottish Government is now putting in £119 million. I would expect the Government to at least maintain that funding, but I would hope that it would undertake its own research to discover how much money is needed to achieve the eradication of fuel poverty, which might involve bringing every house in Scotland up to a certain EPC banding.

Over the past year, Energy Action Scotland, along with some other organisations, has been part of the Scottish Government's working group on the regulation of energy efficiency in the private sector, or REEPS. The group undertook a great deal of work to look at the amount of money that was needed. We came up with an average figure—I stress the word "average"—of £2,500 per

household to bring a house up to somewhere in the region of band D. It is not a huge step up from where we are, but nonetheless it is an important step.

The question to ask regarding the budget is not how much is in it for this year—although, as I said, I would expect as a minimum that it would be what it is just now—but what we do with the budget moving forward and the national infrastructure priority, and whether we can set budgets over a five-year or 10-year period that commit future Parliaments to that national infrastructure.

That is what we need to look at. Big infrastructure programmes, such as the new Forth crossing, take place over a longer period of time. We need to ask ourselves where we want to be and how much we realistically need to get on the table.

Energy Action Scotland is not saying that the Scottish Government needs to fund all of that. The cabinet secretary has said previously that he is interested in measures such as equity release to allow people to use some of the equity that is tied up in their property to make home improvements where they can.

It is not about simply asking the Scottish Government for funding, but about trying to identify innovative ways of funding. We need to recognise that, whatever budget the Scottish Government puts forward, its aspiration to have that amount matched by the energy company obligation will not come to fruition.

Chic Brodie: That relates to the question that I just asked Heather McQuillan. We know that it is going to be tough. The question is whether, with the spending that we have available, we are targeting ECO and HEEPS as best we can to ensure that we get the biggest bang for our buck.

Norman Kerr: The answer is yes and no. ECO is targeted where it can get the biggest bang for its buck in carbon saving, which is about replacing a boiler in the central belt of Scotland rather than addressing the issues that Stewart Wilson highlighted in the Western Isles, where the carbon saving will be an awful lot less but the increase in warmth and in energy efficiency will be very high. ECO does not target the latter aspects. The Scottish Government's HEEPS ABS programme involved saying to local authorities, "We expect you to come up with a fuel poverty plan," and by and large local authorities have done so.

You asked about the Scottish index of multiple deprivation. That works in some areas, but it does not work in rural areas. One reason is that, in the SIMD, if someone has access to a vehicle, that will go against them. In rural areas, someone who does not have access to a vehicle is very isolated

and stranded, so a lot of people in those areas will have access to a vehicle, which skews the index.

Rural local authorities may not use the SIMD as their only guide, but that does not mean that they are not targeting fuel poverty. A number of them have done very good local mapping exercises using a lot of local data: not only the SIMD but council tax banding and housing benefit levels. Local authorities have been doing a range of things to overlay that work and they are starting to target those areas. We are doing that now, but we should have been doing it 10 years ago.

Chic Brodie: I will ask one last question, if I may.

The Convener: It is very important that we get the other members of the panel to answer the key question, which is what they would like to see in the Scottish Government's budget. I ask the witnesses to be fairly brief, as that would be helpful. Mr Wilson, do you want to start?

Stewart Wilson: We have discussed how you prioritise when you spend. HEEPS has been a good programme—do not get me wrong—but the difficulty is that it has been coupled to ECO, and there has been an attempt to leverage ECO in through HEEPS to a certain extent.

In a sense, that is a sensible thing to do, but it ties you to where the energy companies spend their money through ECO. They want the biggest bang for their buck, and they will go where it is cheapest. They tend not to gravitate to the rural areas and spend their money there because it is dearer to do things and harder to get measures to work within the ECO programme.

That makes it difficult to operate the HEEPS programme in the rural areas. In budget policy terms, we should be looking at decoupling ECO from HEEPS. That is not to say that we should not use the ECO programme, but we should decouple it, and we should not make it a priority to try to make carbon savings off the back of HEEPS. We are talking about fuel poverty, and not necessarily carbon saving.

The SIMD does not work in rural areas. As Norrie Kerr has mentioned, it is not a good proxy in those areas because of the domains within it and the indicators within those domains. It does not pick up the fuel poor because of the dispersed nature of the geography and the households and villages in rural areas. It does not work well at all.

The community energy saving programme—or CESP—which was one of the big schemes that predated ECO, was principally about targeting fuel-poor communities, but many of the Scottish island communities never came on to the radar. They were not eligible because the SIMD was the driving factor, so they were excluded from those

schemes altogether. You have to be very careful about how you use the SIMD. It is a good measure for what it is meant to do but, if you use it in rural areas as a proxy for the fuel poor, it does not work very well. We need to do something else instead.

In the Western Isles we are working with the national health service, which has very good sets of local data about ill health that we are trying to couple together with the fuel poor. It is clear that health and fuel poverty are linked and that cold, damp homes tend to generate health conditions. We are trying to couple those elements and get the data sets working together. There are data protection issues that we have to overcome, but that is the aim at the moment.

Another point concerns the fourth element, which—as Professor Sigsworth mentioned—we have continually missed: the need for in-house advisers from trusted local networks. One of the issues that we have talked about in the fuel poverty task force—it came out strongly at the last meeting—involves local networks trying to deliver in-house advice off the back of whatever programmes we put in place. We can take a chunk of the HEEPS programme and point it towards that, so that is another possibility.

Heather McQuillan: I strongly endorse that point—we should not underestimate the use of advice services and the multiplier effect that they have. In Dundee, over three years, we have had £4 million through the warm homes discount, in which eligible households get a saving of £140 a year on their electricity. The advisers have been able to do that because they have gone out into the houses. For every pound that is spent on advice, the effect is worth £20, £30 or £40, so it is an effective use of money.

Chic Brodie: I have one last question. Last week I met an international investor from Ireland who had invested a lot in energy efficiency. Professor Sigsworth mentioned community development and renewables, which we support, at least in the form of equity sharing by communities.

In Ireland, young people are being trained in their communities to do roof insulation and things like that. If there were an element of that in the budget, would you support it? Do you believe that communities are capable of doing that? Norman Kerr is saying no.

Professor Sigsworth: That has been a central strand of the propositions that the fuel poverty forum has been developing for well over two years now, starting with the interim report that we published in 2012.

I have been involved in working with the Government through green growth panels to see whether that could be enabled through Skills

Development Scotland and that sort of thing. It is a critical element in getting the best out of the work for communities and in enabling further economic development within communities.

I have one more point to make on the budget, which the other witnesses have reinforced. Although I am a huge proponent of good climate change practice, one of the obstacles that we have seen is that carbon saving has been a surrogate for fuel poverty eradication.

The assumption was that if you made a home energy efficient you would solve fuel poverty. One of the things that I hope comes out of this session is that we will see that that is not the case. We probably go a long way towards solving fuel poverty by making homes energy efficient, but there is a lot more to do as well. Within the budget, we need recognition of some of the things that we will have to add to better management of energy efficiency to resolve fuel poverty. We do not want a surrogate; we want a direct and focused fuel poverty reduction component, and that, by the way, is what the environment minister promised in the announcement about the infrastructure priority in June.

10:45

The Convener: I am conscious of time. I have a long list of members still to come in, so I ask witnesses to try to sharpen up a little bit on their responses, which are very interesting; otherwise, we are going to be here until lunch time—we have another witness session after this.

Richard Lyle (Central Scotland) (SNP): I have a couple of questions and possibly a comment, but I will try to be brief.

Heather McQuillan and Norman Kerr touched on the point that I was going to raise. We have £119 million ring fenced for insulation—for all the good work that is getting done in Dundee and all the other work that councils are doing on cladding, roof insulation and so on. Have we any data on whether households' bills have reduced after we have done the insulation? The physical problem is that a lot of people—elderly people and others—do not know how to turn down thermostats, some of which can be quite complicated for the elderly. Do we have people who are going round continually to show people how to do that? Do we have any data to show that the millions of pounds that we have spent on insulation is working because households' bills have gone down?

Heather McQuillan: I get asked that question all the time. I am very reluctant to be drawn into saying, "Yes, they are saving £150 or £180," because as soon as you say that, somebody will say, "You promised me that and it didn't happen." It varies from house to house.

We have advisers who go round, but not as many as we would wish. There is a scramble every year for their on-going funding. We have home energy Scotland, but we also have an in-house team that has been described by senior council officials as the jewel in the council's crown. It is worth its weight in gold. Those people go round, but they are stretched.

There is a requirement for some proper research into this—I think that South Ayrshire Council has just commissioned a PhD student to do research into this very subject. I think that it is a joint project with the local health board, to pin down what exactly people should be told, what the potential savings are and what the savings at the moment are. It is easy to say, "Yes, we will do this to your house and you are going to save a fortune," but it is a lot harder to give follow-up advice and put a number on the potential savings and real savings. It requires that level of academic research.

Richard Lyle: I will ask about a point that Norman Kerr made. We have spent all this money on outside cladding, wall insulation and roof insulation—millions and millions of pounds. Is it working? On several occasions I have made the point that when we are building new homes we should be looking to put in solar roof panels, in order to generate some sort of energy back into the house. Should we be looking at solar panels, which you touched on earlier? What we are doing might be working, but could we do more? That touches on Professor David Sigsworth's point about individual areas looking at helping themselves. Should we do more on solar panels, in order to generate back into the house?

Norman Kerr: Yes. We continue to propose amendments to the building regulations every year. Indeed, one of your parliamentary colleagues, Sarah Boyack, tried to have a bit put into the building regulations that said that a building should get 25 per cent of its energy demand from renewable sources. Sadly, I do not think that that made it to the statute books for whatever reason, but that would have achieved exactly what you are saying. The difficulty that we have is that in 2050 we will still have 80 per cent of the buildings that we have today. The issue is that we must retrofit, because changes to the building standards will not impact on those buildings. We need to do more. The savings do work.

To return to Joan McAlpine's point, in many cases we are improving the energy efficiency of people's homes. Those people will not save money, but there is a rebound effect. What it means is that they can heat their home to the standard that they need to heat it to now. They are not saving money, but they are actually able to heat their home, which has a lot of benefits for

health and other things. As Heather McQuillan says, we are trying to estimate that and to understand that a bit better.

Stewart Wilson: We did a report for our local authority earlier this year on the cost benefit of running the HEEPS programme, which we have run for a couple of years. It looked at the individual measures and the cost benefit for customers and their bills. The relatively low-cost measures have a very quick financial payback period for investment—it is five or six years for some of the measures. The hard-to-treat measures, such as external wall insulation, have a longer payback, but the payback is within the life of the asset, in terms of the ECO life of assets for each of those measures. The simple measures of loft insulation, cavity wall insulation and draught proofing all pay back very quickly. The hard-to-treat measures pay back, but it takes a bit longer.

It comes back to the point that we are not just helping people save on energy bills; we are making people's lives completely different—transforming their lives so that they do not have to huddle in one room. The kids can go to their bedroom and study. We have to consider things like that as well as the financial benefit.

Richard Lyle: Do you understand your electricity bill or your gas bill? When you turn it over and look at it, it is like double Dutch: therms, kilowatts, whatever. We spoke about energy companies giving us better prices. Could they give us a bill that we can all understand? We all know what the price is on the front, but on the back we have this double Dutch that nobody understands. Could we all get a simpler form so that I could see that if I switch to X company I will save £100 a year or whatever?

Norman Kerr: We have gone some way to make bills simpler, but you are right. I spent three hours one evening trying to explain to my father-in-law how to change cubic feet into cubic metres and then multiply that by the calorific value. It was a painful conversation. We have made bills easier: we are now getting graphs on the bills, and we are doing a lot more there. As you drive along the high street you see petrol stations displaying pence per litre, and we should be able to have something like that on bills. I think that that will come, because energy companies are trying to provide much clearer billing than we had five or 10 years ago. They are moving in the right direction, but there is still more to do.

Patrick Harvie (Glasgow) (Green): Good morning, everybody. I would like to press you on the question of money. We have touched on it, but this is budget scrutiny. David Sigsworth mentioned the national infrastructure priority and reminded us that that was designated formally in June. A year ago—when this committee was doing budget

scrutiny—John Swinney agreed that that was going to happen. A year on, we really should be at a point of knowing what is going to happen under that designation and how much it is going to cost.

Yesterday, the climate change minister did not seem to have any information about the issue when she was asked about it in the chamber during the emissions targets statement. She seemed to imply that the Government was going to spend another two years designing it. Have any of you been brought into discussions with the Government to talk about what that national infrastructure priority is going to involve, what work will happen under it in the coming year and how much it is going to cost?

Norman Kerr: No.

Patrick Harvie: Not at all?

Norman Kerr: Not at all.

Patrick Harvie: Do you know anyone who has?

Norman Kerr: I believe that there are some tentative discussions with civil servants just now. However, you made the point that it will take some two years to design, which seems some way in the distance.

Patrick Harvie: A very long way in the distance.

Professor Sigsworth: I think that the group that I have been asked to chair—a short-life working group—is specifically focused on that.

Patrick Harvie: How short will its life be?

Professor Sigsworth: It has taken a few weeks to get to the point where we can appoint people. Energy Action Scotland has been commissioned to be the co-ordinator of the administration, and all that is happening this week, so I am hoping that we will get the group up and running by late November. The objective is that over the next year—and I hope well before that year is out—we are going to be looking at how an energy efficiency scheme within the long-term infrastructure priority will deliver the eradication of fuel poverty.

We have talked about budgets. I have to give credit for the figure of £200 million largely to Norrie Kerr and his team, because it was first mentioned in Energy Action Scotland work some time ago. The number was focused specifically on eradicating the worst cases of fuel poverty. The idea was never that £200 million a year would do the whole job. We have to ensure that we have a focus within the energy efficiency priority that is not a surrogate through energy efficiency for fuel poverty eradication but is specific.

Patrick Harvie: I take that point and your earlier one that the same approaches are not necessarily right for both a climate change agenda and a fuel

poverty agenda, both of which are legally committed priorities.

Professor Sigsworth: I hope that I will be responsible with my group for bringing an independent view to the Government of how things might happen in that infrastructure priority.

Patrick Harvie: We were talking about the £200-odd million number a couple of years back. I think that there was recognition that the longer you leave the job, the bigger it becomes. The national infrastructure priority goes beyond just domestic buildings and talks about all buildings, so we are obviously talking about a bigger number. The Existing Homes Alliance—of which Energy Action Scotland is a part—put out a briefing in May that said that its estimate was a total of £4.5 billion over 10 years, which is £450 million per annum. It also talked about matching that with private investment. Does the panel think that that figure still stands? Is that a reasonable estimate? Should we judge the level of priority that the Government is attaching to this issue by some sort of gauge against that figure?

Norman Kerr: You are right that that figure is from the Existing Homes Alliance, but that work has been undertaken over a number of years, led by WWF. That figure is very much a baseline from where we want to work. We see that figure as reasonable over a 10-year period.

The non-domestic sector may bring in more. It depends how far we want to go to raise its levels of energy efficiency. We have a figure, but we do not have the Government's direction of travel. We might be basing the figure on all homes having an EPC rating of D, but if we are to address climate change and energy efficiency, all homes might need to be a B. In that case the figure would need to be re-examined. The figure is based on what we believe we can get to but, to address climate change, we may need to set our sights much higher than that.

Patrick Harvie: Are you looking for specific measures in the coming budget that will mitigate the impact of welfare reform on people living in fuel poverty?

Norman Kerr: Yes. Some money has already gone towards that to support things such as the bedroom tax mitigation, and we would like that to continue. One of the lines in the £119 million budget is about £9 million for home energy Scotland. However, there is no funding for the things that Heather McQuillan and Stewart Wilson talked about: the local networks that are doing the handholding and going into people's homes. It would be exceptionally helpful to recognise the impact that they have and to have money set aside in the budget to support not only home energy Scotland, which does a magnificent job,

but the groups that are driving that in a much more focused way locally.

11:00

Professor Sigsworth: Although I fully accept that the Smith commission proposals will not take effect this year, we have to look past this year's budget to the expectations of the Smith commission proposals. My group will certainly be looking at how we might best deploy the resources that might be vested in Scotland to tackle the job. There is a substantial amount of money that we may wish to consider spending differently.

Stewart Wilson: To respond to Norrie Kerr's point about the effectiveness of local trusted intermediaries, there are umpteen bits of evidence out there to show that that works well. Home energy Scotland does that on a very limited basis in very specific roles, but those are not really the roles that we have talked about this morning. That is one piece of the jigsaw that is not there at the moment. As Norrie Kerr said, there is already infrastructure on the ground that works but, as Heather McQuillan says, it struggles to get funding. If even a small amount of the budget was set aside for that, it would make a huge difference to how people operate their homes.

On the point about looking beyond the one-year budget, as an adviser as well as an installer in a local supply chain, I know that local supply chains hate spikes and like continuity of delivery. However, with one-year budgets, the profile tends to go up and down, which makes it very difficult for the local supply chain. That is particularly the case in rural areas, where there is an exodus out of the supply chain when there is that trough in the profile. We need a smoother profile for funding programmes. Rather than have a one-year budget, we should aim for a three or five-year budget process, because that is how we will improve the industry and build up capacity in local areas.

Lewis Macdonald: When Fergus Ewing gave evidence to the committee as part of our inquiry into energy, he said that the Scottish Government has a positive view on district heating. In the forthcoming budget, should we see something to give substance to that commitment? What difference would that make to fuel poverty? Can it tackle fuel poverty and climate change simultaneously, particularly in urban Scotland?

Heather McQuillan: In achieving the Scottish housing quality standard for our stock, our multistoreys presented something of a dilemma. Because of the availability of the community energy saving programme funding, which Stewart Wilson mentioned, we were able to install district heating in 10 of 11 multis—the 11th did not fall into

one of the most deprived areas in the SIMD, which is why it has missed out. Our scheme is simple—it is gas-fired district heating with no element of combined heat and power or renewables. Tenants love it. The fuel bills have been slashed. We have some operational and technical difficulties that we have inherited from the install, which are ours to fix, but in general I would say yes to district heating.

However, Dundee City Council housing department has gone as far as we can go on that. I now sit on corporate groups that are trying to create networks in the city, which would make our domestic schemes more efficient. I understand that something has gone out to planning departments recently, so we now find planners coming along to those meetings, and they might be the key to getting things done locally.

Over time, HEEPS will transmogrify into SEEP—the Scottish energy efficiency programme—which will cover not just domestic but non-domestic properties, so the two aspects will be brought together. This is not cast in stone yet, but my understanding is that the bidding process for HEEPS next year will involve looking for innovative pilots on the integration of domestic and non-domestic schemes.

Norman Kerr: There needs to be a separate budget line for that—I do not think that the issue can be put in with existing budget lines. They are big projects. Lewis Macdonald lives in Aberdeen, so he will be aware of the Aberdeen Heat and Power Company, which I have mentioned before to the committee and which involved a big cost. We cannot drop that into a HEEPS budget of £119 million. With combined heat and power district heating schemes, we are talking about really big costs, so there needs to be a separate budget line.

In many urban areas, we are trying to address big clusters of homes. Dundee, Falkirk and Aberdeen have done it, but the examples are fairly few and far between. We need to have more resources put into that. The City of Edinburgh Council was in discussion with the University of Edinburgh to expand the university's district heating scheme to a new housing development, but my understanding is that that did not happen. I am not sure whether that was down to resource or just timing, but we need to look at situations where that type of project does not happen. There are too many examples of failed projects such as the one in Wick and not enough examples of good practice. We need to do a lot more and, for that, we need a separate budget line, not something that is part of the other things that we are trying to do.

Professor Sigsworth: There is a technology aspect. With things such as district heating that require pump priming or initial subsidy, the

instability that we have seen with the renewable heat incentive and feed-in tariffs has destabilised the situation and reduced the opportunity for many public and private sector groups to come together and make some of this work. District heating is another aspect that we have to grab hold of and try to come up with what we need because, in our rural communities and in urban environments, we are seeing lots of new opportunities. Just the other week, the Government was publicising water-source heat pumps as a source of district heating. If we stabilise the incentives and programmes so that people have confidence in them, we will get the investment.

The Convener: Three members still want to come in. We are behind the clock but, unless the witnesses all need to rush away, we can run on for a few more minutes.

Joan McAlpine: To go back to priorities, the figures that we have been given on the rise in fuel poverty between 2012 and 2013 show that the largest numerical increase was 34,000 among owner-occupied properties. We talked earlier about dealing with the most extreme cases. What is the witnesses' view on that in relation to how we prioritise money? I have had discussions with WWF about the problem with owner-occupied properties, which are the fastest-rising group but, on the other hand, are they the ones that are experiencing the most extreme levels of fuel poverty? Are we prioritising that group enough or should we be prioritising them more or less?

Heather McQuillan: The figures are slightly different in Dundee. You say that fuel poverty is on the rise in the owner-occupied sector but, in Dundee, 33 per cent of those in the owner-occupied sector are fuel poor, whereas the figure is 49 per cent in the social rented sector and 51 per cent in the private rented sector. On availability of funding, HEEPS is specifically for owner-occupiers. The tack that we have taken in Dundee is that owners of ex-council houses are among the poorest and we would never be able to insulate blocks of flats where there is mixed tenure, so we have used HEEPS for that.

That does not really answer your question directly, but I will leave it there.

Stewart Wilson: In the Western Isles, fuel poverty levels are so high that they are virtually the same between the owner-occupier stock and the housing association stock. The reason for that is that the housing association stock probably has better energy efficiency but people have lower incomes, whereas the owner-occupied stock has poorer energy efficiency but incomes are slightly better. There is a balancing effect, so we tend to find that fuel poverty levels are similar across the board. However, by far the biggest portion of the stock is owner-occupied. It is generally allcroft

houses or that type of housing. It is detached dwellings in a crofting setting, rather than rows of terraces—we just do not have that type of stock. The fuel poor tend to be in the owner-occupied and housing association stock in equal measure. Our issue is that we have extreme fuel poverty at the same levels as the Scottish average for fuel poverty, so it is just a different degree out on the islands.

Joan McAlpine: Does anyone else want to say anything on that?

Norman Kerr: I do not have much to add. We recognise that, since 2001 and the very first Scottish Government central heating programme, money has been directed at the private sector and the private rented sector. We have put a lot of money there. Energy Action Scotland's view is that we need to move from just giving grants to trying to enforce regulation in the private and private rented sectors. That would mean that, instead of just pouring money into an open drain, we would start to increase the levels of energy efficiency in that sector and make people responsible for that.

One difficulty with the early programmes was that we gave people a central heating boiler and, 10 years later, we went back to give them another boiler and then another boiler—we were not passing on the responsibility. Particularly in the private rented sector, we now need to say that if people want to put a house on the market for rent, it has to meet some standard. We enforce that with local authorities and housing associations as social landlords, so why should private landlords be any different? Why should people rent a house with substandard energy efficiency from a landlord? We have put a lot of money into that sector, and the time has certainly come when we need to consider very carefully having legislation on that.

Joan McAlpine: Thanks very much—that is useful.

I have one more question, which is on a different subject. Professor Sigsworth mentioned the Smith commission. I am not a member of the Devolution (Further Powers) Committee, but I have read our briefing on the Smith commission proposals on supplier obligations in relation to energy efficiency and fuel poverty. What those proposals will mean seems very confusing for the average person in the street, but Professor Sigsworth suggested that they will make a big difference. Does any of the other witnesses have any thoughts on the measures that are proposed by the Smith commission and whether they will make a big difference to what you are trying to do?

Stewart Wilson: ECO is horrible—it is the most horrible administration-heavy system that I have ever seen. For people like us, at the delivery end,

trying to negotiate contracts with the utilities, it is just horrible. We have gone from having 10 installers out doing things in people's homes to having two installers and about six administrators. It is crackers. If you get control of the delivery of ECO, you will be able to improve it vastly, because the administration behind it is nuts at the moment. You are spending probably three times as much on administration as you are on simple measures. It is just daft, and we do not need to do it. Perhaps through the Smith commission we will obtain some of the powers that will allow us to change things slightly. Given that we are talking about what is just now a UK statutory instrument, I have to say that I am not holding my breath with regard to how things will work, how they will get broken down and how utilities will respond to variations in delivery. All I can say is that things will probably become even harder.

11:15

Joan McAlpine: I note that clauses 50 and 51 of the Scotland Bill confirm that powers over ECO implementation will be devolved but that Scottish ministers must first obtain consent to exercise those powers from the UK secretary of state. Is that a concern?

Stewart Wilson: Yes. At the moment, Scotland does reasonably better than we might have initially thought in the proportion of money that comes from the UK-wide ECO. It will therefore come down to the Scottish Government's negotiations with the UK Government on how the ECO pot of money will be split and how it is then applied in Scotland. That pot of money is key in the first instance, and we would argue that certain key drivers in Scotland—in particular, climate and rurality—justify the amount of money that we get at the moment and demand bigger investment to tackle them. I think that that point has to be made forcefully again, but it is a negotiating position.

Professor Sigsworth: The spectrum of opportunity goes wider than just ECO. There is a range of funds available; I am not saying that we would use them any differently, but there is a chance for us in Scotland to ensure that those funds are deployed satisfactorily and that we get best value from them in dealing with our problems and our situations. I believe that that would be the right outcome from the devolution through Smith of the energy efficiency obligations.

Joan McAlpine: What about the consent that is required to be obtained from the secretary of state?

Professor Sigsworth: I thought that there had already been some discussion about that consent not being withheld unreasonably.

Norman Kerr: I would sound a note of caution here, because we are assuming that ECO will continue. That is by no means certain. There has been a lot of lobbying at Westminster about removing ECO and about such a move reducing people's bills by £20, £30 or £50. That is true but, if you remove that burden from the bills, you also remove the opportunity to give financial assistance to the people who need it most. Our view is that ECO should continue. I think that we need to establish that first, because if it is to continue, the Scottish Government has the opportunity to shape it.

I suggest that, if we moved away from saving carbon as the main driver, we would have more of an opportunity. Orkney has produced 103 or 104 per cent of its total energy demand from renewable sources, and Scotland's target for producing electricity from such sources is very large. As far as saving carbon is concerned, my question is this: how many lofts would we need to insulate to save the carbon that a new energy generator like Whitelees would save? We are already well ahead with regard to saving carbon from our generation; we do not need to fixate on saving carbon from small minor jobs.

As Stewart Wilson has suggested, this is about quality of life and increasing the energy efficiency of people's homes, not necessarily saving a huge amount of carbon. Carbon will be saved, and I think that in the negotiation that we need to have it should not be the sole focus. ECO has been already streamed into various areas. You will have to forgive me, because I do not have all the acronyms, but I know that there are HHCRO, CERO and a variety of other things that are not necessarily focused solely on carbon. We have already created that precedent. I think that Scotland, too, can do so, but this is all about achieving better energy efficiency, not saving carbon.

I apologise to the reporters for all the acronyms.

The Convener: You will probably get a visit at the end of the evidence session and have to explain a long list of acronyms.

Johann Lamont (Glasgow Pollok) (Lab): I have a couple of brief points on the budget. We have heard about the instinct to invest in the easy hits. From the Scottish Government's point of view, is the solution in budgeting terms to ring fence within what is defined as a fuel poverty budget in order to target groups and to address the rural-urban split?

Norman Kerr: The HEEPS ABS budget has been spread across local authorities, with a percentage of it—around 30 per cent, I think—held back for local authorities to bid against. Rural local authorities do very well out of that, because they

are able to demonstrate their ability to tackle fuel-poor households, address fuel poverty and increase energy efficiency. Although the money is being spread out and is not being specifically ring fenced for rural local authorities, I know that they punch above their weight in getting the money in.

You might have a difficult conversation with the Convention of Scottish Local Authorities if you sought to ring fence particular parts of the budget for rural areas. We could do something within the overall budget if we were talking about ring fencing on the basis of fuel poverty, but I would not say that such an approach should be spread across the whole budget.

Johann Lamont: Do you think that the money should be ring fenced? Should there be a division between measures to address fuel poverty and those to address extreme fuel poverty? After all, the spike in the extreme fuel poverty figures must be a concern.

Norman Kerr: What we have just now in many local authorities is an area-based approach. Three out of 10 households in a particular area might not live in fuel poverty, but they might be prevented from going into it; or it might be that households will go into fuel poverty the next week or that the largest percentage of people in an area are living in fuel poverty. Is the area approach the right one? Yes. Are we addressing the worst areas with the highest percentage of fuel poverty? Yes. Are we supporting people who might not be fuel poor but who might be on the edges of being so? The answer, again, is probably yes.

We probably have the approach just about right, and it is down to local authorities to decide on the basis of their local knowledge the areas that they want to put that investment into. Indeed, that is what they need to demonstrate when they submit funding plans to officials. We are already moving in that direction. It might be helpful if, when we report on the impact of such programmes in future, that type of thing is drawn out and reported to this committee, which I am sure will want to see just how wisely the money is being spent.

Stewart Wilson: Rural areas lobbied the Government to up the HEEPS contributions in those areas, because of the disparity in costs. That move was welcome and it helped, but the point is that you should seek to deliver energy efficiency to a whole house on your first visit instead of doing things in bits and having to go back, say, two years later to do this or that. The idea is to take a whole-house approach to energy efficiency when you first go into a home.

For our stock, that would mean either internal wall or external wall insulation coupled with room in the roof-type insulation. By focusing on the home envelope in that way, you can make an

enormous transformation in people's lives. Perhaps that could be recognised in the HEEPS budget, which, at the moment, is set at £9,000 per home. That contribution seems high, but the combined measures might cost £20,000—or even higher in some instances. Perhaps a slight movement in that regard would make a significant difference and allow us to take the whole-house approach that we struggle with at the moment.

Professor Sigsworth: A fourth issue that has come out very strongly in this morning's discussion is about advice and intermediaries that can be trusted and which will help solve the fuel poverty problem. The issue about budgeting for that is that it involves joining up primary care, social care and the technical resources to deal with fuel poverty. Let us face it: the best bang for anybody's buck comes from going into people's homes and advising them that they can save money by stopping doing things or using their energy differently. As you will have heard, the people who do that are not involved in fuel poverty; they are intermediaries who are in the home and are with those people all the time. I do not see that as necessarily coming from a specific allocation for fuel poverty; it has to come from other parts of the budget being joined up to help address the problem.

Johann Lamont: That is what I was going to ask about. Three of our witnesses are from groups involved in fuel poverty, but a lot of what we are talking about today relates to people who are living in poverty, only some of whom will fall into the fuel poverty category. For example, because of stock transfer, someone who lives in a socially rented house in Glasgow is more likely to be in an energy-efficient house than someone who lives in the private rented sector or who owns an ex-council house. What is the Government doing to bring you into its anti-poverty strategy, so that you are not simply looking at someone whose house is cold but are looking at someone who is poor, which means that their house is cold but also that they are more likely to be ill and so on? Have you been linked into the development of the Scottish Government's anti-poverty strategy and the budget decisions that come from that to ensure that we are addressing poverty by investing in intermediaries in the voluntary sector or whatever who provide fuel poverty advice as well as other kinds of advice?

Professor Sigsworth: That happens at a number of levels. The fuel poverty forum was as a single unit—and before the new duties that it was recently given—looking at this matter, and it now has some very interested and active people, particularly from primary healthcare, who work on the health and social care front. Those people are well known to Heather McQuillan and others in the local authorities who are delivering on the ground.

This type of approach is starting to emerge, but I think that we need to do a lot more.

Johann Lamont: If we tracked a voluntary sector organisation and saw that its funding was reducing in the budget, that might have an impact on its capacity to deliver advice on fuel poverty.

Professor Sigsworth: It might well do, and things such as the mapping that I mentioned—which Mr Neil is certainly aware of, because I passed it to him—can identify strategically where the joins should be. However, the reality has to come on the ground. All of this has to join up.

Stewart Wilson: At a policy level, the health and social care integration agenda and these new bodies that have been set up to drive it forward will be key to this by linking in with this. Again, this is about using services that are already on the ground, not reinventing the wheel. You need services on the ground that are delivering in people's homes, because the issue is to identify the most vulnerable—probably all the people who are fuel poor—and then put in drivers for policy makers to build them into their strategies. That is what they are doing at this point. The care and repair services throughout Scotland are ideally placed to run that type of thing, but the issue is to build them into the strategies that are already being put in place.

Norman Kerr: Something that has been started in Glasgow and which I hope will be rolled out is the links worker project, in which a number of doctors' surgeries also have benefits advisers. It was spawned from the very good "GPs at the Deep End" report. In those deprived communities, the doctor has access to a benefits adviser, and if they see someone who they believe would benefit from that additional advice and support, they will refer them to that colleague. Someone will go for their doctor's appointment, but they will also see someone who can support them in a wide variety of things. We are starting to see that type of joined-up approach and, as Stewart Wilson said, we need to find out how well that has worked. If it has worked, we need to build that into the health and social care budget, not just as a fuel poverty alleviation, but very much around preventative medicine and good healthcare.

11:30

Heather McQuillan: For the life of me, I cannot remember the acronym for the hub that exists in Dundee, but all the voluntary agencies come together on a site. They are all aware of what each other does and what specific aspect of poverty they are specialists in, and they cross-refer. It does not cost anything really, and it develops itself over time. One contact leads to another.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I give my apologies for missing the start of the meeting. I want to ask two very quick questions; I do not know whether the answers will be quick.

First, the Scottish Government's fuel poverty budget has doubled since 2008, but we have seen the proportion of people who are in fuel poverty increasing, so throwing money at this will not necessarily be the right answer. We have talked about the four factors that influence fuel poverty: fuel price, household income, energy efficiency and energy usage. What is the number 1 key factor in driving energy fuel poverty?

Secondly, DECC released figures fairly recently that related to a comparison across Europe, which highlighted that pre-tax electricity prices in Britain are the highest in Europe and gas prices are among the highest. What is driving that? Can anything be done at either UK or Scottish Government level to address that problem?

Norman Kerr: It has to be fabric first. Had the Scottish Government not put money into its energy efficiency programmes, fuel poverty would have been significantly higher, so we know that that approach works. Theoretically, if a person's fuel bill is £2,000 and they have a 20 per cent increase in that, that is quite a lot to take. If their fuel bill is £300 and they get a 20 per cent increase, that is less of a hit.

We have to ensure that all homes are made as energy efficient as possible. That does two things: it future proofs people against the shocks of big rises and it contributes to addressing climate change. Putting fabric first has to be a good way of doing that. There is not much point in putting a heating system into somebody's house if the fabric leaks.

We have seen some stuff in Orkney. A person could put their hands round an outside door because the frame was just hanging on. If there was a new heating system in such a house, the heat would just go out. Putting fabric first works. We know that because, had the Scottish Government not continued to fund those programmes, fuel poverty would have been much higher.

Energy prices are high. We now import a lot of our energy that we did not import before, so again it is a matter of fabric first. Reducing the demand for importing energy will help.

The wholesale market was one of the things that the Competition and Markets Authority looked at. Almost 50 per cent of the cost of a person's gas or electricity is the wholesale cost. We need to look at other markets to see whether that is a comparable cost. That market does not work for British consumers. We have an exceptionally high

wholesale cost, which continues to push our prices up. There is not much that a customer can do about the 50 per cent of their bill that is the wholesale cost. They can move from a supplier, but the other supplier will still buy from the same pool.

The CMA will report later—potentially not this year, but in the spring of next year—and I hope that it will have something to say about the wholesale market.

The Convener: Does Professor Sigsworth want to add anything?

Professor Sigsworth: No, I have nothing to add.

Stewart Wilson: I totally agree. Putting fabric first is the most sensible approach, and transparency in bills, which we talked about earlier, helps people to switch. At the moment, some of the distribution costs on bills are weighted towards rural Scotland. We would argue for a fairer spread of that and for local chains for the delivery of schemes, because that keeps money in the local area, which helps to alleviate fuel poverty. It is about trying to get local supply chains.

Heather McQuillan: In simplistic terms, we are throwing money at fuel poverty measures and fuel poverty is going up, so why did we bother? In Dundee in the past year, we have externally insulated about 800 houses, and I hope that we will continue to do that. Stewart Wilson said ECO is horrible. I think that HEEPS is fantastic. We have whole estates that have been transformed. They have been regenerated because of their outward appearance, which is not strictly anything to do with energy efficiency, but that is the added value. If people are not out of fuel poverty, they are certainly warmer for the same amount of money. We are able to do other works while scaffolding is up for external wall insulation, which has economies, and we have local labour, so there is a win-win situation there. I am not dissing HEEPS for a minute.

The Convener: I thank all of you. We have run considerably over time, but that indicates the committee's interest in the subject. The session has been very useful, and we appreciate all of you coming along and helping us.

We will now have a brief suspension to allow a changeover of witnesses.

11:36

Meeting suspended.

11:41

On resuming—

Work, Wages and Wellbeing Inquiry

The Convener: Item 5 is a slight change of topic: we are back to our inquiry into work, wages and wellbeing in the Scottish labour market.

To give evidence, I welcome a face familiar to many of us: Karen Whitefield is campaigns officer at the Union of Shop, Distributive and Allied Workers.

We will run this session for about 45 minutes. I remind members to keep their questions short and to the point; answers should also be short and to the point. That will help us to get through the topics that we want to discuss in the time available.

I will ask about the fair work convention, which the Scottish Government has established. What would the union like to see as the outcome of that? What would you like to see in the framework? How do you see the convention's role developing?

Karen Whitefield (Union of Shop, Distributive and Allied Workers): We welcome the establishment of the fair work convention by the Scottish Government. We would like to see good engagement with all trade unions and, in particular, the Scottish Government to recognise the difference between the trade unions that operate in the public sector and those of us who operate entirely in the private sector, because there are different challenges there. I recognise that the Scottish Government has invited a number of trade union representatives to sit on its panel. Many of them come from a public sector background. I ask that we, too, get an opportunity to make representations.

We would want the convention to say something about pay in its findings, but we want it to remember that rates of pay are not the only issue in tackling poverty, particularly in-work poverty. Members will have seen in the media that there has been lots of discussion about some retailers paying the living wage. We welcome their doing so, but if a person is on a short-term contract or has only a six-hour contract, whether their employer is paying them the living wage will not address whether they are working but living in poverty.

We want the convention to address some of those issues and to remember that it is not simply about pay, to look at wider terms and conditions, and to set an example on the importance of trade unions and the valuable role that they can play in

the workplace to ensure that there are good industrial relations. Trade unions are not a threat and are not there to intimidate; they are there to work in a spirit of partnership.

The Convener: You talked about pay. Do you have a sense, in very rough terms, of the percentage of employees across the retail sector who are paid more or less than the living wage?

11:45

Karen Whitefield: We know right now, for example, that 1.5 million people are being paid a higher rate of pay than the national minimum wage, which was increased in October, but will receive no benefit from the minimum wage being increased to the national living wage, which the Government will introduce next year. Those people are being paid more than the £7.20 rate right now, but they are not being paid what we would consider to be the living wage that the Living Wage Foundation has argued for.

The Convener: Is that 1.5 million altogether or 1.5 million in the retail industry?

Karen Whitefield: It is 1.5 million altogether.

The Convener: Okay. Do you know how many are in the retail industry?

Karen Whitefield: No.

The Convener: Okay. Thanks.

Gordon MacDonald: There have been announcements recently from one discounter and a supermarket chain that they will start to pay the living wage. I had discussions recently with one of the other large supermarket chains, which said that it would quite happily introduce the living wage, but the effect would be that it would no longer pay breaks and bonuses to its staff, and the staff discounts that it gives for in-store purchases would be removed. What is better for your members? Is it better that they are paid the living wage or that they get those other perks? How do you balance those? It would be great to get everything, but what is your membership's preference?

Karen Whitefield: It will probably come as no surprise to you that I, as a trade unionist, would say that we want both and would argue for both, but we are realistic. A combination of both is needed. Fundamentally, we will always argue and campaign for greater basic rates of pay for our members. That is why we exist; it is what we do. It is one of the main reasons that we exist to support our members. However, if we are serious about tackling in-work poverty, it is not simply about the rate of pay; it is about terms and conditions, including those breaks. It is about paid holidays, sick pay when a person is ill or injured at work,

and what help a person gets if they are the victim of a violent crime simply for doing their job.

On discounts for our members, you might be surprised to learn that we surveyed our members. USDAW regularly communicates with our members to ensure that we know what is important to them. The majority of them said that they would be very concerned if they were to lose the employer discount schemes that they benefit from, because those schemes make a difference to the staff, who value them and want to hold on to them. When I am out and about, I regularly see placards that say that some retailers that do not recognise trade unions are proud to be the first retailers to pay the living wage. How many staff do they have in those stores? What kind of contracts are those individuals on? Do they get a phone call in the morning to be told that they are needed on that day, but might not know whether they will be needed the next day? There are real difficulties for people in managing their family incomes and being able to live and survive.

Gordon MacDonald: I support rolling out the living wage to the retail sector, but I have heard from independent convenience store owners in my constituency that they cannot afford to pay the living wage because they are under pressure from the multiples, which are also moving into the convenience store market. What do we need to do in order to convince the independent sector that it is important that the living wage is paid?

Karen Whitefield: Sometimes we forget that we have not always had even a national minimum wage in this country. USDAW was instrumental in arguing for the creation of the national minimum wage. Many members will remember that, when we were making those arguments, people said that a national minimum wage would be disastrous for the retail sector, that people could not afford to pay it, that there would be grave difficulties and that people would lose their jobs.

The reality is that, when the national minimum wage was introduced, doomsday did not happen. It is about being realistic. There is no doubt that things are highly competitive in retail today, but the suggestion that retailers could not afford to pay the national living wage is often a little bit pessimistic, given that the economy is showing signs of improvement and that we have had 29 months of consecutive month-on-month growth in retail sales across the United Kingdom.

Gordon MacDonald: You said that the economy has grown. Paying the living wage will increase the amount of money in people's pockets, which will have a knock-on effect on spend in stores and supermarkets. Why do you think that message has not got through to the supermarket chains or to the convenience store sector?

Karen Whitefield: Things in retail are changing, particularly in relation to convenience stores, and a lot of the large retailers, particularly the big four in food—the Tescos, the Morrisons and the Co-operatives of this world—are changing their focus. You have probably noticed that, across the country, very few new large stores are opening. The large retailers are moving into the convenience sector market and that is about competition. Those larger companies have the advantages of economy of scale, as they purchase goods for the large stores and their smaller stores. Some of the small independents do not have that advantage. We work with the Association of Convenience Stores on all sorts of issues, and it is working with its members to support them and to deal with some of those challenges.

Johann Lamont: One of the focuses of our inquiry is the impact of poor-quality work on the economy and, obviously, the impact that such work has on people's health and on the likelihood of whether they will be working. Can you expand a bit on a couple of issues that you raised in your very useful submission? First, on zero-hours contracts, I was struck by the comments in your submission about increased flexibility from the employer, because such contracts are sold on the basis that they benefit everybody because there is flexibility, but your submission describes circumstances in which people are expected to basically be available for long swathes of time, even though they only have a short-hours contract. Can you expand on that? In addition, is there any evidence that those kinds of contracts mean that people are falling out of employment and have to stop working? What are the consequences then?

Karen Whitefield: Historically, people entered the retail sector because it was seen as being family friendly and they could manage working around family commitments or caring commitments. By and large, that is still an incentive for many people who work in retail to stay there but, increasingly, the nature of retail and the competitiveness of the market has introduced changes.

There has always been flexibility, but we now have a culture of 24/7 shopping and retailers trying to cut their margins by ensuring that they have staff in-store only when they absolutely need them, when they know that they will be at their busiest. Many of the large retailers now use electronic scheduling, which maps out when the store is likely to be at its busiest, but that is based on what happened the previous week. Employees now often do not know any more than a week in advance when they are required to work. That gives individuals difficulties when they try to plan to pick up their children from school or if they have

an elderly relative that they look after or a next-door neighbour that they keep an eye on.

In our opinion as a union, there is an issue because flexibility is becoming a little bit too much tilted towards what suits the employer rather than the individual. I think that all our members would accept the need to be flexible, but many of them are being asked to be flexible within a growing window of time. They may well have a 16-hour contract or a 20-hour contract a week and may hope that they will work those hours during the school day or in the evenings, but all of a sudden they learn that they have to be available between 6 am and midnight and that they could be asked at any point in the next week to work at any time in that timeframe. That makes life difficult for people.

The committee specifically asked us about experiences, and you will see that our submission outlines a case study about a woman called Sandra. Sandra consented to me talking to the committee about her experience. Sandra is 52 and has worked in retail since she left school. She worked for a large retailer, which had a store closure last October. She had a contract whereby she worked full-time hours and generally worked during the day. She cares for her elderly mother, who is in her 80s.

She was unemployed for a couple of months and got another job with another retailer. She is desperate to work and wants to work—she cannot afford not to work—but the flexibility that is being demanded by that employer has given her difficulties, because she was required to make herself available from 6 am to midnight. However, she needs to give her mother her medication and put her to bed. After six weeks of making herself available in the way that I have described, her mother's health was deteriorating.

She asked her employer if she could be flexible between 6 am and 9 pm. However, the manager said, "I cannot give you special treatment," and we need to recognise that there is massive pressure on managers in retail to manage the schedules. She has been forced to give up that job, because she could not balance caring for her mum and the job. She is waiting to hear whether she will be sanctioned because she voluntarily gave up that job. She did not want to stop working; she wants to work. However, that is the dilemma faced by somebody in her position.

Johann Lamont: So we end up in a position whereby somebody who is qualified to do the job falls out of work. That might be something that we want to go back and look at, because we raised with the Department for Work and Pensions whether it was sanctioning people on the basis of an unreasonable demand in relation to their work. It would be useful to know how prevalent the experience of having to be available between 6

am and midnight now is in the sector. Are there circumstances when employers in the retail sector recognise that issue and will almost ring fence a bit of time when a person does not have to be flexible? Are there examples of good practice in that respect?

Karen Whitefield: The employers that we work with all have partnership agreements with us, which gives us an opportunity to raise with them changing core hours. It used to be the case that employers would often not expect their employees to change their hours any more than once a year. However, increasingly, we find that they expect their employees to consult the trade union on changing their hours much more regularly, often two or three times a year. There is growing uncertainty and there is also growing pressure on managers to manage the schedules. That is also a concern for us as a union, because those managers are our members too and we have a duty of care to them to protect them. There needs to be recognition that employers must have good work-life balance role models, particularly in their management teams, and that is not always there at the moment.

Dennis Robertson: Retail is extremely important for the sustainability of our rural communities. We note from your submission that flexibility is perhaps not available quite as much now as it was a few years ago. A lot of people work part time in rural areas and the shops are very small in some respects, as they often have one, two or three employees. What is your relationship with the Federation of Small Businesses when it comes to trying to ensure that there is sustainability but that people who work in the industry have a good deal in terms of their wage and their flexibility and that we relate that to a person's wellbeing and the overall wellbeing of the community?

12:00

Karen Whitefield: It is important to note that 60 per cent of retail employees in Scotland are part time. That is higher than the proportion in the rest of the United Kingdom. That difference is perhaps caused by the issues that Mr Robertson has raised about the nature of Scotland being slightly different from that of the rest of the United Kingdom, as there are more rural communities with smaller towns and villages and smaller shops.

I am not aware of us having a great deal of contact with the Federation of Small Businesses. We tend to organise in the larger organisations—the multinational companies that operate across the United Kingdom. Our connections tend to be with the British Retail Consortium and the Scottish Retail Consortium, which I am sure has regular discussions with the FSB. We also speak regularly

to the Association of Convenience Stores, which supports small convenience stores across the country. In fact, we are heavily involved with the ACS right now in our keep Sunday special campaign, which is predominantly about England and Wales but affects Scotland because Scottish shop workers get a Sunday premium, which may be at risk if Sunday trading becomes just like trading on any other day across the rest of the UK.

Dennis Robertson: Are you aware of union membership within rural communities in Scotland? We are talking about our towns and villages. Is there high union membership in those areas or is there fairly significant low membership?

Karen Whitefield: No, we have membership in every part of the country, including our rural communities and our island communities. As you would expect, the level of membership varies from constituency to constituency. There is higher density in some parts of Scotland than others, but that is possibly because there is higher density of retail facilities in some parts of Scotland than there is in others. USDAW certainly does not see any community as a no-go one. We would want all retail employees to take advantage of being a member of a trade union, because there are distinct benefits to being part of a trade union.

Dennis Robertson: My final question is about the flexibility of contracts. You mentioned that about 60 per cent of people work part time. That is perhaps to manage the caring commitments that you mentioned. Do you see an advantage in people having more permanent contracts rather than the flexibility of having stated hours? Alternatively, is the flexibility something that you would continue to support in terms of the specific needs of individual workers?

Karen Whitefield: We need to recognise that there has to be flexibility for the employer but there also has to be flexibility for the employee. We need to be careful that we do not arrive at a situation in which there is no certainty about hours worked. That is increasingly what is changing in retail. It is not necessarily always about wanting to work part time; it is about having no choice, because no additional hours are available. Someone might be willing to work full time, but full-time hours are not on offer.

Instead of offering full-time contracts, employers are increasingly offering short-hours contracts rather than part-time contracts and they then ask their employees to work extra hours. There are difficulties with that for the employee, because there is no certainty or guarantee of income. They may well regularly work 30 hours a week, but they do not in actual fact know from week to week how many hours they will work, so they do not know how much money they will have. That gives them difficulties in securing a loan to buy a new car or

getting their foot on the mortgage ladder and buying a house, which we think should be the aspiration of all workers, if that is what they choose to do.

There are difficulties if a worker has a short-hours contract but regularly works full-time hours. We would argue that the Government has an obligation to address that issue around contractual hours. That is why we are against zero-hours contracts and we also argue that short-hours contracts are as pernicious as zero-hours contracts.

Joan McAlpine: Evidence given in our inquiry has shown that societies that have high levels of trade union membership have better pay and conditions for their workers, which would seem self-evident. Interestingly, trade union membership is as important as setting a living wage in some countries. In your written evidence, you talk about organising and the difficulty of recruiting, and you say that you have to recruit 9,000 new members in Scotland every year just to stand still. What are the barriers to recruiting in your sector and how could you organise more effectively?

Karen Whitefield: We have a number of membership weeks, and this week is one of them. Across the country, as we speak, we have our full-time officials, organising officers and in-store representatives selling the advantages of being a member of a trade union, particularly USDAW. You are right that we have to recruit 9,000 members annually in Scotland alone just to stand still; and we have to recruit 70,000 members across the whole United Kingdom. Despite that, we are the fastest-growing union in the Trades Union Congress and we have grown our membership by 17 per cent in the past five years, which I think is a pretty remarkable achievement.

There are barriers, and low pay is undoubtedly an issue. Our membership rates are pretty competitive at £9 a month, but if someone is struggling to make ends meet, paying that is a problem and they might think, "I could do something else with that." Shorter contracts are a barrier, too, because if people are not going to be in a job for very long they might think, "What's the point of joining a union?"

More and more people are moving into retail who perhaps never saw it as their permanent career path. Perhaps they were doing something else before but were made redundant and have moved into retail. They might think that they are not going to stay there, so they are not ready to join a trade union because they think that they will be moving on. However, it often turns out that they are still there after five or six years, so it is our responsibility to encourage them to join the union while they are there.

One of the reasons why we have successfully grown our membership is because we have invested in training our network of volunteer reps in-store and taking them out of store and bringing them to work for the union for six months. We have a training academy that is all about organising and equipping our reps and preparing them for leadership roles in the union, which the Scottish Government has recognised is important. I think that there is a lot to learn from USDAW about how we recognise, value and support our reps through training. We often invest in our reps to get national accreditation for the skills and qualifications that they leave the academy with. Some of them do not go on to work for USDAW, because other unions pinch them as they are so well trained and unions see in them the value from our investment.

Joan McAlpine: That is fantastic. How will the good work that you are doing be affected by the UK's 2015-16 Trade Union Bill?

Karen Whitefield: There is no doubt that the Trade Union Bill is of great concern to all of us who value good industrial relations. We could all list lots of things that are wrong with that bill. It seems to me that it has a great deal of focus on strike action, but USDAW members regularly go to work and I am not aware of our having too many retail strikes in living memory. I am slightly concerned about the Government's desire to focus on stopping strike action in some industries. As a consequence of that, the Government seems to want to take a sledgehammer to industrial relations across all sectors.

For me, there are primarily two things that the Trade Union Bill will damage. First, it will damage good industrial relations. Because of the partnership agreements that we currently have with our employers, they are willing to talk to us before they take big decisions about changes to terms and conditions. They engage with us at an early stage before they talk to the membership so that we can perhaps ameliorate the effects of that. Under the Trade Union Bill, our employers will no longer have any obligation to do that; in fact, doing it might even be considered to be not good practice. I think that good industrial relations will be undermined and workers will suffer as a result of that.

Secondly, the bill seeks to prevent our members from having a political voice. Being a member of a trade union is not just about wages and conditions, and industrial bargaining. That is important and is our core business, but trade union membership is also about having a political voice. That is not about any party political persuasion of the Government; it is about the fact that we sometimes need to lobby on issues that affect our members. There are many members here today

across all parties who have supported USDAW's freedom from fear campaign, which seeks to tackle violence towards shopworkers. I fear that the Trade Union Bill will prevent us from being able to campaign effectively for political change. We work in-store with employers to try to ameliorate the effect of violence on shopworkers, but such work sometimes requires political change, and trade unions have the right to make arguments about that. I fear that the Trade Union Bill risks damaging our ability to do that kind of campaigning work.

The Convener: Chic Brodie has a follow-up question.

Chic Brodie: You deal mostly with large retailers, which is a shame, because we clearly need to look after those who work in smaller businesses. What are the benefits of union membership compared with those of other forms of collective bargaining and engagement, such as in John Lewis, for example? Why is John Lewis so successful?

Karen Whitefield: Lots of companies are successful, but so are some of the retailers that we work with. We would argue that there are distinct benefits from being a member of a trade union. It is not just about pay and conditions.

Chic Brodie: Why is John Lewis so successful? What benefits do you bring to the other large retailers?

Johann Lamont: It is a co-operative.

Karen Whitefield: As Johann Lamont just said, John Lewis is a co-operative, which might well be an advantage that makes John Lewis different from other retailers. John Lewis sees its staff as partners and not necessarily employees, because they work together. I am not about to damage John Lewis, but although we sometimes talk about it as a great success story, we work with other retailers who pay much higher rates of pay than John Lewis. Perhaps that is the case because they recognise USDAW. As I said, trade union membership brings benefits other than pay and conditions: access to legal services, support if a member has an accident at work, death benefits and maternity grants are all benefits of being a member of a trade union that are in addition to what any worker gets.

Chic Brodie: I support equity participation, co-operatives and collective bargaining for employees. However, you have still not answered the question: why is John Lewis so successful compared with some other retailers where there is union membership?

Karen Whitefield: It is not for me to justify the success or otherwise of John Lewis. It will probably surprise you to learn that we have a

number of members who work for John Lewis and the Waitrose organisation. Those members obviously chose to join USDAW even though we do not have a recognition agreement with their company, because they think that there are additional benefits to being a member of a trade union. It comes back to the point that if they were to be sacked and needed the services of an industrial tribunal right now, the trade union would be in a position to assist them with that. They also have access to our accident helpline. Obviously, despite the successes of the John Lewis Partnership, some members of its staff still think that there is a benefit to being in a trade union.

12:15

Patrick Harvie: Returning briefly to the actual subject of the inquiry, you talked a little bit about the living wage, the minimum wage and the UK Government's new policy of introducing what it calls a national living wage: an upper band for workers aged 25 and over on the minimum wage. You also talked about flexibility and how that can often be abused or manipulated. I want to talk about the connection between those two themes. I have heard anecdotally that people working in larger retailers in particular find that as they get older and their minimum wage increases because they are no longer in the under-21 or the under-18 band, they get fewer hours or are given hours that the employer knows will not work for them or they will not be able to take; and that there are other ways of easing people out or freezing them out. Is that something you recognise? Do you anticipate it increasing and becoming a bigger problem as the gap between the age bands increases when the age 25 band is introduced?

Karen Whitefield: You are right to identify that as a problem. USDAW has long campaigned against age discrimination in terms of rates of pay for people doing the same job, whether they are 17, 18, 25, 30 or 35. We are concerned about the Government's new national living wage and its distinction between workers who are under 25 and those over 25. Generally, the retailers that we work with have eradicated, as part of our partnership agreements, differences in rates of pay based on age. That is a benefit of having trade unions and arguing against such differences is one of the reasons why we exist. We believe that the Government's proposals are inherently unfair and wrong, and we will campaign against them because they will discriminate against individuals. We fear that employers will increasingly look to save money and cut costs by employing younger people and ensuring that they are never on a permanent contract, so that they can get rid of them when they get to the top end of the age scale. That is a real concern for us.

Patrick Harvie: So, once the wage gap between the youngest and the oldest age bands is perhaps £5 an hour—as it could be—there will be a much greater incentive than at present for employers to do what you described.

Karen Whitefield: Absolutely. Retailers are incredibly competitive and always looking to cut their costs. If they are given the opportunity that I described, they will use it.

Patrick Harvie: I have heard some employers openly arguing that they will do that and try to find ways to claw money back from their employees once the so-called national living wage comes in.

Karen Whitefield: In addition, one of the ways in which employers get out of paying premiums that are part of contracts is to take on new staff. It is not about age; it is about employers taking on staff to work on bank holidays, Sundays or holiday periods so that they do not need to pay employees time and a half for working then. That is a concern, because it undermines the collective agreement that there should be premium pay for working on certain occasions.

Patrick Harvie: My final point is about the Scottish Government's use of the phrase "exploitative zero-hours contracts". There has been some discussion at committee about what that means and how we can pin it down. The convener put a question about that to the First Minister at the recent Conveners Group meeting. The First Minister said:

"Examples of when a zero-hours contract becomes exploitative is when employers deny workers regular or sufficient working hours or unfairly penalise workers for being unavailable for work or not accepting offers of work."

Is that enough of a definition or does the exploitative use of zero-hours contracts and other forms of contract go beyond just those practices? For example, you mentioned people being offered hours at short notice.

Karen Whitefield: The definition that the First Minister used is one that we could sign up to. We have no difficulty with that, but we would like it to go slightly further and recognise the difficulties that are caused by short-hours contracts and issues around flexibility. Those two things are different, but they can cause equal difficulties for the employee.

Lewis Macdonald: Like Patrick Harvie, I am keen to focus on issues that affect people's incomes and security. Tax credits have been much talked about this week. In your assessment, what difference does the availability of tax credits make to USDAW members and people working in retail? In your view, what would be the impact of the abolition that has been proposed and what difference will a three-year delay in implementation of that make to members?

Karen Whitefield: It will probably come as no surprise to you to know that USDAW was delighted by the decision of the House of Lords. We lobbied members of the House of Commons and the House of Lords very hard on the issue.

Tax credits are very important to the majority of our members. Sometimes, politicians become obsessed by talking about the living wage and rates of pay, and believe that if we pay the living wage, we will eradicate poverty. The reality is that many of the people who would have been affected by the tax credit cuts are already being paid more than the figure that is proposed to be the national living wage, yet they are still struggling to get by. Although some of that is about the hours that they work, many of them are working full time. It is suggested that they find extra hours, but it is not that simple.

There is a case study in our written evidence about Mark and Agnes, both USDAW members, who live in Port Glasgow. As well as having read the evidence, some of you might have seen Mark; he was on the front of the *Daily Record* a few weeks ago, in advance of the tax credit decision being taken in the House of Commons. Between them, Mark and Agnes work 60 hours a week. Mark is a delivery driver with a large retailer; his wife works as a checkout operator. They are not work-shy or lazy. They go out to work every single day. However, the reality for them is that life is increasingly difficult. The cost of living has increased and their income has not. They will lose £2,100 a year if the tax credit changes, as proposed, go ahead. If those changes do not go ahead and the Government honours the decision taken in the House of Lords, that will most certainly give them and families like them a real respite and a bit of assistance in the short term. Nevertheless, we need to address the wider issue of in-work poverty. It is not simply about rates of pay. That is why tax credits are so valuable.

Lewis Macdonald: Absolutely. I was particularly struck when you said that a majority of your members would be affected by the changes, including a couple for whom £2,100 a year would presumably be a significant share of their income. Are you telling us that people who, at the moment, are faced with financial challenges but are getting by will, in those circumstances, find it much harder to get by?

Karen Whitefield: They absolutely will. The Institute for Fiscal Studies has pointed out that 3 million working families will be affected by the tax credit changes, as proposed by the Government. However, 1.5 million of those families will not benefit from any increase to the national minimum wage, as proposed by the Government, because they are already being paid in excess of that rate of pay. They will be unable to improve their

outcomes and change their circumstances. The Government will make changes to the basic rate of pay next year but that will not affect those families. At the same time, they will lose their tax credits and, on top of that, there is the clawback. It is not just about taking away tax credits; the clawback to tax credits will also increase, so that for every additional hour those people work—if they are able to secure additional hours—and every extra £1 they earn, the taxman will take 97 pence of that £1 back from them in clawback. How does that make any sense? It does not.

That is why it needs to be recognised that, in the House of Lords, it was not just Labour members and Liberal Democrats who spoke out about what was being proposed. Conservatives, too, said, “Wait a minute. Let’s hold back. Let’s look at this and think about whether these changes to tax credits, as proposed, are the right thing to do.” I am grateful to Lord Lawson and the other Tories who stood up and spoke out and said, “Let’s wait a minute.”

Lewis Macdonald: That is very helpful. You mentioned that wider efforts would be required to tackle in-work poverty. Clearly, the tax system and tax credits are part of that. Are there other measures that this committee should consider in our recommendations that are specifically related to USDAW members and other working people in poverty?

Karen Whitefield: You want to be mindful that it is about rates of pay, tax credits and terms and conditions. It is about recognising the value of those terms and conditions and, sometimes, the value and benefit of the schemes that some employers, whether they are in retail or in other fields, offer to their employees, as well as the in-kind benefits that they generate for individuals.

The Convener: I never thought that I would hear the day, Ms Whitefield, when you would be praising what Tory peers did in the House of Lords, but there we go.

Karen Whitefield: Me neither, but it is true.

Richard Lyle: I was an USDAW member when I worked in the grocery trade from 1965 to 1980, as a grocery assistant manager, grocery manager and grocery department manager. Grocery has changed in the past 35 years. I used to get a Wednesday and a Saturday off and never worked a Sunday. Now it is 24/7, as you say.

Many of the questions that I was going to ask have been asked already. In regard to your last comment, we talk about an hourly wage. Should we maybe start to talk about a national minimum weekly wage? Even if you multiply the hourly wage by 35 hours a week, it is still under £300 a week. At the end of the day, if you have got two kids and that wage has to pay your gas, your

electric and your food bill—we have all been there—that is not a lot of money.

That was not the question that I was going to ask you, though. [*Laughter.*] Just to throw a wobbler. You spoke about companies. During my time as an USDAW member, it was an excellent union. You can take that back to USDAW—I have high praise for you. Are there any companies that are deliberately barring you from actively recruiting? You may or may not want to name them. You spoke a couple of minutes ago about one company that says that it is now paying the living wage but does not let you in to get members. I found that quite interesting.

Karen Whitefield: I noticed, when I reviewed the evidence, Mr Lyle, that you have long campaigned and raised with all the committee witnesses the issue of ensuring that people have sufficient income to be able to survive. That is an issue that we need to wrestle with. We need to try to find a solution to ensure that work pays. At the end of the day, all our members want is to be able to go out to work, for work to pay and to be able to look after their families. Right now, for many of them, that is a struggle. There is not an easy solution to this.

12:30

In relation to employers that do not recognise us, I do not think it is a secret that Lidl and Aldi do not recognise USDAW. That does not stop us recruiting. There have been activities. If you passed any Aldi and Lidl across the country at some point this week, there will probably have been USDAW members outside those stores trying to recruit. We have members in those stores, which is how we know generally what kind of terms and conditions people are working with. We think that it is regrettable that those employers do not always recognise a trade union, because there would be genuine benefits for them as an employer—not just for the employees—if they were to recognise us.

As a trade union, we will keep on working with all employers to try to get them to recognise us. The more members that we have among their employees, the more likely it is that they will recognise us, which is one of the reasons why, in recent years, we have had pretty high-profile campaigns in relation to Aldi and Lidl, and—I hasten to add—Marks and Spencer.

The Convener: I think that we are through our questions. Thank you very much, Ms Whitefield, for coming along to the committee this morning. It has been very helpful.

12:31

Meeting continued in private until 12:34.

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