



# **Written Evidence to the Scottish Parliament Economy, Energy and Tourism Committee**

## **Draft Budget 2012-13 and Spending Review**

### **October 2011**

# About Consumer Focus Scotland

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

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

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

We aim to influence change and shape policy to reflect the needs of consumers. We do this in an informed way based on the evidence we gather through research and our unique knowledge of consumer issues.

## Draft Budget 2012-13 and Spending Review

Consumer Focus Scotland (CFS) welcomes the opportunity to contribute to the Economy, Energy and Tourism Committee's scrutiny of the draft 2012-13 Budget and Spending Review. Our submission concentrates on the questions most relevant to consumers concerned about rising energy costs. A brief summary of our position and responses to specific questions are below.

Energy prices for domestic consumers have risen consistently since 2003/4. Despite welcome improvements in the energy efficiency of Scotland's housing stock, price rises have led to continuing increases in the proportion of households in Scotland in fuel poverty. Scottish Government figures show that some 770,000 households were fuel poor in 2009<sup>1</sup>, and recent price increases are estimated to have increased that number to a total of around 940,000<sup>2</sup>.

We believe that a range of approaches are needed to address fuel poverty, concentrating on a much stronger approach to improving the energy efficiency of all Scottish housing, alongside better and easier access to the lowest tariffs for consumers. However, addressing fuel poverty also has benefits when assessed against other Scottish Government policy aims, including:

- Reduced risks to health, and reduced costs to the health service<sup>3</sup>
- Release for productive spending in local economies of money which would otherwise be spent on energy
- Reductions in energy demand and in climate change emissions, through improved energy efficiency
- Job creation through programmes of energy efficiency work, ranging from mass urban programmes installing basic insulation measures, to measures increasing take up of microgeneration in areas and homes without access to mains gas

We appreciate that the scale of work required is challenging, and that the total costs are far greater than could be met by public sector spending alone. The Climate Change (Scotland) Act: Report on Proposals and Policies outlines costs for meeting a 36% reduction in emissions savings from housing by 2020; energy efficiency savings of this level would have a significant positive impact in reducing fuel poverty, and the risk of future fuel poverty. The total costs quoted are around £9.1bn, of which £3.4bn is identified as spending beyond that which is already taking place.

We welcomed the Scottish Government's budget announcements which safeguarded spending on energy efficiency at a time when many other budgets are being reduced. However, against the above background, we believe a much stronger approach, integrating public and private spending, is necessary to address fuel poverty and promote energy efficiency more widely. In our view, the Scottish Government has the opportunity to influence key elements to deliver the existing targets for the reduction of fuel poverty. These include:

- Ensuring an integrated approach across all relevant Scottish Government directorates, by designating a Minister with explicit responsibility for co-ordinating

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<sup>1</sup> Scottish House Condition Survey, Key Findings 2009

<sup>2</sup> Answer to Scottish Parliamentary Question, Alex Neil MSP, Cabinet Secretary for Infrastructure and Capital Investment, 20 July 2011

<sup>3</sup> University of Ulster research carried out by Professor Christine Liddell found that every £1 spent on alleviating fuel poverty saves the NHS 42 pence

action on fuel poverty across portfolios, supported by a cross-directorate working group at official level<sup>4</sup>.

- Ensuring that Scottish Government spending on energy efficiency is as effective as possible, by evaluating current programmes and targeting future spending on the basis of the results. In addition, the benefits of energy efficiency work should be assessed from the perspective of preventative spending to reduce future health problems, and should also take account of the contribution made towards economic development by releasing household spending for more productive use.
- Integrating tariff advice alongside energy efficiency information on a consistent basis, to ensure that all fuel poor consumers have access to the best deals. Currently, households which have never switched could save £200 by moving to the best direct debit tariff available, and potentially up to £300 if they are able and willing to manage their account on line.
- Maximising available resources from a wide range of other funding streams, including the UK Government's forthcoming Energy Company Obligation and Green Deal, as well as other mechanisms such as community benefit funding associated with renewable energy developments; and
- Taking forward discussions about how best to put in place progressively increasing minimum standards for energy efficiency across all private sector housing, at the point of sale or rental.

We expand, below, on three questions raised by the Committee which are most relevant to our comments above.

**Will the continued reduction in spending on social housing investment frustrate attempts to reduce fuel poverty by slowing the rate of improvement in the housing stock?**

The three main factors in fuel poverty are incomes, energy efficiency and fuel costs. While the interaction between these factors is complex, it is clear that action on incomes is already a priority for governments at all levels, and that – while there is scope for greater action on ensuring all consumers have access to the best tariffs - there are underlying, long term pressures on energy costs. Energy efficiency is critical to the reduction of fuel poverty, and is the element of fuel poverty over which the Scottish Government has most direct influence.

However, data from the Scottish House Condition Survey (SHCS) shows that the patterns and causes of fuel poverty vary between housing tenures and among different groups. There have been significant improvements in the energy efficiency of social housing in recent years. Currently, 72% of homes in the sector now rated 'good' in terms of energy efficiency, and a further 27% rated 'moderate'. Only 1% of social housing is now rated as 'poor' in energy efficiency terms.

This is a significantly more positive picture than for private sector housing, in which only 49% of homes are rated 'good' and 4% are rated 'poor'. Despite these very welcome improvements in energy efficiency, the proportion of social housing tenants living in fuel poverty remains as high as in private sector (as is, in fact, higher than in the private rented sector) because social housing tenants, perhaps not surprisingly, are more likely to be on low incomes.

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<sup>4</sup> This approach has previously been adopted in Northern Ireland

We believe that three points follow from this:

Firstly, the improvement in the energy efficiency of social housing demonstrates the effectiveness of the regulatory approach which has been employed through the Scottish Housing Quality Standard (SHQS). Backed up by financial resources, the SHQS includes an energy efficiency target which means that key energy efficiency provisions including loft and cavity wall insulation, where possible, and an efficient central heating system should be in place in all social housing in Scotland by 2015.

Investment to meet the SHQS targets has been critical; although a great deal has been achieved, it is likely that the homes yet to be upgraded are those in which more complex – and therefore more expensive – techniques are needed. The extent to which recent positive trends can be continued may be affected by falling budgets.

There is also a question, given the remaining high rates of fuel poverty among social housing tenants, about whether the current standards are sufficiently high to achieve the Scottish Government's aims, or to meet climate change emission targets. We understand and welcome the work currently underway to develop and introduce a more stringent 'SHQS II'. As above, it is likely this will entail increased capital costs, and spending reductions may affect the social housing sector's ability to meet these targets. In our view, this highlights the need for a wider, preventative spend approach to be taken to energy efficiency actions. It would be possible to reduce capital spending by placing less emphasis on energy efficiency measures in the short term. However, we would argue that total public sector cost would ultimately be lower if spending is maintained, as fewer tenants will be fuel poor, and therefore less likely to require assistance from other public services, including the health service.

Finally, we would emphasise that, no matter what improvements are made in social housing, fuel poverty will not be addressed, nor wider Scottish Government aims achieved, without parallel work to improve the energy efficiency of older private sector housing. Around 80 per cent of the housing which will exist by 2050 is already built. A comprehensive approach to retrofitting energy efficiency measures to all such housing, including hard to treat and off gas properties, is needed.

Consumer Focus Scotland welcomed the introduction of both the Energy Assistance Package, and, more recently, the Universal Home Insulation Scheme, and we will continue to work with the Scottish Government to help deliver these schemes effectively. However, it is clear from the overall financial position set out above that wider measures are needed. In relation to these, we recommend that the Scottish Government should:

- Ensuring that Scottish Government spending on energy efficiency is as effective as possible, by evaluating current programmes and targeting future spending on the basis of the results
- Maximising available resources from a wide range of other funding streams, including the UK Government's forthcoming Energy Company Obligation and Green Deal, as well as other mechanisms such as community benefit funding associated with renewable energy developments; and
- Taking forward discussions about how best to put in place progressively increasing minimum standards for energy efficiency across all private sector housing, at the point of sale or rental<sup>5</sup>.

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<sup>5</sup> Detailed evidence and recommendations can be found in Energy efficiency in private sector housing in Scotland: Regulation and the consumer interest, February 2011  
<http://www.consumerfocus.org.uk/scotland/publications/energy-efficiency-in-private-sector-housing-in-scotland-regulation-and-the-consumer-interest>  
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## **How will fuel poverty be affected by increased reliance on relatively expensive renewable energy?**

### **Resources for Renewable Energy projects to be spent through SE and HIE have been substantially increased – how can these resources be most effectively deployed?**

Consumer Focus Scotland recognises that, in the long term, it is in the interests of consumers to have a diversified energy generation sector, including renewable energy. We recognise the need to invest in energy infrastructure to achieve reliable, secure, low carbon supplies – but also the critical need for supplies to be affordable. The direct contribution of environmental costs, including support for renewables, is currently around £80 per dual fuel household<sup>6</sup>. While recent price rises are largely a result of rising wholesale gas costs, rather than increasing investment costs, it is clear that those investment costs will increase bills to a significantly greater extent<sup>7</sup>. It is therefore important to emphasise that the expansion of renewable energy (and of nuclear energy in GB more widely) is very likely to result in further increases in fuel poverty, unless significant energy efficiency measures are taken.

We consider that the approach is regressive when compared to funding investment costs from general taxation, as energy costs typically form a much greater part of household spending for low income groups than for those on higher incomes. While we recognise that the Scottish Government has limited opportunity to change this position, we would wish to see the greater recognition of the consumer interest in debates about the expansion of renewable energy. Consumer Focus Scotland is now represented on the 2020 Delivery Group and the Scottish Energy Advisory Board and we welcome recent initiatives by the Scottish Government to seek to strengthen the consumer voice in energy policy in Scotland. However, it is clear that the policy debates, at this stage, remain dominated by the industry, and the voice of the consumers who are paying for investments are very limited by comparison.

In practical terms, we would suggest that three actions could be undertaken.

Firstly, there is currently a separation between the different Scottish Government portfolios which deal with energy; energy generation and economic development, climate change, and housing and energy efficiency are separate briefs. We suggest that a cross departmental group, chaired by a Minister or senior official, is needed to co-ordinate action between portfolios.

Secondly, funding for the enterprise sector should balance long term economic opportunities with the development and adoption of renewable technologies which are more likely to benefit consumers in the short to medium term. In addition, we believe that economic development agencies should consider support for energy efficiency programmes, on the basis of the jobs created directly in their delivery, and should also look at the economic benefits of spending released at local level from energy efficiency work.

Thirdly, Consumer Focus Scotland is currently researching the relationship between funding received by communities as a result either of community benefit mechanisms associated with commercial renewable energy development, or of community-led renewable developments. We believe there is greater potential for these funds to be used, in part, to benefit local communities over the long term by supporting energy efficiency measures, and, in off-gas areas, the installation of renewable heating systems. Following this approach, there should be a role for enterprise agencies, as standard

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<sup>6</sup> Ofgem, Household Energy Bills Explained, January 2011

<sup>7</sup> Ofgem, Project Discovery, 2009

practice, in ensuring the deployment of new renewable technologies maximises community as well as economic benefits.

Finally, it is worth emphasising that part of the argument for investment in renewable energy is that, in the medium to longer term, comparative prices will change to the point where low carbon generation is cheaper than generation from fossil fuels. Whether, or on what timescale this happens, clearly depends on price trends within international energy markets, which are notoriously difficult to predict. In either case, this debate is about relative, rather than absolute costs, and it is the latter which are of greatest concern to consumers. Given it is not likely that prices will fall, the only way to control absolute costs, and to safeguard health and welfare of consumers, is to improve significantly the energy efficiency of the Scottish housing stock.