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Dear James

The Fuel Poverty (Target, Definition And Strategy (Scotland) Bill

I refer to the evidence which I gave to the Local Government and Communities Committee on 19 December 2018. I said I would provide further information on (i) the quality of works carried out in Scotland under UK Government backed energy efficiency schemes (as opposed to Scottish Government energy efficiency schemes) (Annex A); and (ii) the financial modelling carried out by the Scottish Government for the 2040 fuel poverty target (Annex B).

I hope the information provided in Annex A is useful to the Committee and illustrates why I expressed greater confidence in the standards prevailing in Scottish Government schemes than in UK Government ones. While I do not pretend that there are never any problems arising from work carried out through Scottish Government schemes, I am confident that these are both more likely to be picked up and, crucially, more likely to be resolved in a satisfactory manner.

With regard to Annex B, please note that in setting the target, the focus was on identifying what needed to be done to make sure that no more than 5% of households in Scotland will be living in fuel poverty in the year 2040. This is why the draft Fuel Poverty Strategy addresses all four drivers: poor energy efficiency, how energy is used in the home, energy costs and income (earnings and benefits), even though the latter two levers for change are not devolved under the current constitutional settlement.

The financial analysis attached focuses on the eradication of poor energy efficiency as a driver of fuel poverty since this is the aspect most directly within our control. An indicative estimate of the cost to meet our proposed Energy Efficient Scotland aim of improving the energy efficiency of the dwellings of fuel poor households in the private sector to an EPC B by 2040 where technically feasible, cost effective and affordable is £130m per annum, totalling £2.6bn in finance over 20 years to 2040 from the

Scottish Government, UK Government schemes and private sources where appropriate. Of course, since fuel prices and incomes are not directly within the control of the Scottish Government, changes in these factors will influence the overall outcome.

KEVIN STEWART

ANNEX A

Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill Stage 1

Standard of works and quality of service carried out in Scotland under energy efficiency schemes

UK Government schemes

(i) The Green Deal

The Green Deal ran from 2012 until UK government funding was discontinued in July 2015. It allowed homeowners to have a variety of energy efficiency measures installed in their homes at no upfront cost through Green Deal loans repaid through the property's energy bills. The scheme was relaunched in 2017 but with funding provided by a private consortium.

A report by the National Audit Office (NAO) published in April 2016 concluded that the Green Deal had failed to provide value for money and did not persuade householders that energy efficiency measures were worth paying for. It put this down to poor design and implementation of the scheme by the UK Government. The full report is available on the NAO's website: <https://www.nao.org.uk/report/green-deal-and-energy-company-obligation/>

Despite the very low take up of Green Deal plans, the scheme has generated a great deal of complaints, many of which are still outstanding. The legacy of these complaints has been raised in both the UK and Scottish Parliaments. In the Scottish Parliament, these issues have been investigated by the Cross Party Group on Consumer Protection for Home Energy Efficiency and Renewable Energy ("the Cross Party Group"). They have also been the subject of a motion which Ivan McKee lodged on 7 April 2017 in support of householders aggrieved about the Green Deal. There has and continues to be great concern about the mis-selling of Green Deal Plans to Scottish consumers in addition to concerns about poor quality workmanship

Most recently, these concerns were highlighted in the "Bad Company" report which was published by Citizens Advice Scotland (CAS) in December (https://www.cas.org.uk/system/files/publications/bad_company_citizens_advice_scotland.pdf).

This report focuses on Home Energy and Lifestyle Management Systems ("HELMS"), the UK Government accredited Green Deal supplier which went into liquidation leaving many of its customers, the majority of whom were in Scotland, without redress in respect of its sharp practices and sub-standard installations. In particular, the shoddy workmanship by HELMS of which CAS has been made aware is detailed in the section of the report headed "Customer complaint: Installation Issues."

During the debate on Consumer Protection and the Green Deal which took place in the Scottish Parliament on 6 June 2017, Ivan McKee highlighted the plight of one of his constituents who discovered that her Green Deal home improvements required a building warrant but were not of sufficient quality to secure one, leaving her home

uninsurable, unsellable and, potentially, unsafe. Indeed, the Minutes of the Inaugural Meeting of the Cross Party Group on 4 October 2017 record that there were 50 or more Green Deal cases in Ivan McKee's constituency alone with a major issue being the installation of external wall insulation without the necessary building warrant.

The Scottish Government regularly receives an up-date on Green Deal complaints raised via Home Energy Scotland ("HES") (see below for further information on HES). These updates indicate that problems with measures post installation are one of the issues most frequently complained about in connection with the Green Deal. According to the November 2018 report, one customer required remedial work to wall insulation installed under the Green Deal which the Green Deal installer was unable to fix. Another had issues with a meter which was incorrectly installed under the Green Deal.

Despite it being almost three years since HELMS went into liquidation, at last count, approximately 420 complaints about HELMS are still being considered by the Green Deal Finance Company – the body which finances the Green Deal loans. Furthermore, there are 90 cases being considered by the Secretary of State for Business, Energy and Industrial Strategy, 48 of which concern Scottish households.

The Scottish Ministers have written on several occasions to the relevant UK Government Ministers seeking a commitment to resolve these issues urgently. Most recently, Mr Stewart wrote to Claire Perry MP, the Minister of State for Energy and Clean Growth, on 20 December 2018. A copy of this letter can be provided if so desired, together with a copy of the response, as and when it is received.

(ii) Energy Companies Obligation ("ECO")

ECO is far and away the biggest of the UK Government schemes. It is delivered through energy suppliers and provides energy-saving improvements to qualifying low income and vulnerable households in private rented or owner occupied properties, and in some social housing. The scheme is funded from customers' energy bills, adding around £30 per annum to household energy costs. The Scottish Government has long argued that the way ECO money is raised effectively makes it a regressive form of taxation.

While the obligations to install energy efficiency measures and reduce carbon emissions are placed on the energy companies, most suppliers contract out the task of finding eligible households and installing measures. This can lead to long supply chains of contractors and sub-contractors, which can have a negative impact on determining accountability and resolving problems. It also creates significant issues with cold-calling, as companies seek out eligible households, and encourages a sales motivated approach to promoting energy efficiency improvements, which can lead to unnecessary, or unsuitable measures, being installed. As the Local Government and Communities Committee is aware, a number of cases of this type have been reported in the Western Isles recently. Additionally, in recent years, a substantial proportion of the complaints Scottish Ministers have received from people plagued by cold-calls appear to have been related to either ECO or the Green Deal.

ECO is administered on behalf of the UK Government by Ofgem. ECO rules require all measures installed by suppliers to meet certain standards, including:

- PAS 2030 - PAS 2030 sets the standards that must be adhered to for the installation of energy efficiency measures.
- Building Regulations.
- Any other regulations that relate to the installation of the measure.

The main way that Ofgem gains assurance that the requirements have been met is through onsite monitoring using independent, suitably qualified monitoring agents. However, the proportion of installation works which are actually inspected is low. Each quarter, obligated energy companies must monitor at least 5% of measures installed, of which at least 5% must be of each measure type installed and at least 3% of each installer used.

While the failure rate for ECO measures inspected did improve from around 14% for the first phase, ECO1, (which ran from January 2013 to March 2015), to around 6% in ECO2, this still compares unfavourably to the less than 2% failure rate for the Scottish Government's Warmer Homes Scotland ("WHS") scheme, a figure which is based on a far higher inspection rate. Indeed, the low proportion of ECO measures inspected must inevitably lead to concerns that many sub-standard installations could be going undetected.

For the next phase, ECO3, the UK Government is intending to bring in a number of changes aimed at strengthening consumer protection, which draw upon the findings of the Bonfield Review (2017). However, it is too early to assess how effective these may prove to be.

That said, in Scotland, a significant proportion of the ECO money which is spent has been leveraged in through Scottish Government schemes, particularly Home Energy Efficiency Programmes for Scotland (HEEPS): Area Based Schemes (ABS) and the WHS scheme. As outlined below, this effectively provides an extra layer of scrutiny and oversight, as well as avoiding the potential pitfalls that can arise from the cold-calling approach to finding eligible households. For instance, the channelling of ECO finance through Scottish Government schemes can ensure a more targeted and controlled deployment of ECO measures than would occur through the scattergun approach of cold-calling households.

Scottish Government schemes

(i) HES

Alongside funding for physical measures, there is the need to ensure that householders are guided through the choices available to them. That is why the Scottish Government funds HES, which provides advice centres and a hotline managed on our behalf by the Energy Saving Trust.

As well as providing free and impartial advice to householders on how they can reduce their fuel bills and improve the energy efficiency of their homes, HES plays a key role in directly referring people to the Scottish Government's HEEPS schemes. This

avoids the use of cold-calling tactics to find eligible households – a major contrast with the UK Government’s schemes.

HES also offers people advice and support in the event that things go wrong, by assisting householders through the complaints process of energy efficiency schemes, whether UK or Scottish Government. In recent years, this has included providing support to many of the people with complaints about the Green Deal and HELMS.

HES is an award winning initiative, having won the Best Customer Focus category at the 2018 Best Business Awards. HES consistently achieves over 97% customer satisfaction levels for its interactions with households. Now in its tenth year, HES has achieved energy bill savings in Scotland that add up to over £1 billion.

(ii) HEEPS: WHS

WHS is the Scottish Government’s flagship national fuel poverty scheme. The contract to deliver it was awarded to Warmworks Scotland, (a partnership between Changeworks, the Energy Saving Trust and Everwarm), following an open tendering process, in April 2015. Formally launched in September 2015, since then, WHS has helped over 14,000 fuel poor households across Scotland.

Warmworks is responsible for managing the customer journey, which includes identifying the measures which are suitable for the dwelling, carrying out a technical survey, installing the measures and arranging a post-installation inspection.

In contrast to ECO, Warmworks carries out inspections on 100% of the installations it performs. In many cases, this includes not just post-installation inspections, but work in progress visits. This can be very important since some problems with installations may be difficult to detect once the work is complete. A further 20% of installations are then independently inspected by Pennington Choices, which has been appointed by the Scottish Government as an independent quality assurance auditor to ensure that the standard of service provided by Warmworks meets the Scottish Government’s requirements.

According to the monthly reports which the Scottish Government receives from Warmworks as part of its contract governance requirements, the customer satisfaction rate for WHS is over 99% based on an 86% response rate.

Warmworks is also award winning, having recently won the Government Opportunities Best Service Award: Medium and Large Organisations category. At the same event, the Scottish Government won the award for Social and Community Benefit in Procurement Award: Central Government & Local Authorities category. Both will go on to the National Awards held in April 2019.

(iii) HEEPS: ABS

HEEPS: ABS are designed and delivered by Local Authorities, in conjunction with utility companies and local delivery partners, targeting fuel poor areas to provide energy efficiency measures to a large number of Scottish households and help reduce fuel poverty.

Responsibility for programme delivery falls to Local Authorities because they are best placed as the relevant strategic housing authority to understand local housing needs and prioritise provision across their area. Local Authorities are expected to use a range of sources of information to target households whose properties have the lowest levels of energy efficiency and/or highest levels of fuel poverty. It is up to each Local Authority to define the areas within which projects will deliver and the detail of those projects.

The majority of the measures provided by HEEPS:ABS are external wall or hard to treat cavity wall insulation. Each Local Authority will have its own processes for selection of the participating properties depending on the nature of its programme - from individual properties to semi-detached or flatted properties and mixed tenure schemes. These processes will include an assessment of the most appropriate form of measure to be applied.

Local Authorities are keenly aware that all externally insulated properties require a building warrant in Scotland. This provides a further test of the technical suitability of the proposed measure. It also avoids the lack of building warrant plight faced by a plethora of Ivan McKee's constituents and by many other Scottish Householders as a result of the Green Deal. .

Additionally, in the vast majority of cases, Local Authorities seek to obtain top up funding for these works from ECO. As regards the quality of work, as is the case for ECO, the Scottish Government's grant funding conditions incorporate a requirement to work to relevant PAS 2030 requirements. Even when ECO is not being claimed, we ask that contractors meet the standards that would apply to ECO as a minimum.

ANNEX B: The Fuel Poverty (Target, Definition And Strategy (Scotland) Bill – Financial Modelling

Background

The draft Fuel Poverty Strategy is clear that Energy Efficient Scotland (EES) will be the main delivery vehicle for removing poor energy efficiency as a driver of fuel poverty. Indicative costs for delivering EES have been set out in the Partial Business and Regulatory Impact Assessment¹ (BRIA) for the programme as well as in the Consultation on the Energy Efficiency Standard for Social Housing (EESH) Post-2020². These documents provide cost estimates and target EPC attainment rates for the whole Scottish housing stock. We have provided here some further financial estimates on the same basis which specifically refer to improving the energy efficiency of the dwellings of fuel poor households first to an EPC C by 2030 and then to an EPC B by 2040 where technically feasible, cost effective and affordable as set out in the EES route map^{3 4}.

It is important to note these estimates are indicative rather than precise, being based on current assumptions and uncertainties which may change as policy develops. All estimates will continue to be reviewed and updated, alongside relevant funding provision.

It should also be remembered that within Scotland's building stock, it may not currently be technically feasible or cost effective to bring every building up to the target EPC, particularly for band B which, for many properties would require significant interventions such as solar panels and heat pumps which may not be suitable in some properties such as ground and middle level tenement flats. However, this is a complex area and technology is changing and improving all the time. Over the course of the next 21 years the costs and types of upgrades available could change significantly, reducing costs and increasing rates of attainment of target EPCs.

Methodology

Estimates are based on modelling undertaken using the National Household Model (NHM), which is also used by the UK Government and the Committee on Climate Change. The NHM is a domestic energy-policy modelling and analytical tool, commissioned from the Centre for Sustainable Energy by the UK Government. The model draws on data from the Scottish House Condition Survey (covering the period 2011-2013) and applies sample weights to allow the results for the individual surveyed dwellings to be grossed up to represent the overall Scottish housing stock. Assumptions for demolitions and new builds are also applied for future years.

¹ <https://www.gov.scot/publications/energy-efficient-scotland-partial-business-regulatory-impact-assessment/>

² https://consult.gov.scot/better-homes-division/social-housing-post-2020/user_uploads/00534991.pdf

³ <https://www.gov.scot/publications/energy-efficient-scotland-route-map/>

⁴ Work is on-going to further define technically feasible, cost-effective and affordable, which will be published in due course.

The NHM allows dwellings to be upgraded using a set of standard measures, relating to improving the efficiency of heating systems, insulating walls, roofs and floors, and installing renewables (solar, heat pumps and biomass boilers). The set of upgrades available is not exhaustive⁵. For each dwelling, the model selects the package of measures which would bring the dwelling up to the target EPC band at the lowest capital cost, with allowances made to reflect technical feasibility and cost effectiveness. A share of these costs is then allocated to the dwellings of fuel poor households by using the share of such households in each tenure.

Financial estimates

Indicative costs of improving the energy efficiency of the dwellings of fuel poor households first to an EPC C by 2030 and then to an EPC B by 2040 where technically feasible, cost effective and affordable are in the region of £2.6bn until 2040 for upgrading the dwellings of fuel poor households in the private sector. Around £1.1bn of this is to bring properties to EPC band C and an additional £1.5bn to bring properties to EPC band B. This equates to a cost of around £130m per annum until 2040.

Funding of around £143m per year is currently available to improve the energy efficiency of properties in Scotland through Scottish Government grant programmes (currently £73m per annum) and the Energy Company Obligation funding (currently around £70m per annum) a significant majority of which is directed to low income households to tackle fuel poverty. We believe that these current funding levels, in combination with private financing from landlords and owners where appropriate, are sufficient.

In the social rented sector, it is recognised that energy efficiency improvements to date have been funded mostly from social landlords' own resources (91% EESSH investment 2017/18). Funding sources are available to help social landlords attain EESSH within the wider framework of Energy Efficient Scotland (e.g. Scottish Government HEEPS: Loans (RSLs), and it is intended that many of the existing offers of funding and support will continue through EESSH2. This is in line with the EESSH2 consultation on a target to maximise the number of homes in the social rented sector achieving EPC Band B by 2032, subject to dwelling and fuel type, and that from 2025 no social rented homes should be let if their energy efficiency is lower than EPC D. As a result the cost of upgrading the dwellings of fuel poor households in the social sector is not included in the above costs.

Some households in the private rented sector will be eligible for financial assistance from Scottish Government fuel poverty programmes. We anticipate that a large proportion of costs in this sector will be met by private sector landlords as they improve their properties to first EPC band E by 2022, then Band D by 2025 and then to Band C by 2030 where technically feasible and cost effective as proposed in the EES Route Map. Interest free loans from the Scottish Government are currently available to assist landlords achieve this.

⁵ The list of measures modelled in the NHM can be found in Table 5 of the above partial BRIA.