

Warm homes and the Scottish Budget 2021/2022

Parliamentary Briefing – November 2020

1. Introduction

Scotland has some of the most ambitious climate change targets in the world, yet at the same time an unacceptable number of Scottish households continue to live in fuel poverty. The current COVID-19 crisis also presents us with unprecedented public health and economic challenges that provides an opportunity to transform our strategies and investment programmes and deliver a wellbeing economy, built on green jobs.

The Existing Homes Alliance Scotland (ExHAS)¹ believes Scotland’s energy efficiency and fuel poverty programmes need to be doubled. If Scotland is to meet its ambitious targets, it will require investment increasing from the current budget of around £135 million² per year to at least £244 million per year, with an upwards trajectory over the lifetime of the next parliament to a total of £1.35 billion over five years.

The proposals set out in this briefing are ready to start immediately and will support local supply chains by using labour and SMEs in every part of Scotland. In addition, the proposals hold the potential to cumulatively create and sustain between 16,000 and 17,000 new energy efficiency and low carbon heat jobs in Scotland over the course of an intensive 10 year retrofit programme³.

All of our proposals are based on the combined expertise of the ExHAS members, many of whom are at the forefront of delivering regional and national fuel poverty, energy efficiency and low carbon heat programmes and an internal review of evidence to assist in identifying the policies and investment needed to meet energy efficiency, fuel poverty and low carbon heat targets.

2. Why increased investment is needed

If Scotland is to make the progress needed over the next decade, Energy Efficient Scotland (EES) must be a major multi-year strategic investment programme, taking a fabric first approach that achieves a very high energy efficiency performance in people’s homes, with the remainder of Scotland’s heat requirements being met by renewable sources.

The recent Programme for Government (PfG) commitment to investing £1.6 billion over 5 years is welcomed. However, the ExHAS believes more finance will be needed, alongside mandatory standards to leverage in further private investment. The Scottish Government acknowledges a key milestone towards achieving net zero emissions from our homes by 2040 will be achieving the EPC band C target by 2030 for the vast majority of homes. This translates into upgrading just under 1 million homes – or at least 80,000 domestic properties each year between now and 2030. At present roughly half that number are moving to EPC band C or above per year, and the Scottish Government’s own analysis

¹ The Existing Homes Alliance Scotland is a coalition of 10 founding member organisations and 10 supporters representing housing, environment, anti-poverty, industry, and consumer groups arguing for greater investment in Scotland’s existing housing stock to make it fit for the 21st century.

² We have estimated this figure based on a range of publicly-available information. It also includes additional in-year funding announced by the Scottish Government. More detail is provided in the table below.

³ These estimates are based on a review of published research/Scottish Government publications. It is potentially an underestimate.

suggests that this rate is unlikely to be maintained by current policies as easier to treat properties and already amenable householders have largely been reached.

Focusing on achieving a high level of energy efficiency for all homes by 2030 is consistent with a ‘least-cost’ approach to meeting climate change targets and is critical to achieving the longer-term ambition of net-zero emissions by 2040. If Scotland fails to invest in energy efficiency it will drive up the cost of decarbonisation for everyone, increasing fuel poverty as well as the overall level of public investment required.

3. How the budget should be allocated

To meet Scotland’s climate change targets, lift people out of fuel poverty and support the green recovery following COVID-19, the ExHAS proposes a £244.2 million budget for 2021/22. This will support the following activities:

Programme/Activity	Draft Scottish Budget 2019/20 ⁴	ExHAS proposed budget 2021/22	ExHAS proposed five year budget
	£m	£m	£m
Resources for local authorities to develop strategic approaches		4	20
Sub-total		4	20
Targeted Funding for a Just Transition			
Warmer Homes Scotland	24	50	270
Area Based Schemes	49	100	550
Combined energy and heat fund (expanded support for self-funding owners and private landlords)	30	60	330
Comprehensive advice and support service (expanding HES and local networks)	10.6	22	116
Major engagement campaign		0.2	4.2
Rural Homes Transition Package		1	5
Sub-total	119.6	233.2	1,275.2
Innovation			
Not for profit affordable energy company pilot		1	5
Zero carbon retrofit exemplar		3	35
Hybrid heat pump demonstrator programme		2	10
Digital Home Log-book		1	3
Sub-total	0	7	53
Total	119.6	244.2	1,348.2

The activities summarised above will provide resources to support local authorities and partners to develop strategic approaches to delivering energy efficiency and heat decarbonisation at a local level. It will also provide targeted funding for a Just Transition, by significantly scaling up the successful EES programme as well as providing a programme of innovation to deliver green jobs, develop expertise and build confidence.

⁴ Column based on the draft Scottish Budget 2019/20. Following budget negotiations an extra £25m was agreed for investment in local energy efficiency projects. We are also aware there have been additional in-year funding commitments for fuel poverty and energy efficiency programmes.

4. Budget Proposals – Detail

Key Points

- Investment must increase to at least £244.2 million in 2021/22 and be part of a five-year programme totalling £1.35 billion.
- The budget proposals do not include the following, which will require additional resources beyond funding already committed:
 - More support for heat networks (discussed further below);
 - Support to registered social landlords to meet the new Energy Efficiency Standard for Social Housing post-2020 (EESHS2);
 - Robust consumer protection measures; and
 - Setting up and running of a national body to co-ordinate and drive forward EES.

Resources for local authorities to develop strategic approaches

To meet Scotland's climate change and fuel poverty targets, a robust national and local strategic approach to investment is needed, driven by the preparation and delivery of Local Heat and Energy Efficiency Strategies (LHEES). Linking LHEES to area based zoning will ensure a planned approach that maximises the impact of investment in heat networks, heat decarbonisation and energy efficiency work. If done well, they will also provide assurance to homeowners, landlords and industry to maximise participation and engagement.

The ExHAS has welcomed funding to support local authorities to deliver LHEES. However, local authorities have stated more funding is required to support the development and implementation of their strategies⁵. We therefore propose giving local authorities a statutory duty to prepare and begin delivering LHEES by 2022, supported by £4 million each year from 2021/22 to help complete LHEES and start implementing those strategies which are ready to go from 2021. Over five years this will give a total investment package of £20 million.

Targeted Funding for a Just Transition

To ensure a Just Transition to net zero, the scale of Scotland's energy efficiency and fuel poverty programmes need to be doubled by increasing funding to at least £233 million in 2021/22, as part of a five year package totalling £1.27 billion. This includes our own estimate of £30 million to support the PfG commitment to double heat pump installations through existing programmes.

Warmer Homes Scotland

As Scotland's flagship fuel poverty programme, Warmer Homes Scotland (WHS) helps vulnerable households to make their homes warmer and more comfortable by installing a range of energy saving and low carbon heating measures. WHS has successfully delivered energy efficiency improvements in all parts of the country, however more needs to be done. It is clear that if Scotland's fuel poverty targets are to be met, the budget will need to increase. With increased promotion of WHS, referrals will increase, thereby making it more likely the targets will be achieved. In addition, installations will increasingly need to support the decarbonisation of heat, particularly in off-gas grid areas. We propose that the WHS budget is increased to £50 million in 2021/22, with annual increases in funding providing a total investment of £270 million over five years. This increase will help to ensure more people are moved out of fuel poverty and support their switch to renewable heating.

⁵ <https://www.climateexchange.org.uk/media/3752/local-heat-energy-efficiency-strategies-phase-1-pilots-social-evaluation-report.pdf>

Area Based Schemes

Delivered by local authorities and targeted at fuel poor areas, Scotland's Area Based Schemes (ABS) install energy efficiency measures in areas at greater risk of fuel poverty. We propose the ABS budget is increased to £100 million in 2021/22 as part of a programme totalling £550 million over the next five years. As well as increasing the number of homes benefitting from energy efficiency improvements, we also propose more flexibility in how ABS funding can be used, both to facilitate local authorities to carry out work in mixed tenure areas and to support installation of more energy efficiency measures and low carbon heating systems.

Combined Energy and Heat Fund for self-funding owners and private landlords

One of the biggest challenges Scotland faces is meeting EPC band C in owner occupied and private rented homes by 2030. If homeowners and private landlords are to be encouraged to invest in energy efficiency and low carbon heat, the Scottish Government needs to send a clear signal about future standards so that greater private investment will be leveraged in. Key to this is appropriate support and incentives. We therefore propose expanding support for self-funding homeowners and private landlords through a £60 million combined energy and heat fund in 2021/22 which will offer an expanded programme of grants, loans, equity release and incentives. This will provide a total investment package of £330 million over five years.

Comprehensive advice and support service

As a result of the expansion of energy efficiency programmes and increased self-funded activity, there will be a continued and growing need for impartial advice. The current Home Energy Scotland advice service should be expanded to meet this growing demand, building on existing partnerships and local services. We propose that £22 million should be included in the 2021/22 budget to support this, as part of a package of at least £116 million over five years. This increased funding for comprehensive advice and support will be essential if we are to ensure every home gets the most appropriate and cost effective package of investment, and that no-one who is at risk of fuel poverty is disadvantaged as a result.

National Engagement Campaign

The ExHAS acknowledges that re-framing energy efficiency in terms of addressing climate change as well as improving home comfort and saving on fuel bills, will require preparing homeowners and private landlords for regulation that is on the way and to support compliance. We therefore propose £4.2 million will be invested over 5 years for a national engagement campaign. This will take time to plan and implement to maximise its impact, we therefore recommend £200,000 is invested in 2021/22 for development and piloting, rising to £1 million per year in each subsequent year of the programme.

Rural Homes Just Transition Package

To support the take up of energy efficiency measures and the early adoption of other technologies amongst homeowners, landlords and supply chains in rural and/or off-gas areas, we are proposing the creation of a Rural Homes Just Transition Package that will engage, provide support and offer advice to help address the particular needs and concerns in the transition to net zero in remote and rural areas. We propose that £1 million is included in the 2021/22 budget as part of a £5 million package over five years.

Support for heat networks

Recent heat policy developments are welcomed, however further support for heat networks is required. We have not included a funding estimate for heat networks as part of our budget proposals

as this investment spans both domestic and non-domestic buildings. However, they will play a significant part of the heat transition, and we support setting a heat network ambition of 2 TWh by 2025 and 10 TWh by 2030 and the necessary funding and capacity to achieve this.

A new programme of innovation as part of a green recovery

We are proposing a £7 million innovation package in 2021/22, as part of a £53 million five year programme, that will support new approaches to improving energy efficiency and reducing fuel poverty. This programme will deliver green jobs, develop expertise and build confidence amongst homeowners, landlords and supply chains.

Not for profit affordable energy companies

Research has highlighted examples of successful domestic and international community-based investments in commercial energy projects, which have had far-reaching and positive impacts on the communities they serve⁶. However, to be fully realised it is essential appropriate support, funding and advice is put in place. We propose therefore that the 2021/22 budget includes resources to support the development of local authority-led not for profit delivery vehicles which will install retrofit in mixed tenure areas and generate affordable energy for people at risk of fuel poverty. This will create and sustain local jobs across the length and breadth of Scotland and produce affordable power for those in or at risk of fuel poverty. This £1 million resource would be part of a £5 million programme over the next five years.

Zero carbon retrofit exemplar

Building on and expanding Scotland's existing programmes and approaches is essential to reducing emissions in the domestic sector, but we believe that it will not by itself be sufficient to deliver the scale and depth of change required. New approaches will also be essential. We recommend a large-scale zero carbon retrofit exemplar programme is funded that will demonstrate how zero carbon retrofit can be applied to a range of Scotland's property types and in different locations.

The ExHAS has previously highlighted notable approaches to delivering deep retrofit to existing properties, such as [EnerPHit](#), so that homes are taken close to net-zero carbon in one intervention. This will minimise costs and disruption to householders compared to doing multiple interventions. We are proposing that £3 million is invested in 2021/22 on piloting approaches to delivering deep retrofit. It is our expectation that more funding will be required in subsequent years as the approach is applied to more and different properties. This will give a total investment of £35 million over five years.

Hybrid heat pump demonstrator programme

If Scotland's climate change targets are to be achieved, the heat pump market will also need to grow considerably in the coming years. Following a recommendation from the UK CCC⁷, the ExHAS proposes a large-scale programme of hybrid heat pumps⁸ in on-gas properties that will deliver 500 installations. This will provide the sector with more practical experience of installing hybrid heat pumps. We propose £2 million is included in the 2021/22 budget to deliver this as part of a £10 million programme over the next five years.

⁶ <https://www.climateexchange.org.uk/research/projects/supporting-community-investment-in-commercial-energy-schemes/>

⁷ <https://www.theccc.org.uk/wp-content/uploads/2019/02/UK-housing-Fit-for-the-future-CCC-2019.pdf>

⁸ Hybrid heat pumps use a combination of renewable energy and fossil fuel to provide heat, allowing for near-term reduction in emissions while keeping options open regarding future use of the gas grid.

Digital Home Log-Book

The limitations of Home Reports and Energy Performance Certificates in terms of providing accurate and useable information on domestic energy performance are well known. The ExHAS believes that homeowners need to better understand their homes and how effective maintenance can improve energy efficiency and reduce emissions. We are proposing that £1 million is invested in 2021/22 as part of a three-year £3 million programme that will pilot new approaches – such as Building Renovation Passbooks and/or Digital Home Log-books – to help homeowners better understand and track the quality of their homes, including information on a private dwelling’s energy efficiency and levels of fuel consumption. We assume a 3-year pilot will be necessary to ensure a wide range of properties will be included and to see what action it prompts from property owners. Any decision on whether to roll-out more widely should be reserved until after the pilots report their findings.

5. Summary and conclusion

To support Scotland’s green recovery from COVID-19 and deliver a Just Transition to zero carbon from heat, the ExHAS believes that expenditure on energy efficiency and low carbon heating must increase in 2021/22 and across the lifetime of the next parliament. The case for investing in energy efficiency is strong and well recognised. The proposals set out in this briefing represent excellent value for money and will provide an immediate economic impact across the entire country.

Scotland’s supply chains have indicated they are able and willing to respond to the challenge, but they need certainty and commitment if they are to re-focus their businesses. The proposals include projects that are ‘shovel ready’ and use local labour and SMEs in every part of Scotland, potentially creating and sustaining between 16,000 and 17,000 cumulative jobs over the next 10 years. This is investment that will cut energy demand, help meet statutory targets and ensure no household is left behind in the transition to a zero-carbon economy.

The Existing Homes Alliance Scotland is a coalition of housing, environmental, fuel poverty and industry organisations who are working together to end fuel poverty and deliver the transformational change needed to address the climate emergency.

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