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An t-Ionad Fiosrachaidh

## **Social Justice and Social Security Committee**

**11<sup>th</sup> Meeting, 2021 (Session 6), Thursday,  
25 November**

### **Scrutiny of the draft Fuel Poverty Strategy**

#### **Introduction**

On Tuesday 9 November the Scottish Government laid a proposed Fuel Poverty Strategy before the Scottish Parliament. The Parliament has 40 days to consider this proposed strategy. The Committee agreed to hold a one-off evidence session to consider whether the proposed strategy would help to reduce fuel poverty in Scotland.

This paper will set out a summary of recent developments in the UK energy market, the policy background to the proposed strategy, and a summary of the key actions contained in the strategy.

The witnesses for today's evidence session are:

- Citizens Advice Scotland (CAS) provide free, confidential and independent advice through local bureaux and national services. CAS recently published a [briefing on fuel debt](#). CAS provided the Committee with a written submission setting out their response to the Scottish Government's strategy, which is summarised below.
- [THAW Orkney](#) are a charitable organisation established in December 2014 to help fuel poor households in Orkney. The charity provide support to households living in hard to heat homes, and coordinate with local and national organisations to maximise support.
- The [Existing Homes Alliance Scotland](#) (EHAS) are a coalition of housing, environmental, fuel poverty, consumer and industry organisations who focus on action to transform Scotland's existing homes. They state that over 80% of existing homes will still be in use by 2050, so improving existing stock is crucial if net-zero and fuel poverty targets are going to be met. EHAS recently commissioned [research into the Scottish Government's policies for the regulation of owner occupied housing](#).

- [Energy Action Scotland](#) (EAS) are a charity aiming to end fuel poverty across Scotland. The charity aim to raise the profile of the issue, highlight effective solutions and secure public and private investment in domestic energy efficiency initiatives. EAS have published recent policy statements on:
  - The [COVID-19 pandemic](#) and the extra energy costs faced by those quarantined or self-isolating.
  - [Fuel Poverty](#), which sets out the four drivers of fuel poverty (high energy costs, poor energy efficiency, low income and how energy is used in the home)
  - [Rural Fuel Poverty](#), which highlights the higher fuel costs, lack of access to mains gas grid, challenges around housing stock and the difficulty in securing investment to deliver energy efficiency measures.

## Theme 1: energy prices in 2021

During 2021, there has been a substantial increase in the wholesale price of gas which has had a significant impact on the UK energy sector. This increase in price has been caused by a number of factors – reduced capacity due to ongoing maintenance or lower returns from European fields, coupled with lower than normal wind speeds which has meant that gas has played a greater role than anticipated in electricity generation. 2021 has also seen a significant recovery of demand for gas as restrictions in response to the COVID-19 pandemic are lifted, and economic activity recovers. SPICe explored the [background to these price increases in a recent blog](#).

So far this year, 22 energy suppliers have gone out of business due to this significant increase in costs, as the Ofgem price cap prevents companies from passing on the full wholesale price increase to customers. This is a significant number – greater than the total number of failures in the UK energy market over the last three years. The price cap is set twice per year, and rose on 1 October. This impacts customers through three channels:

1. Those on prepayment metres will see an immediate increase in the price they pay. The prepayment price cap rose to £1,309
2. Those on variable or standard tariffs will also see an immediate increase in price. The price cap for those on these tariffs rose to £1,277.
3. Customers on fixed term deals will be protected from price increase, provided their energy firm is not one of those who have failed. If a customer's energy firm fails, [Ofgem guarantee that supply will be maintained](#) and arrange for another energy company to take on all customers – but this does not protect customers from a change in their tariff.

Ofgem will review the price cap in spring 2022, and [analysts expect a further and possibly significant increase](#) as conditions in the market remain stretched.

**The Committee may wish to explore the following themes:**

- How have the recent price increases in the energy market affected consumers in Scotland, and levels of fuel poverty?
- How has the COVID-19 pandemic impacted the experience of fuel poverty in Scotland?

## Theme 2: Fuel poverty in Scotland

In 2019 the Scottish Parliament passed the [Fuel Poverty \(Targets, Definition and Strategy\) \(Scotland\) Act](#) (the Act). The Act introduces three targets which must be met by 2040, with interim targets in 2030 and 2035. The 2040 targets must be met at national level and also at every local authority level, while the interim targets apply only at national level.

	2030	2035	2040
Percentage of households in fuel poverty	15%	10%	5%
Percentage of households in extreme fuel poverty	5%	3%	1%
Median fuel poverty gap, adjusted for inflation	£350	£300	£250

The 2019 Act introduces two definitions: fuel poor and extreme fuel poor. A household is considered fuel poor if:

- After housing costs are deducted, more than 10% of their net income is required to pay for reasonable fuel needs; and
- After deducting childcare costs and any benefits received for a disability or care need, their remaining income is insufficient to maintain an acceptable standard of living (which is defined as being at least 90% of the [UK Minimum Income Standard](#))

Extreme fuel poor households are households which meet the above definition of fuel poor, but 20% or more of their net income is required to pay for reasonable fuel needs. The Act requires Scottish Ministers to introduce a fuel poverty strategy which must be refreshed every five years (or Scottish Ministers must outline why they do not believe a refresh is required).

The [Scottish Government publish data](#) on the proportion of total households in Scotland which meet these definitions of fuel and extreme fuel poverty:

	2012	2013	2014	2015	2016	2017	2018	2019

Fuel poor	29.0%	31.7%	28.8%	27.7%	25.7%	23.7%	25.0%	24.6%
Extreme fuel poor	15.1%	16.0%	15.2%	13.0%	12.6%	11.9%	11.3%	12.4%

The 24.6 per cent figure for 2019 is a total of 613,000 households in Scotland.

On 29 October the Scottish Government announced a [£41 million Winter Support Fund](#), which is funded through the Barnett consequentials arising from the UK Government's [£500 million Household Support Fund](#). £10 million of this funding in Scotland is to help people who are struggling to pay fuel bills.

The House of Commons Library [published a briefing on fuel poverty in the UK](#) in July 2021, although as Scotland has adopted different definitions the headline rates are not directly comparable with England, Wales and Northern Ireland.

In July 2020 Citizens Advice Scotland commissioned Changeworks to research the extent to which the [Warm Home Discount \(WHD\) is effective in alleviating fuel poverty in Scotland](#). This research found that:

- An estimated 229,938 households in Scotland receive the WHD, which is 9.3% of Scottish households. Somewhere between 29% and 32% of households are eligible to receive the WHD, so less than one third of eligible households receive the rebate
- The majority of Scottish households in fuel poverty (around 25% of all households) do not receive the WHD.
- Median fuel bills will need to decrease, and median income levels will have to increase in order for the 2040 fuel poverty targets to be met.

The Scottish Government have established a [Fuel Poverty Advisory Panel](#) to forge partnerships between the public sector, private sector, government agencies and the third sector to understand the issues facing those who experience fuel poverty in Scotland, and to advise ministers on issues and potential policy changes. The panel publish quarterly minutes, although their work has been paused during the COVID-19 pandemic. A new panel were appointed in November 2021.

**The Committee may wish to explore the following themes:**

- **Since 2013, there has been a general reduction in levels of fuel poverty and extreme fuel poverty in Scotland. What have been the main drivers of this decline, and are certain groups or communities being left behind?**
- **Research has found that there is a relatively low uptake of the Warm Homes Discount in Scotland – what are the key reasons for this and how could this benefit be made more accessible to those experiencing fuel poverty?**

- What are the barriers that restrict take up of benefits or support to alleviate fuel poverty?
- CAS note in their submission to the Committee that whether or not a household receives the Warm Homes Discount has no material impact on rates of fuel poverty. Why is this benefit not effective at reducing the experience of fuel poverty?
- What are the most effective interventions to alleviate fuel poverty which should be rolled out across the country?
- What are the particular challenges in rural communities or other groups more likely to experience fuel poverty?

### Theme 3: The proposed fuel poverty strategy

The proposed strategy aims to address the four drivers of fuel poverty:

- Poor energy efficiency in the home
- Low household income
- High energy prices
- Inefficient use of energy in the home

While the strategy will try to deal with all four drivers, it has to operate in the context that aspects of the welfare system and the regulation of the energy market are reserved matters.

Key actions set out in proposed fuel poverty strategy

<b>Approach</b>	
<b>Research</b>	
New Action	Work with the Scottish Fuel Poverty Advisory Panel to carry out further lived experience research
<b>Poor energy efficiency</b>	
Actions	<p>Invest in Warmer Homes Scotland and Area Based Schemes to achieve a level of energy efficiency equivalent to EPC C by 2030 and EPC B by 2040.</p> <p>Deliver an increasing number of 'whole house' retrofits to fuel poor households.</p> <p>Better identify potential projects and increase take up by fuel poor households for our ABS projects.</p>

	<p>Continue to provide funded support for households through Warmer Homes Scotland, its successors scheme, and Area Based Schemes.</p> <p>Heat in Buildings Programme to support those in fuel poverty within appropriate schemes as a key priority.</p>
New actions	<p>In 2022 undertake research with members of the Gypsy Traveller community to understand how to better meet their needs through ABS and Warmer Homes Scotland.</p> <p>Replacement scheme for Warmer Homes Scotland (WHS) to provide support for fuel poor households who face the greatest health risk from a cold home.</p> <p>Continue assistance with enabling measures such as loft clearances, asbestos removal, fuel storage tanks and removal of failed cavity wall insulation.</p> <p>Update eligibility for ABS and WHS (and its replacement) to align with the updated definitions of fuel poverty.</p> <p>Explore the development of a fuel poverty assessment tool.</p> <p>Learn from the Gypsy Traveller Accommodation Fund and ABS special projects to improve energy efficiency of gypsy traveller accommodation.</p> <p>Continue to monitor whether investments lead to improvements in households ability to maintain an adequate indoor temperature.</p> <p>Share learnings from Social Housing Net Zero projects which successfully reduce energy bills.</p>
<b>Regulations and Standards</b>	
Actions	<p>Work with Historic Environment Scotland to consider specific provisions or exemptions which may be needed to ensure the decarbonisation of their heat supply and reduced demand for heating.</p> <p>Consult on a regulatory approach for mixed-tenure buildings which will introduce a requirement to reach EPC C rating equivalence for energy efficiency, and where cost effective install a zero-emissions heating supply.</p> <p>Introduce regulations requiring private rented sector properties to meet a minimum standard equivalent to EPC C, where technically feasible and cost-effective, by 2028.</p> <p>Regulate for all buildings across all tenures to achieve a good level of energy efficiency by 2033 and use zero emissions heating (and cooling) by 2045, where within competence.</p>

	<p>Reform the existing EPC assessment process so that it includes three indicators so that it is compatible with fuel poverty and climate change targets.</p> <p>Introduce a new tenure-neutral housing standard which will ensure that homes both new and existing achieve the same levels of minimum energy standards.</p>
New Actions	<p>Work with social housing stakeholders to respond to the Zero Emissions Social Housing Taskforce report and recommendations in bringing forward the review of EESSH2 as quickly as possible.</p> <p>Introduce new energy standards for new homes in 2021 and 2024.</p>
<b>Strategic approach</b>	
Actions	<p>Work with local authorities to introduce LHEES for all local authority areas by 2023.</p> <p>Urge the UK Government to review the levy for the Energy Company Obligation and the Warm Homes Discount with a view to combining these into a single Scottish Fuel Poverty Scheme.</p>
<b>High Household Energy Prices</b>	
Actions	<p>Urge the UK Government to rebalance the environmental and social obligation components of energy bills to reduce the unit difference in the price of gas and electricity.</p>
New Actions	<p>Publish research into the impacts of rebalances levies alongside the Heat in Buildings strategy.</p>
<b>Tariffs</b>	
Actions	<p>Press for the equalisation of tariffs between customers on prepayment meters and direct debits.</p>
New Actions	<p>Work with Consumer Scotland to consider how their future workplan can track the impact of decarbonisation on Scottish households.</p> <p>Ensure lived experience research with Gypsy Traveller includes an examination of energy prices on local authority sites.</p> <p>Work with BEIS, Ofgem, Smart Energy UK and the wider energy market to ensure Scottish consumers have access to smart metres, particularly those at highest risk of fuel poverty.</p>
<b>Secondary technologies</b>	

New actions	<p>Monitor the effectiveness of new technologies through demonstrator projects.</p> <p>Use current research to understand the cost effectiveness of thermal, electrical storage and rooftop solar PV to influence support available through WHS and ABS.</p>
<b>Low household income</b>	
Actions	Share the learning of the Financial Inclusion Universal Pathway Quality Improvement Collaborative to strengthen partnership working between income maximisation services and health settings
New actions	Explore how data sharing could enhance HES support to provide fuel poor households with a benefits check
<b>Financial Support</b>	
Actions	<p>Urge UK Government to reconsider its decision to cut Universal Credit by £20 per week.</p> <p>Deliver replacement benefit for Winter Fuel Payment on a like for like basis.</p> <p>Replace Cold Weather Payment (CWP) with a new annual payment of £50 for all low income households who are currently eligible for the CWP.</p> <p>Double the value of the Scottish Child Payment to £80 during this parliament.</p>
New actions	Explore how a minimum income guarantee could reduce fuel poverty levels.
<b>Reducing household cost</b>	
Actions	<p>Expand free school meals provisions in primary and special schools and deliver alternatives for eligible children in holiday periods.</p> <p>Deliver at least 110,000 energy efficient, affordable homes by 2032, at least 70% of which will be in the social rented sector, and at least 10% in remote, rural and island communities.</p> <p>Produce a Rented Sector Strategy through Housing Bill this parliamentary term.</p>
New actions	<p>Provide free bus travel to all under 21s.</p> <p>Continue to mitigate the bedroom tax until such times where it can be abolished.</p>
<b>Increasing income from employment</b>	



Actions	Roll out a Fair Work First approach across the public sector which will help ensure households have an adequate levels of income.  Encourage more employers in Scotland to pay the real Living Wage.  Encourage more employers in Scotland to achieve Living Hours Accreditation.
<b>Lived experience</b>	
Actions	Consult with people with lived experience of fuel poverty when making any new regulations under the Fuel Poverty Act.
<b>Social security</b>	
New actions	Develop effective referral routes between HES and Social Security Scotland and share best practice to ensure fuel poor households are getting full access to the support which they may be entitled to.
<b>Reporting</b>	
New actions	Work with the Scottish Fuel Poverty Advisory Panel and other partners to develop a reporting format to set out progress towards targets every three years.
<b>Review</b>	
New actions	Keep this strategy under review, first formal review taking place no later than 2026
<b>Outcomes framework</b>	
New actions	Work with key partners including COSLA and the Scottish Fuel Poverty Advisory Panel to develop an outcomes framework in 2022
<b>Research</b>	
New actions	Work with the Fuel Poverty Advisory Panel to carry out further research on the fuel needs of those with protected characteristics.

The strategy notes that some actions can both deliver the aims of the Just Transition and reducing fuel poverty, but there is also some tension and low carbon technologies can be more expensive to maintain and run.

The target that all homes in Scotland should achieve equivalent of EPC C by 2033 has an estimated cost of £3 billion, however this requires the continued use of fossil fuel burning heating systems. Using zero emissions systems would double cost to £6bn. Further target of getting fuel poor homes to EPC B standard by 2040 comes with an estimated cost of £4bn or £5bn depending on fuel used as above.

**The Committee may wish to explore the following themes:**

- Does the proposed fuel poverty strategy set a course to meeting the 2030, 2035 and 2040 targets in relation to fuel poverty?
- Is the proposed strategy enough of a response to the COVID-19 pandemic and the effect of the recent price increases in the retail energy market?
- Is there a tension between achieving a reduction in fuel poverty and achieving other policy objectives, such as the transition to net zero?
- How will the Fuel Poverty strategy support the groups most likely to experience fuel poverty, whether they are groups with certain characteristics like care experienced, or regions of Scotland where rates of fuel poverty are higher?

## Theme 4: Stakeholder's view on the strategy

**CAS** note that consumers currently face a perfect storm in terms of the cost of living; high inflation partly driven by the significant increase in energy costs, the removal of the £20 Universal Credit uplift, and the end of the furlough scheme. CAS have already seen an increase in demand for energy debt advice, up 53% since February 2020. A CAS survey from May 2021, before the recent increase in energy bills, found that 400,000 people in Scotland had missed at least one energy payment in the last 12 months. On the strategy, CAS note that:

- The Scottish Government does not outline how it will ensure that effective support continues to be provided while longer term interventions are implemented.
- CAS strongly supports the development of Local Heat and Energy Efficiency Strategies, which should deliver a locally led and tailored approach to fuel poverty.
- There is little in the strategy setting out how the Scottish Government will ensure that the statutory targets will be met in each local authority.
- The strategy does not outline a role for community energy generation and local energy markets in reducing the cost of energy.
- CAS raise concerns about the future of the Warm Homes Discount, which from 2022/23 will be delivered on a different basis in England which is not possible to replicate in Scotland

**Inclusion Scotland** suggest that additional financial support with heating bills could be provided to households containing disabled parents or children in. This could be done through extending entitlement to the Winter Heating Payment to adults in receipt of the enhanced daily living component of Adult Disability Payment and to disabled children in receipt of middle rate care.

At the time that social security powers were first devolved to Scotland (2016/17) there was talk in the “Future of Social Security in Scotland” of potentially bulk buying energy to reduce the heating and clothes washing costs of disabled people. Since then, nothing has been heard of this proposal. The Scottish Government should re-examine the energy bulk buying proposal and other initiatives designed to reduce disabled people’s living costs (for example suitable continence pads being supplied freely in the same way as sanitary products) should be re-examined).

**Tighean Innse Gall (TIG)** states that the Scottish Government should accept that local provision of advice services leads to an uptake of wider strategic support, through increased referrals to HES / WHS / Area based schemes. Similarly local provision of advice services sharing of information about Social Security Scotland payments benefits the government agency but people more. The third sector provides high quality, impactful energy advice and ensures significant referrals to HES and WHS. The Scottish Government should accept this and fund the sector directly, rather than have a strategy which relies on securing charitable funding.

**THAW** suggest that to allow Third Sector organisations to play a key partnership role in ensuring this strategy and its actions do effectively address poverty in Scotland, longer term funding periods are crucial. THAW Orkney has funding to the end of this financial year, probably in common with many other similar organisations. Funding of such organisations for at least 3-5 years would allow for planning ahead for the kind of intensive work required at a local level in communities throughout Scotland. THAW also raise a concern about requiring all housing stock to meet heightened standards, which will entail a disproportionate cost in certain communities like Orkney.

**Energy Action Scotland (EAS)** welcome the strategy, but as with CAS note that the strategy does not set out whether the actions will be enough to deliver on the 2040 targets to reduce fuel poverty in Scotland. EAS also note that the current crisis is likely to increase levels of fuel poverty in Scotland in the short term, and that the COVID-19 pandemic will cause the number of households in fuel poverty in Scotland to increase by around 100,000 so there will be a need to accelerate actions to alleviate this over the next few years. EAS also note that prepayment and rural customers face higher costs than other groups, and that action must be taken to reduce this gap. The £33bn projected cost to meet the targets outlined in the Scottish Government’s Heat in Buildings Strategy is described as ‘staggering’, and EAS raise concerns that homeowners in rural Scotland will face disproportionate costs in meeting new standards.

The **Existing Homes Alliance (EHA)** also welcome the strategy, but suggest that more attention should be given to the urgent actions necessary to meet the interim targets. EHA note that Warmer Homes Scotland and Area-Based Schemes reach somewhere between 18,000 and 20,000 homes per year, compared to the 2019 total of 600,000 homes in Scotland experiencing fuel poverty, and point out that the strategy does not set out how this step change will be achieved. EHA also call for a set approach to achieve the targets in each local authority area, and for a ‘targeted rural heat transition package’ of advice and support.

**The Committee may wish to explore the following themes:**

- Does CAS have examples of community energy generation and the impact this can have on local fuel prices?
- How widespread are issues around premature technology being installed in a bid to lower carbon emissions, and how significant are the increased costs that consumers can face?
- What are the key constraints third sector organisations face in delivering support to people with experience of fuel poverty?
- What measures could the Scottish Government take to reduce incentives for communities to invest in fossil fuel-based generation, and thereby reducing the risk of assets stranding?
- How can the Warm Home Discount scheme be continued in Scotland from 2022/23 that will not result in disruption for recipients?
- How can the Scottish Government ensure that its replacement for the Cold Weather Payments do not disadvantage consumers in rural locations, particularly without access to mains gas?

## Theme 5: Scottish and UK Government policies

<a href="#">Winter Support Fund</a>	£41 million fund to support low income households, of which £10 million to help people who are struggling to pay fuel bills.
<a href="#">Winter Plan for Social Protection</a>	£100 million package announced in November 2020, of which £7 million was earmarked to help people who were struggling to pay fuel bills
<a href="#">Warmer Homes Scotland</a>	Offers funding and support to households who struggle to stay warm and on top of energy bills, delivered through Home Energy Scotland and Warmworks.  Contract expiring in September 2022, proposal is to replace this with a 'new and enhanced' 7 years scheme
<a href="#">Area Based Schemes</a>	Part of the Scottish Government's Home Energy Efficiency Programmes for Scotland. This awards funding to local authorities to deliver energy efficiency improvements in areas with high levels of fuel poverty. In total, <a href="#">£42.6 million was spent in 2019/20</a> through the scheme, £55 million allocated during 2020/21 and £64 million in 2021/22. The link above provides a breakdown by local authority.

<a href="#">Child Winter Heating Assistance</a>	This benefit is paid once per year to help disabled children and young people with their families cope with increased heating costs over winter. The payment for winter 2021-22 is £202.
<a href="#">Scottish Child Payment</a>	A weekly payment of £10 for every child under the age of six you look after. SPICe produced a blog looking at the <a href="#">modelled changes in poverty the payment could make</a> .
<a href="#">Warm Homes Discount</a>	A UK Government benefit which can reduce energy bills by £140 for winter 2021/22. The money is not paid to recipients, but reduces energy bills directly.
<a href="#">Cold Weather Payment</a>	This UK Government payment is made to the recipients of certain benefits if the temperature in their area is recorded at or forecast to be zero degrees celsius or below over seven consecutive days
<a href="#">Winter Fuel Payment</a>	A UK Government benefit for those born before 26 September 1955. Qualifying recipients get between £100 and £300 to help towards paying heating bills.

The Committee may wish to explore the following themes:

- How far can devolved policy measures address fuel poverty in Scotland – how important is reform in the UK’s energy market?
- The statutory targets for 2040 apply at national level and also in every local authority, but the interim 2030 and 2035 targets only apply at the national level. Do the witnesses expect that there are local authorities who will face a more difficult challenge in meeting these targets, and do they have views on sensible interim targets?

**Andrew Feeney-Seale, Senior Researcher, SPICe Research**

18 November 2021

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