

## WRITTEN SUBMISISON FROM WWF SCOTLAND

7th January 2016

### KEY POINTS

- We can find no evidence in the Draft Budget 2016-17 that the Scottish Government have fulfilled their repeated prior commitment to “embed climate change in this autumn’s budget process”.
- Public sector investment in the improved energy efficiency of Scotland’s housing stock is hugely important to tackling fuel poverty and achieving Scotland’s climate change targets. It is therefore very concerning that the Draft Budget 2016-17 cuts investment in domestic energy efficiency/fuel poverty by 13%, particularly when this follows a new commitment from the Scottish Government to make energy efficiency a National Infrastructure Project.
- Whilst it is welcome that the District Heating Loan Fund is continued in the Draft Budget, there needs to be a greater diversity of financial and regulatory mechanisms to support the deployment of renewable and district heat in Scotland.

### 1. Climate Change

The transition to a low carbon economy is an investment that is not only necessary to tackle climate change but is essential if we want to build a fairer society. This position was reinforced by the First Minister who recently said:

*“We know that moving to a low carbon future isn’t simply a moral imperative, it is also a massive economic opportunity.”* Nicola Sturgeon MSP, 22nd September 2015<sup>1</sup>

In the run up to the Paris Climate Change Conference there were repeated commitments from Scottish Government Ministers that climate change would be ‘embedded’ in the budget process<sup>2</sup>. Whilst the Draft Budget restates that ‘We have embedded Climate Change within the development of the Draft Budget’ (page 100), we do not yet see any new investment decisions or published documents that reflect this new commitment. The Draft Budget does not set out new policies or increased funding to deliver the Report on Policies & Proposals (RPP – Scottish Government’s ‘climate action plan’) and fails to give confidence that future annual climate change targets will be achieved.

The need for greater policy effort in order to hit future targets has been recognised by the Scottish Government’s independent climate change advisors, the UK Committee on Climate Change, who said in the conclusion of their most recent Scotland progress report, *“More action is needed to meet future targets. We recommend that the Scottish Government strengthens policies for low-carbon heat, energy efficiency, the public sector, transport and*

---

<sup>1</sup> Video for the Climate Group, <http://bit.ly/1ZXJgby> (1min59)

<sup>2</sup> E.g. “We will ensure that climate change is a top priority through a Cabinet agreement to embed it in the autumn budget process.”, Minister for Environment, Climate Change & Land Reform, 27<sup>th</sup> October 2015, <http://bit.ly/1On8gNT>.  
E.g. “the Cabinet has agreed to embed climate change in this autumn’s budget process.” Minister for Environment, Climate Change & Land Reform, 9<sup>th</sup> June 2015, <http://bit.ly/1mzNLKj>

agriculture and land use.”<sup>3</sup>. And most importantly it has been recognised by the Scottish Government itself,

*“Where policies and proposals are not being delivered, we will seek to bring forward new policies to achieve the same, if not a greater, level of emissions abatement.”*

*Aileen McLeod MSP, Minister for Environment, Climate Change and Land Reform, 7th January 2015<sup>4</sup>*

The Scottish Government should take steps during the budget process to ensure that the final Budget 2016/17 reflects the need for greater policy effort, so that future climate change targets are hit.

The Scottish Government’s claim to have embedded climate change in the creation of this Draft Budget is also significantly undermined by the failure of the Scottish Government to offer read-across between the RPP and the Draft Budget and the fact that the document published in past years ‘details of funding for climate change mitigation’<sup>5</sup> was not published alongside level 4 figures by the Scottish Government<sup>6</sup>.

## 2. Energy Efficiency/Fuel Poverty investment

WWF Scotland and the Existing Homes Alliance suggested<sup>7</sup> that the Budget 2016-17 should be sufficient to allow current programmes to continue, to pilot new programmes and to compensate for cuts at UK level to the Energy Company Obligation (ECO); and that it should be a transitional budget, initially reflecting the Scottish Government’s June 2015 commitment<sup>8</sup> to make energy efficiency a National Infrastructure Priority.

However, the Draft Budget 2016/17 sets out a 13.2% cut in fuel poverty/energy efficiency expenditure, in comparison to what the Scottish Government expects to spend during the current financial year.

Fuel Poverty/Energy Efficiency Draft Budget for 2015-16	Fuel Poverty/Energy Efficiency Final Budget for 2015-16	Fuel Poverty/Energy Efficiency Draft Budget for 2016-17
£89m	£119m	£103.3m

WWF Scotland is of the view that the homes and communities sector is not on target to reach the 37% reduction in emissions envisioned in the RPP, and there is no clear plan on

<sup>3</sup> Committee on Climate Change, (March 2015) *Reducing emissions in Scotland – 2015 progress report*.  
<https://www.theccc.org.uk/publication/reducing-emissions-in-scotland-2015-progress-report/>

<sup>4</sup> During portfolio questions, 7<sup>th</sup> January 2015,

<http://www.scottish.parliament.uk/parliamentarybusiness/report.aspx?r=9709>

<sup>5</sup> See example for previous year here - <http://www.gov.scot/Resource/0046/00463182.pdf>

<sup>6</sup> Despite a truncated budget period imposed by the UK Government’s late Spending Review, level 4 figures were still available from SPICE from at least Monday the 21<sup>st</sup> December, three working days after the Draft Budget was published. At the time of writing (7<sup>th</sup> January) climate change funding figures had not yet been made available.

<sup>7</sup> See Existing Homes Alliance evidence to ICI Committee, <http://bit.ly/1NC5VUI>

<sup>8</sup> Scottish Government press release, ‘Climate change action heats up’, <http://bit.ly/1HmSAh9>

how the 51% reduction by 2027 will be met. The latest 2013 greenhouse gas emissions inventory shows that the residential sector has reduced emissions by only 12.4% since 1990.

This lack of financial commitment also follows updated fuel poverty statistics for 2014 that showed no improvement in levels of fuel poverty in Scotland, with 35% of Scottish households continuing to live in fuel poverty with less than a year until Scotland is due to meet its statutory target of eradicating fuel poverty<sup>9</sup>. The statistics also show that Scotland's fuel poor continue to disproportionately live in cold, leaky homes; 73% of households with the worst performing Energy Performance Certificate (EPC) ratings of F and G are fuel poor. Positively, trends suggest that improvements in home energy efficiency have helped to offset increasing fuel costs over the past few years, stopping the fuel poverty rate from having risen even higher.

### 3. Energy Efficiency as a National Infrastructure Priority

Last year in its report on the Draft Budget the Committee welcomed the Cabinet Secretary's support for the retrofitting of energy efficiency to become a National Infrastructure Priority (paragraph 102<sup>10</sup>). This new commitment from the Scottish Government was confirmed in June, in response to the most recent missed Climate Change target, by the Minister for Environment, Climate Change & Land Reform<sup>11</sup>.

In its report on the Draft Budget last year the Committee also recommended that the refreshed Infrastructure Investment Plan (IIP – published alongside the Draft Budget) be used to 'define this priority'. The refreshed IIP "confirms energy efficiency as a national infrastructure priority"<sup>12</sup>. However, the document does not offer significant additional insight into what difference this new designation will make or what it will mean in practice. It describes the development of a new long-term approach, and identifies the benefits that this will bring to industry and consumers. However, there is not yet any identification of a long-term ambition, such as the goal that WWF Scotland and more than 50 other civic and business organisations would like to see adopted for the domestic sector of 'supporting all home to reach at least a 'C' EPC standard by 2025'<sup>13</sup>. WWF Scotland believes that this is the minimum level of ambition required to allow our climate change targets to be met.

In fact the few details offered by the Infrastructure Investment Plan (IIP) are concerning:

- The 'projected pipeline' suggests a 15-20 year programme running into the mid-2030s. However, it is not clear what the outcome (e.g. expressed in terms of EPC standards or otherwise) to be achieved over this timescale will be.
- We are also concerned that this timescale may be too slow. For the domestic sector we have suggested that all homes need to reach a 'C' EPC standard by 2025, for climate change targets to be met and fuel poverty to be adequately addressed. Whilst

---

<sup>9</sup> Scottish House Condition Survey 2014, <http://www.gov.scot/Publications/2015/12/8460>. Also see ExHA press release: <http://bit.ly/1RIYDrA>

<sup>10</sup> EET Committee report on Draft Budget 2015-16

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/85391.aspx>

<sup>11</sup> Scottish Government press release, 'Climate change action heats up', <http://bit.ly/1HmSAh9>

<sup>12</sup> Infrastructure Investment Plan, available from Scottish Government website here: <http://bit.ly/1QWU0CQ>, see page 2

<sup>13</sup> See joint statement of more than 50 organisations, 'No one in Scotland living in a hard-to-heat, draughty home by 2025', <http://bit.ly/1Ms1AE9>

progress has been made in previous years, 59% of homes are still not yet at a 'C' EPC standard<sup>14</sup>.

- A total capital investment figure is also identified of, "Potentially over £6bn over life of programme through a mix of public and private investment"<sup>15</sup>, although the significance or source of this figure is not clear from the document. However, initial analysis suggests that it will be insufficient to meet the scale of fuel poverty and climate change challenge that exists. The Existing Homes Alliance has suggested a total figure in the region of £10bn over 10 years is required just for the domestic sector, as a minimum to achieve climate change targets and tackle fuel poverty. Also, if the Existing Homes Alliance public:private investment ratio is assumed (1:2), then the 'potentially over' £2bn over 15-20 years indicated in the IIP may not reflect any increase at all from current levels of public investment in fuel poverty/energy efficiency measures. We would reiterate the recommendation made by the Economy, Energy & Tourism Committee in their scrutiny of the 2015-16 Draft Budget, "[The Committee] recommends that the Scottish Government undertake a full cost analysis of what it will take to achieve that aim [of eradicating fuel poverty]"<sup>16</sup>.

In the short-term, the Infrastructure Investment Plan suggests a first phase for the National Infrastructure Priority on energy efficiency of, "delivering existing programmes more effectively, developing new pilot schemes and preparing for the effective implementation of the powers that are set to be devolved through the Scotland Act."<sup>17</sup> We would question the ability of the Scottish Government to achieve these objectives in the context of a draft fuel poverty/energy efficiency budget that plans to reduce investment for 2016-17 by 13%.

We restate our recommendation that the final 2016/17 Fuel Poverty/Energy Efficiency budget should reflect the National Infrastructure Priority commitment, at least in a transitional manner, and that the Scottish Government takes the opportunity to set an objective for the National Infrastructure Priority of supporting all homes to reach at least an EPC 'C' standard or higher by 2025.

#### 4. Investment in renewable heat

Space and water heating accounts for approximately 50% of Scotland's emissions<sup>18</sup>. However, just 4% of our current heating needs are met by renewables<sup>19</sup> and the most recent report from the UK CCC concluded that the current pipeline of projects "is insufficient to meet the renewable energy target"<sup>20</sup>. The case for increased support is strengthened in the consultation analysis of the Scottish Government's draft Heat Generation Policy Statement (HGPS) which states that more than 50% of respondents thought that existing financial support mechanisms were insufficient to support delivery of district heating systems<sup>21</sup>.

<sup>14</sup> Scottish House Condition Survey 2014, <http://www.gov.scot/Resource/0049/00490947.pdf>

<sup>15</sup> Infrastructure Investment Plan, page 123

<sup>16</sup> EET Committee report on Draft Budget 2015-16, <http://bit.ly/1YwVA4i>, paragraph 100, page 20.

<sup>17</sup> Infrastructure Investment Plan, page 84

<sup>18</sup> See Department for Energy and Climate Change (DECC) (2010) Renewable Heat Incentive Consultation- [www.decc.gov.uk/en/content/cms/consultations/rhi/rhi.aspx](http://www.decc.gov.uk/en/content/cms/consultations/rhi/rhi.aspx)

<sup>19</sup> See <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/Heat/RHUpdate2014>

<sup>20</sup> See [http://www.theccc.org.uk/wp-content/uploads/2014/03/1871\\_CCC\\_Scots\\_Report\\_bookmarked.pdf](http://www.theccc.org.uk/wp-content/uploads/2014/03/1871_CCC_Scots_Report_bookmarked.pdf)

<sup>21</sup> See <http://www.scotland.gov.uk/Resource/0046/00460648.pdf> (only 5% thought current support was sufficient).

The Draft Budget 2016/17 Level 4 figures make it clear that the District Heating Loan Fund will continue<sup>22</sup>, but it is not clear at what level. We would welcome clarification from the Scottish Government that it will continue at least at the present level. There is also a welcome increase to the “Renewable & Community Energy” level 4 budget line, reflecting in the Scottish Government’s own words the “on-going commitment to the marine sector through funding for Wave Energy Scotland”<sup>23</sup>.

In our evidence to the EET Committee last year<sup>24</sup>, we called for additional types of funding to be created to achieve the greater delivery of district heating schemes. Specifically we suggested the establishment of a Development Fund for District Heating and Combined Heat and Power projects and the creation of a Loan Guarantee Fund to cover the early phase financing of district heating projects. It is disappointing that these suggestions haven’t been taken forward in the Draft Budget, and we’d encourage that they are considered for the Scottish Government’s final budget for 2016/17.

Additional funding needs to be complemented by the introduction of regulation designed to increase investment in district heating and protect consumers. This would have the potential to leverage in very significant amounts of additional private investment. Regulation is critical to creating a market for infrastructure development and the reduction of financing costs. WWF Scotland is calling on all political parties to adopt the idea of a Warm Homes Act, to support the growth of district heating and renewable heat in Scotland.

The UK Government’s Comprehensive Spending Review announced the welcome continuation of the Renewable Heat Incentive – currently the only form of financial support at the UK level for the deployment of renewable heat. However, disappointingly, a 40% cut in the RHI budget was also announced. This will make it almost certainly impossible for the UK Government to meet its target of 12% renewable heat by 2020, that was part of the UK Government’s plan for achieving its EU renewable energy target. It also means that the Scottish Government will have to work hard and adopt new strategies if it is to achieve its stated 2020 renewable heat ambition of having “at least 100,000 homes that have adopted some form of individual or community renewable heat technology for space and/or water heating”.

## 5. Investment in reducing electricity demand

The Committee recommended in its recent security of supply inquiry report that the Scottish Government “produces as a priority a demand reduction strategy, either as part of a wider and revised document (the Electricity Generation Policy Statement for example) or a strategy in its own right”<sup>25</sup>. Building on that recommendation, WWF Scotland proposes the creation of a ‘Negawatt Competition’ to support the development of a demand reduction strategy. Such a competition could be funded with a ‘challenge fund’ for innovative,

---

<sup>22</sup> See SPICE spreadsheet <http://bit.ly/1SCtmAz>, Finance, Constitution & Economy tab, ‘Financial Transactions’ line, line 58.

<sup>23</sup> See SPICE spreadsheet <http://bit.ly/1SCtmAz>, Finance, Constitution & Economy tab, line 52.

<sup>24</sup> Available for download here <http://bit.ly/17kZfdh>, see page 2.

<sup>25</sup> See <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/93376.aspx#a24> paragraph 143.

integrated projects that reduce demand on a local or community scale, or on a commercial or industrial scale. We recommend that this fund should initially be set at £20m/annum – on a par with the Local Energy Challenge Fund. This will help to raise the profile of demand reduction and pilot new approaches that can be rolled out at scale. Challenge funds can help the private sector to test innovative new models and technologies that could otherwise be dismissed as too risky.

Robin Parker, Public Affairs Manager

WWF works in over a hundred countries to safeguard the natural world so that people and nature thrive.

Download WWF Scotland Briefings at: [wwfscotland.org.uk/holyrood](http://wwfscotland.org.uk/holyrood)