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PARLIAMENTARY EVIDENCE

Draft Budget 2015-16 - Energy, Economy and Tourism Committee

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WWF Scotland welcomes the opportunity to submit evidence to the Economy, Energy and Tourism Committee on the Draft Scottish Budget 2015-16. The Scottish Government's Budget is an important lever in securing the benefits of a low carbon future and must be aligned with the Report on Proposals and Policies (RPP) if it is to support the transition required by the Climate Change Act.

The recent publication of Better Growth, Better Climate: The New Climate Economy Report¹ highlighted that the transition to a low carbon economy is a global endeavour, in which approximately US \$90 trillion will be invested in infrastructure in the world's cities, agriculture and energy systems over the next 15 years. As Nicholas Stern says,

*"The decisions we make now will determine the future of our economy and our climate. **If we choose low-carbon investment we can generate strong, high-quality growth** – not just in the future, but now. But if we continue down the high-carbon route, climate change will bring severe risks to long-term prosperity."*
Nicholas Stern, Co-Chair of the Global Commission on the Economy and Climate²

A recent report by Cambridge Econometrics for WWF-UK also made a strong economic case for low carbon investment at a UK level.³ It found that hitting future climate targets would lead to higher household income and spending, GDP growth, job creation and improved energy security versus the higher carbon alternative. However, even with its reference to the low carbon economy, and the pressing requirements of the Climate Change Act, **the 2015/16 Budget does not represent a clear decision to choose the low carbon investment path.**

Earlier this year the Minister for Environment and Climate Change stated that, *"we recognise that keeping up progress on tackling climate change will require new commitments and policies to be brought to bear year on year."*⁴

Despite this, and the three climate change targets that Scotland has missed since the establishment of the Climate Change (Scotland) Act 2009, there appears to be little in this budget that is new.



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Summary

In summary our key points are:

1. The Scottish Government's energy efficiency funding of £79m for 2015-16 is inadequate to sufficiently cut emissions from our housing stock and tackle fuel poverty. WWF Scotland recommends that **improving the energy efficiency of our housing stock should become a national infrastructure priority and be included in the Scottish Government's Infrastructure Investment Plan**. More immediately, the Budget for 2015/16 should significantly increase Scottish Government funding for fuel poverty and home energy efficiency programmes – sufficient to compensate for Energy Company Obligation (ECO) losses and to meet its statutory targets on fuel poverty and climate change. The Existing Homes Alliance Scotland (of which WWF Scotland is a member) has in previous years called for the energy efficiency budget to be increased to at least £125m. Given previous under-funding, we now think substantially more will be needed.
2. We welcome budget support for **renewables and the introduction of the Local Energy Innovation Challenge Fund**. However, despite the UK Committee on Climate Change raising concerns regarding the amount of **renewable heat** generation in Scotland and the lack of projects in the pipeline, the draft Budget fails to offer any clear signal of additional commitment in this area. We recommend that the Scottish Government **establishes a Development Fund for District Heating and Combined Heat and Power projects, expands the District Heating Loan Fund in order to raise the cap on the value of a loan from the existing £400,000 level, and instigates a Loan Guarantee Fund to cover the early phase financing of district heating projects**.
3. **It continues to be challenging to read between the RPP and the draft Budget, and to establish the extent to which the two are aligned**. WWF Scotland welcomed the question posed by the EET Committee following its scrutiny of the 2014/15 budget asking "*will the SG provide such [climate change funding] figures alongside the draft budget document?*"⁵ It is disappointing that despite the commitment that the Scottish Government would provide figures on climate change funding as early as possible in this year's budget process, no figures had been provided by the deadline for submissions to the EET Committee.

Energy efficiency and climate change: the case for increased funding

Firstly, tackling the energy efficiency⁶ of our housing stock is not just a vital climate change mitigation measure but also an important economic opportunity. A report for Consumer Focus Scotland⁷ showed that the macroeconomic effects of tackling fuel poverty through energy efficiency are overwhelmingly positive, leading to:

- a reduction in Scotland's gas imports (cumulative £1.1bn to 2027),
- a jobs boost to the construction industry (3,500 jobs in the short-term),
- almost 9,000 jobs created by 2027
- and an average reduction in fuel bills of £505, in treated households.

When this opportunity is contrasted with the pressing need to address the approx. 30% of homes in fuel poverty and the emissions from our housing stock **there is a clear case to establish retrofitting our housing stock as an infrastructure project in the Scottish Government's Infrastructure Investment Plan**. Inclusion in the plan would put this pressing priority on a par with other nationally important infrastructure projects, and afford it the long-term certainty that the current approach denies.

In the absence of a national retrofit programme being in the Infrastructure Investment Plan, there are compelling reasons to increase the level of funding in the Budget. Firstly, in 2009/10 emissions from the

residential sector rose by 15%, the following year they fell by 21% and then for 2011/12 they rose again by 11%. It is apparent that our homes remain at the mercy of cold snaps and, as a result, household money is wasted burning fossil fuels that heat the air outside our homes.

Secondly, against this backdrop of uncontrolled emissions, we have seen how the shift to the Green Deal and ECO has meant that the instillation of energy efficiency measures is now much lower than it was in 2011 and 2012. For instance, UK-wide figures show a fall-off in cavity wall insulation by 73%, of solid wall installation by 60% and of more than 90% in loft installations⁸. Looking forward, the Scottish Government has acknowledged that the UK cuts to ECO will result in a reduction of around £50m a year in Scotland, which will *“hit Scotland’s poorest households hardest”*. On this topic the Housing and Welfare Minister said, *“The cut to ECO of around £50 million will have serious consequences for homes in fuel poverty and jobs in Scotland.”*⁹

In its progress report the UK Committee on Climate Change (CCC) reflects on this situation and concludes that, **“Substantial additional policy effort by the Scottish Government will be necessary if it is to achieve its insulation and fuel poverty targets”**. The CCC also says, **“There may also be a need for the Scottish Government to increase levels of funding, given the recent reduction in the ambition of ECO.”**¹⁰

Thirdly, and despite the difficulty in reading between the RPP and the Budget, it is clear that the RPP requires emissions savings from energy efficiency to increase by more than 70% between 2014 and 2016. So, in summary: **despite the fact that emissions from the housing sector rise and fall significantly each year, that ECO has been cut and we have seen a drop in instillation measures with the introduction of the Green Deal, and that the RPP requires an increase in emission savings, the draft Budget 2015/16 commits the same level of funding for energy efficiency as the previous year.**

The Existing Homes Alliance Scotland (of which WWF Scotland is a member) has in previous years called for the energy efficiency budget to be increased to at least £125m. Given previous under-funding, we now think substantially more will be needed.

Renewable Heat: the case for increased support

Space and water heating accounts for approximately 50% of Scotland’s emissions¹¹. However, less than 3% of our current heating needs are met by renewables¹² and the most recent report from the UK CCC concluded that the current pipeline of projects *“is insufficient to meet the renewable energy target”*¹³. Despite this there is no obvious indication in the Draft Budget 2015/16 of increased support for renewable heat. The case for increased support is strengthened in the recently published 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.**¹⁴

Evidence cited to support the need for additional provision included the:

- Lack of new and innovative networks.
- Slow, patchy and “stop-start” development.
- High drop-out between feasibility and installation and commissioning.
- Level of increase required in order to meet targets.

Although we acknowledge that the District Heating Loan fund has supported a number of projects across Scotland, we do not believe that current support for district heating is sufficient to meet the Scottish Government’s target of 40,000 homes connected to district heating by 2020. While the existing financial

support mechanisms have helped to support the development of typically small-scale and off-gas grid district heating projects in Scotland, progress is slower and patchy in urban centres and not at a pace to meet this target.

There are a number of ways in which existing financial support mechanisms could be enhanced or added to. The following suggestions for how the Budget for 2015/16 could be amended are developed from the recommendations of the Expert Commission on District Heating's report and its submission on the draft HGPS.¹⁵

- **The creation of a Development Fund for District Heating and Combined Heat and Power projects.** Evidence from the take-up of feasibility funding for district heating projects under the Warm Homes Fund indicates strong demand. However, there is currently a gap for feasibility funding for CHP, and either the establishment of a specific fund or the extension of the Warm Homes Fund could cover this.
- **Expanding the District Heating Loan Fund and, in particular, raising the cap on the value of a loan from the existing £400,000 level.** Although the loan fund continues to attract interest the loan cap is relatively low compared to the capital costs of even medium-scale district heating projects and many of the projects that come forward are small.
- **The instigation by Scottish Government of a Loan Guarantee Fund for the early phase financing of district heating projects.** This, or a similar risk underwriting mechanism, would accelerate the development of new heat network infrastructure. Like other infrastructure investments, district heating projects are evaluated as high risk at construction stage. Once costs and revenues are stabilised and scale achieved they become low risk. Low risk investors (for example pension funds) will not invest in the early, riskier, phase. If the Scottish Government can underwrite the early phase financing, the project can eventually be refinanced by other investors, like pension funds, and government resources then recycled to underwrite other district heating projects. In other European countries with a high proportion of district heating, the initial investment in infrastructure has typically been underwritten by the public sector, for example in Denmark where loan guarantees were provided by municipalities.

In addition to targeted support for district heating the Scottish Government's Budget must offer ways to support the uptake of individual property heating technologies. For instance, the Scottish Government has set firm milestones in the RPP for renewable heat, in particular that "at least 100,000 homes to have adopted some form of individual or community renewable heat technology for space and/or water heating by 2020"¹⁶. Analysis by the Energy Saving Trust suggests that we need to increase the uptake of renewable heating technologies by a factor of 10, to reach over 11,000 properties a year, if we are to meet the requirements of the RPP¹⁷.

In addition, the RPP indicates the start of emissions savings from a proposal (Low Carbon Heat (Domestic)) in 2015 and the trebling of these savings by the following year. Although the RPP does not attach specific costs to this proposal it does indicate investment is required to increase between 2014 and 2016 and this is not reflected in the draft budget. **The committee may wish to ask the Scottish Government how the budget for 2015/16 matches the expectation of the RPP with regard to renewable heat.**

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¹ See <http://newclimateeconomy.report/>

² Speaking on the launch of the Better Growth, Better Climate report, 16th September 2014, <http://newclimateeconomy.net/content/press-release-economic-growth-and-action-climate-change-can-now-be-achieved-together-finds>

³ Cambridge Econometrics (2014) *The Economics of Climate Change Policy in the UK*: http://www.wwf.org.uk/what_we_do/tackling_climate_change/how_we_re_tackling_climate_change/our_climate_work_in_the_uk/the_value_of_a_low_carbon_britain/

⁴ Minister for Environment and Climate Change, Meeting of the Scottish Parliament, 1st October 2014 <http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=9536&i=86437&c=1736799>

⁵ Correspondence from the Convenor of the Economy, Energy and Tourism Committee to the Cabinet Secretary John Swinney, dated 3rd of June.

⁶ WWF Scotland supports the evidence submission from the Existing Homes Alliance, this sets out in more detail our concerns relating to the level of funding for energy efficiency.

⁷ <http://www.consumerfocus.org.uk/scotland/files/2011/02/Energy-efficiency-in-private-sector-housing-in-Scotland-Regulation-and-the-consumer-interest.pdf>

⁸ See http://www.theccc.org.uk/wp-content/uploads/2014/03/1871_CCC_Scots_Report_bookmarked.pdf

⁹ <http://news.scotland.gov.uk/News/Fuel-poor-households-to-suffer-ba5.aspx>

¹⁰ See http://www.theccc.org.uk/wp-content/uploads/2014/03/1871_CCC_Scots_Report_bookmarked.pdf

¹¹ See Department for Energy and Climate Change (DECC) (2010) Renewable Heat Incentive Consultation- www.decc.gov.uk/en/content/cms/consultations/rhi/rhi.aspx

¹² See <http://www.scotland.gov.uk/Topics/Business-Industry/Energy/Energy-sources/19185/Heat/RHUpdate2014>

¹³ See http://www.theccc.org.uk/wp-content/uploads/2014/03/1871_CCC_Scots_Report_bookmarked.pdf

¹⁴ See <http://www.scotland.gov.uk/Resource/0046/00460648.pdf> (only 5% thought current support was sufficient).

¹⁵ See <http://www.scotland.gov.uk/Resource/0040/00408383.pdf>

¹⁶ See

http://www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/Energy_Saving_Trust.pdf

¹⁷ See

http://www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/Energy_Saving_Trust.pdf