



A RESPONSE FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS

**DEPARTMENT OF ENERGY AND CLIMATE CHANGE CONSULTATION ON GREEN
DEAL AND ENERGY COMPANY OBLIGATION (ECO)**

January 2012



1 Introduction

- 1.1 As the representative body for housing associations and housing co-operatives in Scotland, the Scottish Federation of Housing Associations (SFHA) welcomes the opportunity to comment upon the Department of Energy and Climate Change (DECC) consultation on the Green Deal and ECO.
- 1.2 Housing associations and housing co-operatives in Scotland own and manage 46% of the country's affordable social housing stock. This represents 272,401¹ homes across Scotland. This is concentrated in some of the poorest communities in our country.
- 1.3 For 35 years, the housing association sector has been at the forefront of developing, building and managing high quality homes in Scotland. The sector has shown itself able and willing to contribute to the direction of national housing policy. It has delivered effectively a range of housing solutions at a local and national level.
- 1.4 The housing association sector has been and continues to be at the forefront of place making in Scotland. Both by carrying out wider role activities and by involving directly local people in the supply and management of their homes, the sector has contributed significantly to the development of stable communities.
- 1.5 The housing association and co-operative sector are leaders in energy efficiency and in tackling fuel poverty – the Scottish House Condition Survey conducted by the Scottish Government found that the sector has the most energy efficient housing by tenure in Scotland.²
- 1.6 This response has been developed following consultation with all of our members across Scotland.

Comment [M1]: Would prefer to see something here about our sector being leaders in the field at tackling energy efficiency and fuel poverty. I know its elsewhere but it needs to be in the intro too.

2 Background and Context

- 2.1 Housing associations and co-operatives in Scotland provide quality affordable housing for some of the poorest people in society, i.e. the people most likely to suffer from fuel poverty as domestic energy prices rise. Around 63% of our members' tenants are in receipt of full or partial Housing Benefit.³
- 2.2 Due to its geographic location, people in Scotland experience longer, colder winters than the rest of the UK. This means that Scotland has longer heating seasons than the rest of the UK and it costs more to heat the same house in Scotland than it would in the south of England. A study by Energy Action Scotland found that it could cost a family living in the north of Scotland 68% more to heat their home than for an equivalent household living in a similar house in the south of England.⁴

¹ Scottish Housing Regulator (2011), *Annual Performance and Statistical Return 2010-11*.

² National Statistics Office (2011), *Scottish House Condition Survey 2010 Key Findings*

³ Mandy Littlewood Consulting, (2011), *The Impact of Proposed Welfare Reform on HA/Co-op Tenants*, p.7, published by SFHA. Available at http://www.sfha.co.uk/component/option.com_docman/Itemid,82/qid,1288/task,doc_download/ (accessed 20th December 2011)

⁴ Energy Action Scotland, (2008), *The Wrong Direction: How UK Fuel Poverty Policy Lost Its Way*. Available at http://www.theclaymoreproject.com/uploads/associate/365/file/EAS%20Publications/UK_Fuel_Poverty_Monitor_2008.pdf (accessed 20th December 2011)



- 2.3 Scotland has a high proportion of hard to treat properties. These are properties where low cost solutions to improving energy efficiency such as cavity wall insulation and loft insulation are not appropriate, for example, buildings with solid stone walls such as traditional tenements, multi-storey flats and timber frame buildings built prior to 1982. The Existing Homes Alliance Scotland, of which SFHA is a member, estimates that one third of Scottish homes are hard to treat.⁵
- 2.4 Scotland also has a high proportion of properties that are off the gas network: 541,000 households in Scotland do not have gas heating, with 21% of households in Scotland off the gas grid.⁶ Households that do not have access to mains gas are much more likely to experience fuel poverty than households who do, because of the higher costs of other fuels.

3 Summary and Substantive Comments

- 3.1 The SFHA welcomes the ambition demonstrated by the UK Government in seeking to find a solution that will allow the necessary step change in funding for energy efficiency measures to:
- Address climate change through a significant reduction in carbon emissions from homes
 - Tackle the increasing scourge of fuel poverty caused by rapidly rising energy prices
- 3.2 The SFHA acknowledges that the cost of increasing energy efficiency in homes of all tenures will be of a level that will require a variety of funding solutions, and that public funding will not be enough on its own to fund the level of improvement required.
- 3.3 Housing associations and co-operatives are well placed to lead on increasing energy efficiency in homes. Housing associations and co-operatives have a track record of leadership in this area, and as stated above have the most energy efficient housing of all tenures in Scotland. Our members also have the requisite skills in project management and asset management, and the groupings of housing to deliver large scale energy efficiency schemes. They also, crucially, are trusted local organisations with a track record in improving housing conditions and leading on community regeneration. We would urge DECC to ensure that the proposed distributional safeguards are designed in a way that will not prevent housing associations and co-operatives from being early adopters of energy efficiency solutions that can help kick start the ECO and Green Deal and mainstream energy efficiency solutions.
- 3.4 The SFHA has some concerns over the proposals, e.g.,
- how they will fit the needs of housing associations and co-operatives;
 - whether they take sufficient account of issues particular to Scotland;
 - whether they will do enough to address fuel poverty and assist vulnerable individuals and people on low income, many of whom are housed and supported by housing associations and co-operatives.

Comment [M2]: Is there some evidence source you could cite here to support this?

⁵ Existing Homes Alliance Scotland, (2011) *Declaration*. Available at http://www.existinghomesalliance.org.uk/scotland/declaration_scot.php (accessed 20th December 2011)

⁶ Office of Fair Trading, (2011), *Off Grid Energy; An OFT Market Study*. Available at <http://www.offt.gov.uk/OFTwork/markets-work/completed/off-grid/#named2> (accessed 20th December 2011)



- 3.5 We have a specific concerns about the extent to which the proposals will take account of the Scottish climate and geography. We welcome the fact that the rdSAP calculation used in assessments will now take account of climate but we are concerned that it does not take account of the impact that height above sea level and driving winds have on heating costs and length of heating season in many Scottish settlements.
- 3.6 The SFHA is also concerned that the proposals will not take sufficient account of the rural nature of Scotland. Scotland has a high proportion of very rural settlements, and a high proportion of off gas properties, the majority of which are in rural locations. It is our opinion that the current proposals (in particular the proposal that ECO be allocated through a trading scheme) could well see people in extreme fuel poverty in rural Scotland losing out on funding unless safeguards are put in place to prevent this from happening.
- 3.7 The SFHA also has concerns about the proposal that either the majority or all of the ECO funding for Physical Measures be directed at solid wall insulation. Many buildings in Scotland are deemed hard to treat yet are not suitable for external wall insulation, principally pre-1919 tenements or semi-detached and detached stone buildings. We therefore call on DECC to widen the eligibility criteria for the Physical Measures funding to all insulation solutions for buildings where traditional cavity wall insulation is not appropriate.
- 3.8 The SFHA strongly disagrees with the proposal that the Affordable Warmth element of ECO only be directed to tenants in private rented accommodation. Recent sharp rises in domestic energy bills have led to substantial increases in levels of fuel poverty and have often outstripped the improvements in building fabric that housing associations and co-operatives have made in order to increase the comfort of tenants and pull them out of fuel poverty. Given that our members' tenants are some of the poorest and most vulnerable in society, and will pay for ECO through their fuel bill, it is our view that this decision needs to be reviewed and the funding made available to tenants of affordable rented housing as well as private tenants.
- 3.9 A major concern for the SFHA is that the philosophy that underpins the Green Deal and ECO, with individual consumers seeking funding solutions to improve the energy efficiency of their homes, will not fit housing associations and co-operatives whose strength lies in the long term asset of their properties and in their ability to develop solutions that work well at scale. We therefore call on DECC to develop an approach that reflects this key difference between social landlords and individual householders.
- 3.10 Overall, while the SFHA recognises the ambition of DECC to significantly increase investment in domestic energy efficiency measures in order to reduce fuel poverty and cut carbon emissions, we have real concerns about the Green Deal and ECO working in Scotland and fitting in with the role of the housing associations and housing co-operatives.
- 3.11 It is key to the success of the DECC initiative that housing associations and co-operatives as major landlords and as trusted community organisations are given the opportunity to have a major role in leading on increased energy efficiency in Scotland's homes.
- 3.12 For the Green Deal and ECO to drive increased energy efficiency in Scotland and mainstreaming the innovative but expensive solutions and technologies, then it must be made possible for it to be complemented by both Scottish Government schemes



and funds and other UK funds such as the Feed in Tariff and the Renewable Heat Incentive.

- 3.13 We would also argue that, to deliver fairness and make sure funding goes to the fuel poor and to remote areas and hard to treat homes, there must be a system of checks and safeguards to ensure that these categories receive an equitable share of Green Deal and ECO funding.

4 Detailed Comments

- 4.1 The SFHA is concerned that there is an insufficient fit between the Green Deal and ECO proposals with the ethos and working practices of housing associations and co-operatives. It is of particular concern that the Green Deal is predicated on residents funding improvements to their energy efficiency through their heating bills. In many cases, this would mean that tenants who are either in or in danger of falling into fuel poverty would be funding energy efficiency improvements to their homes through their fuel bills. Consequently, the poorest in our society would be paying to help the UK Government to meet its carbon emissions targets while they remain in fuel poverty. With the Scottish Government informally estimating that as many as 40% of households in Scotland are in fuel poverty, and with domestic energy prices expected to continue to rise above inflation over the next few years, this is a major concern⁷.
- 4.2 The individual consumer led nature of the Green Deal presents a difficulty for social landlords. While the SFHA can understand why the UK Government would want individuals to become actively involved in increasing the energy efficiency of their home, it needs to be recognised that this approach cuts across the role of a social landlord as the asset manager of its housing. Housing associations and co-operatives, with their groupings of housing, their skills in asset management and project management and their long term interest in their stock, are best placed to lead in the transformation of the energy efficiency of the UK's housing stock. They also have the potential to build on their reputation as early adopters of new technology. The SFHA therefore calls on DECC to recognise this potential and the contradiction in expecting individual tenants to request one off improvements to their homes when a landlord will be better placed to provide a holistic and co-ordinated programme to improve the energy efficiency of their homes.
- 4.3 There are particular issues for Scotland that the SFHA feels that the Green Deal and ECO proposals do not fully take account of. In addition to having a harsher climate, with longer and colder winters than the rest of the UK and a commensurately longer heating season, Scotland also has a high proportion of properties that are off the gas network, a preponderance of mixed ownership and mixed tenure pre-1919 tenements that are difficult to treat, a high percentage of properties in rural or very rural settlements and a large number of stone built and non-traditional properties that are hard (and expensive to treat).
- 4.4 While the fact that calculations to be made in assessment of funding, through rdSAP, will take account of climate is welcome, the calculations still do not factor in driving

Comment [M3]: Ref?

⁷ Fuel Poverty Forum Scotland – Introductory Remarks by Alex Neil MSP, Cabinet Secretary for Infrastructure and Capital Investment



wind or height above sea level – factors that are likely to significantly increase the cost of heating many Scottish homes.

- 4.5 While to some extent funding calculations for ECO will take account of the heating system and whether or not a property is off the gas network, whether the weighting will be sufficient to ensure an equitable distribution of funding for people in remote rural locations in Scotland who do not have access to mains gas remains to be seen. Given that such people are far more likely to be in fuel poverty, this is an important issue. We would suggest that what is needed is either a geographical safeguard to ensure fair distribution of ECO, or an early review to ensure that the system is resulting in funding going to those in remote areas without access to mains gas.
- 4.6 As stated above, Scotland has a high proportion of properties that are stone built tenements or house. As we have referred to in our introductory comments, the Existing Homes Alliance Scotland estimates that one third of all homes in Scotland are “hard to treat”. This presents a number of challenges. Firstly, traditional cavity wall insulation is not an appropriate solution and so any improvement in energy efficiency is likely to be expensive (and therefore not fundable through the Green Deal). They are also often in mixed ownership, with it not being unusual to have a couple of flats in a block owned by a housing association, a couple owned by owner occupiers and two let by different private landlords. This makes finding and agreeing a solution to improving the energy efficiency of the tenement, and funding it, challenging it. We would urge DECC to consider this in developing the Green Deal and ECO, and to work with the Scottish Government to examine how these difficulties might be overcome.
- 4.7 As we have mentioned, in addition to being a very rural country, Scotland has a high proportion of off gas properties (21%) and of stone built houses. These three often occur together, meaning that there are a significant number of hard to treat properties in very rural locations. There is a danger that these properties will not be attractive to certified installers and that they could lose out through the proposed ECO trading scheme. We would therefore call on DECC to ensure that there are targets set and reviewed on the geographic distribution of ECO and that there is flexibility to allow contractors in remote areas to work as accredited ECO and Green Deal installers and contractors.
- 4.8 As we have said above, housing associations and co-operatives have the potential to be leaders in increasing the energy efficiency of homes in Scotland and across the UK. Together with councils and other Non Governmental Organisations such as energy efficiency charities, they have the advantage of being trusted bodies in their local communities. Taking advantage of this trust is crucial if the Green Deal and ECO is to be a success. A study by Consumer Focus Scotland⁸ found that this trust was critical in the successful installation of micro-renewables by housing associations and co-operatives in Scotland.
- 4.9 The study also found that, for new technologies to succeed, there had to be considerable tenant consultation and an on-going involvement by the installer. This must be taken

Comment [M4]: Give reference in a footnote, stating that it is forthcoming

⁸ Consumer Focus Scotland – Affordable Heat for Off Gas Consumers: The Experience of Social Landlords and Their Tenants (to be published February 2012)



on board by DECC if the Green Deal and ECO are to be successful and build consumer confidence.

- 4.10 The SFHA is extremely concerned that DECC are proposing that the Affordable Warmth element of ECO will not be available to tenants of social housing. Given that our members house some of the poorest and most vulnerable in society, and that every consumer will pay for the Affordable Warmth element of ECO through their fuel bills, we strongly urge DECC to reconsider this. We understand that the logic for this decision is that energy efficiency standards are higher in the social rented sector than in the private rented sector. However, this is clearly inequitable and is in fact penalising housing associations and co-operatives for strong asset management of their stock. With rising fuel prices outstripping gains made through improvements to fabric in many social tenancies, we urge DECC to review this decision.
- 4.11 It is vital to ensure that DECC takes advantage of housing associations and co-operatives leadership in energy efficiency and their potential to deliver large scale, cost effective solutions that help to mainstream energy efficiency. We therefore urge DECC not to introduce distributional safeguards that might prevent housing associations and co-operatives from leading on energy efficiency schemes.
- 4.12 We are concerned that the proposed fund for ECO will not be large enough to drive the step change in energy efficiency that the UK Government wishes to achieve. Both the UK Government and Scottish Government have set testing targets to cut climate change and the Scottish Government is also committed to ending fuel poverty by 2016. The ECO fund, however, at £1.3 billion per year, is no larger than the CERT and CESP funds that it replaces yet it intended to deliver a step change in domestic energy efficiency. A proposed 25% of ECO will effectively only replace the Warm Front fund in addressing fuel poverty, given that this funding has been removed by the UK Government.
- 4.13 We are also concerned that the Green Deal and ECO as currently proposed may not be flexible enough to allow the improvement of hard to treat Scottish tenements in mixed ownership and incomes, where the cost of improvement is likely to be high. We would urge DECC to develop more details on how Green Deal and ECO could support the improvement of such buildings, which constitute a high percentage of Scotland's homes.
- 4.14 The SFHA also has concerns that the proposed review period (2015) and possible geographic safeguards may not provide enough security that distribution of funds will be equitable. We would suggest that it would be sensible to set regional targets (in part based on climate and incidence of fuel poverty) and to monitor these stringently.

5 Comments on Specific Relevant Consultation Questions

5.1 Chapter 1 – Assessment – Questions 1-3

The role of the Assessor is critical and it is vital that those who carry out Green Deal Assessments have the appropriate skills and experience. It is also vital that they provide a wholly independent assessment and that they are not linked to the Green Deal Provider or linked to selling improvements in any way. Given the range of house types that assessors



could be encountering, and the wide varieties of technical solutions that it will be possible for them to suggest (including a wide range of relatively new micro-renewable technologies), this is not only an important but a demanding role. If the same problems occur as have been widely reported with Energy Performance Certificates, then consumer confidence in the Green Deal could be fatally undermined. We therefore urge the UK and Scottish Governments to ensure that Green Deal Assessors have to meet rigorous standards and that a robust and transparent monitoring system is put in place. We would also propose that the assessor training includes looking at the differential impacts that different household groups and incomes can have on the use and performance of a house.

5.2 Chapter 2– Measures, Products and Systems: ECO and Solid Wall Insulation – Questions 11 and 12.

It is proposed that, initially, Physical Measures ECO will largely fund solid wall insulation. While this will be welcome in helping improve some properties in Scotland, for other “hard to treat” properties such as traditional pre-1919 stone tenements, different solutions will be necessary. In our view it is illogical and unfair to limit the Physical Measures ECO fund to one technology. This is a particular concern in Scotland where there is a high proportion of stone built properties where it is not appropriate to install solid wall insulation. We therefore argue that a wide range of technical solutions to improving the energy efficiency of hard to treat properties be made eligible for Physical Measures ECO.

5.3 Chapter 5: Delivering equitable support and tackling fuel poverty through the Green Deal and ECO – Question 31

It is proposed that only tenants in the private rented sector will be eligible for Affordable Warmth ECO, which is designed to combat fuel poverty. This is clearly inequitable as all fuel bill payers fund ECO. While housing associations and co-operatives have the most energy efficient housing of all tenures in Scotland,⁹ steeply rising fuel bills mean the fuel poverty is a growing issue. The SFHA believes that the fund should be available to any household in fuel poverty and urges DECC to alter its proposals accordingly.

6 Conclusion

- 6.1 The Green Deal and ECO represent both an opportunity and challenge for housing associations and co-operatives. There is real opportunity to maintain associations’ and co-operatives’ position as leaders in energy efficiency and renewables. At the same time, there is a challenge as funding moves away from grants, and as our sector faces other financial pressures with reduced subsidy for new build and the impacts of welfare reform.
- 6.2 For a number of reasons, the Green Deal on its own as currently proposed is unlikely to be attractive to housing associations and co-operatives in Scotland. As our sector has a strong track record in asset management, with significant improvements to the energy efficiency of properties made in recent years, this means that most of the affordable

⁹ National Statistics Office (2011), *Scottish House Condition Survey 2010 Key Findings* Available at <http://www.scotland.gov.uk/Publications/2009/11/23090958/0>



measures that quickly pay for themselves (especially loft insulation and cavity wall insulation) have already been installed where appropriate. At the same time, a high proportion of stone built tenements, non-traditional construction and properties off the mains gas network mean that there are a large number of properties requiring improvement that are expensive and hard to treat. In addition, housing associations and co-operatives have a significant role to play with their expertise, their groupings of stock and their levels of trust in the communities that they serve. The SFHA believes therefore that mixed funding solutions must be found to take advantage of housing associations and co-operatives expertise, with the Green Deal and ECO having the potential to be supplemented by Feed in Tariffs, the Renewable Heat Incentive and by Scottish Government schemes and funds such as the Energy Assistance Package and the Universal Home Insulation scheme. It is vital that in administering the Green Deal and ECO, that DECC is flexible in allowing additionality and mixed funding solutions.

- 6.3 Research has found that the most efficient and cost effective way to improve the energy efficiency of existing homes is through area based schemes that provide a comprehensive package of measures to houses at one time¹⁰. The SFHA has become a founder member of the Existing Homes Alliance Scotland, a cross sectoral body that aims to raise awareness of the importance of improving the energy efficiency of existing homes in order to cut carbon emissions, alleviate fuel poverty and to stimulate the economy through labour intensive schemes to retrofit existing homes. For such schemes to be effective and attractive to consumers, however, it is vital that a wide range of funding solutions be made available in order to encourage people in different tenures to participate in the schemes.
- 6.4 Steeply rising fuel prices means that vulnerable people housed in housing association and housing co-operative homes are likely to fall into fuel poverty – this will be a particular issue in homes that are hard to treat. The SFHA therefore calls on DECC to rethink its proposals on Affordable Warmth ECO and make it available to all tenants in fuel poverty.

¹⁰ WWF Scotland (2010), *Achieving Our Potential – An Analysis of Area Based Approaches to Improving Energy Efficiency in Scottish Homes*, - Available at http://scotland.wwf.org.uk/wwf_articles.cfm?unewsid=3677