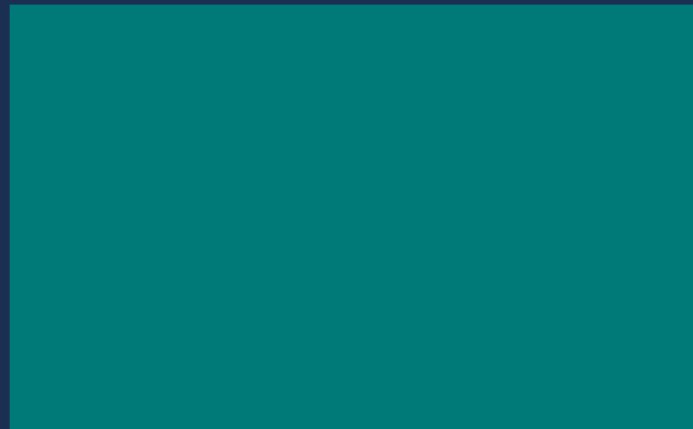


THE SCOTTISH **FUEL POVERTY** ADVISORY PANEL



Fuel Poverty in Scotland's Island Communities: Recommendations for the Revised Fuel Poverty Strategy

August 2026

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Introduction

Fuel poverty disproportionately affects island communities.

Evidence consistently shows that island communities experience the highest levels of fuel poverty in Scotland. The latest fuel poverty data, disaggregated to a local authority level, rank the 3 island authorities in the top 4 local authorities with the worst fuel and extreme poverty rates. These authorities also have the worst fuel poverty gap, ranking 1st to 3rd. Of the local authorities with islands in their jurisdiction, Argyll & Bute has above average fuel poverty rates, Highland, average, and North Ayrshire slightly below average¹. Argyll & Bute and Highland are in the top quartile of authorities with the worst fuel poverty gap with North Ayrshire just in the lowest.

Fuel poverty in island communities is systemic and linked to the wider energy system. Fuel poverty in these areas is not incidental but structural. Island communities host a disproportionate share of renewable energy generation and infrastructure and yet face some of the highest energy costs in the UK². There is a strong feeling in island communities that their voice is not sufficiently heard at either Holyrood or Westminster. While energy policy is largely reserved, the Scottish Government does have some levers. Energy efficiency measures are the biggest game changer beyond a radical reduction in electricity prices.

The off-gas grid and remote geography significantly shape the fuel poverty landscape. Data from the 2024 Scottish House Condition Survey (SHCS) illustrates the structural challenges: fuel poverty rates are broadly similar in rural (28%) and urban areas (29%). However, significantly higher rates are found in remote small towns (47%) and remote rural areas (38%). Extreme fuel poverty³ is also more

¹ Scottish House Condition Survey (2026) [Local Authority Tables](#) show that the following fuel and extreme poverty rates, and the fuel poverty gap, respectively for these local authorities: Comhairle nan Eilean Siar – 40%, 27%, £2,160; Orkney Islands Council – 51%, 34%, £2,240; Shetland Islands Council – 40%, 29%, £2,890; Argyll and Bute Council - 35%, 23%, £15,00; The Highland Council – 31%, 18%, £1620 and North Ayrshire Council – 28%, 16%, £1,030.

² [The UK Renewable Energy Independence Index](#) shows renewable electricity generated per household per region. Highland Council generates the most renewable electricity per household in the UK. In their 2026 report [Clean Power by 2030: A fair deal for Scotland?](#), the Scottish Affairs Committee note, in reference to the energy transition that “communities across Scotland...are being asked to host significant new energy infrastructure... often in rural and remote Scotland –[and] already feel disproportionately affected by the costs and impacts of the [energy] transition. The higher energy costs and standing charges in Island and other rural and remote communities are well documented in, for example, Changeworks 2026 report [A Perfect Storm: 2026 Update on Fuel Poverty in Rural Scotland](#).”

³ [The Scottish Government's](#) defines a household as being in extreme fuel poverty if more than 20% of its net income (after housing costs) is required to meet reasonable fuel needs, and after those

prevalent in rural areas (17%) than in urban areas (13%). These patterns reflect higher reliance on electricity and unregulated fuels in off-gas grid areas, particularly in island and remote rural communities. The recent improvements in fuel poverty statistics, noted in the 2024 SHCS findings, mask ongoing pressures. The improvement in the fuel poverty and extreme fuel poverty figures is being undermined by the ongoing energy price shock. As a result, the reduction in energy costs reflected in 2024 data does not fully capture current lived experience.

Energy efficiency is a critical lever for change. Beyond fundamental reform to reduce electricity prices, improving the energy efficiency of housing stock represents the most immediate, alongside fuel poverty crisis funding, and impactful intervention available to reduce fuel poverty. Current policy responses recognise but do not fully address the scale of the challenge. [The Scottish Government has introduced targeted measures acknowledging the additional pressures faced by island and rural communities](#), including the Island Cost Crisis Emergency Fund, rural-specific adjustment to the fuel poverty definition, and rural and island funding uplifts⁴. However, these measures are not proportionate to the scale of the cost challenge faced in these areas.

If poverty and inequality are to be addressed in island communities, fuel poverty must be given greater strategic priority than is currently evident in policy and investment decisions. The revised [Tackling fuel poverty in Scotland Strategy](#), due by the end of December 2026, should recognise the needs of islands in particular as well as remote rural communities. The Panel makes the recommendations which follow on targeting resources to where they are most needed to combat fuel poverty and the need to ensure that UK energy policy and tests of change work for Scotland's island communities. [The National Islands Plan 2026](#) sets out 7 strategic objectives and our recommendations align with these and demonstrate how these recommendations can be implemented in a specific policy area. Community wealth building is the key approach to implementing the National Islands Plan, and community wealth building is at the heart of our recommendations. Augmenting existing resources to match need and harnessing the community wealth building opportunities from the continuing growth in renewable energy generation would tackle the issues which confine island communities to fuel poverty.

While there is a unique impact of the fuel poverty drivers on island communities, the islands are also a microcosm of the issues faced by Scotland and beyond in the Net Zero energy transition. These include the challenges of electricity pricing, energy

costs are paid, the household does not have enough income left to maintain an acceptable standard of living (defined, post certain adjustments, as at least 90% of the UK Minimum Income Standard).

⁴ Scottish Government (2020) [The Fuel Poverty \(Additional Amount in respect of Remote Rural Area, Remote Small Town and Island Area\) \(Scotland\) Regulations 2020](#)

efficiency measures, low carbon heating systems, and the gaps between power generation, transmission, and consumption, as well as how energy infrastructure hosting does or does not benefit local communities. The challenges facing island communities also therefore face other communities in Scotland and beyond, particularly other remote and rural ones. We therefore recognise that although the findings which inform these recommendations emerged from discussion with Scotland's island stakeholders, they are also likely to be transferable and relevant in other contexts, particularly remote and rural communities experiencing fuel poverty.

Recommendations

Recommendation 1 – Improved Funding Support

The scale, design and deployment of energy efficiency funding create barriers to tackling fuel poverty in island communities. The closure of the energy-company funded Energy Company Obligation scheme and the prospect of the Warm Home Plan financial consequential flowing to Scotland, do offer Scottish Government an opportunity to re-think its approach to and deployment of energy efficiency funding. This presents an opportunity to specifically target funding to those suffering the worst fuel poverty – island communities⁵. Local Heat and Energy Efficiency Strategies could underpin a strategic, targeted approach to investment based on need and delivery.

Island communities would benefit from a holistic approach to investment to improve the energy efficiency of housing stock including a fabric first approach to address the specific requirements of an older housing stock in a wet and windy climate. Consideration should also be given to taking a whole house approach which integrates renewable technologies where appropriate. Support for energy advice services forms an integral part of a comprehensive approach to support resident engagement and bring about lasting benefits.

It is well recognised that multi-year funding unlocks capacity for delivery, stimulating other funding sources and helping to consolidate and build local supply chains. Challenges with current funding models include a mixed picture on stock condition evidence-base, a fragmented approach to the processes of intervention including design, post-implementation support, and accreditation. The annual funding cycle results in spending windows as short as 6 months to utilise energy efficiency funding. These windows often coincide with the autumn/winter period, where severe weather can impact delivery of energy efficiency measures. Moreover, island funding uplifts do not sufficiently reflect the additional supply chain and transport costs for island communities. Island Impact Assessments are therefore essential to ensure funding models adequately reflect the realities and true costs of energy efficiency delivery measures in island settings. More generally, delayed policy announcements can lead to vacuums and delays to the commissioning or installation of housing energy efficiency measures. For example, we heard that the postponement of both the Heat

⁵ The Panel have previously set out [principles and made recommendations](#) on how funding support could be better targeted and more effective.

in Buildings Bill⁶ and the Social Housing Net Zero Standard⁷ has led to significant uncertainty around future net zero planning. This has caused programmes to lose momentum and, in some cases resulted in staff deployment to other work, and contractors moving to other areas. This has inhibited the development of organisational capacity and the supply chain.

Crisis funding has a positive impact in helping support vulnerable consumers to engage with and ultimately benefit from energy efficiency measures. Applying a regional uplift to more permanent funding mechanisms, like the [winter heating](#), pension winter heating and the child winter payments, reflecting the climatic difference experienced particularly in island communities, would be similarly beneficial.⁸



Recommendation 1

Scottish Government should:

- 1.1 Allocate energy efficiency improvement funding on a multi-year basis.
- 1.2 Design the funding model for delivery underpinned by the principle of fabric-first or whole-house where appropriate.
- 1.3 Uplift energy efficiency improvement funding proportionately to recognise the full cost of delivery in the island context.
- 1.4 Consider applying regional uplifts to winter heating payments to target fuel poverty more effectively.
- 1.5 Supplement the Islands Cost Crisis Emergency Fund to support households undergoing energy efficiency measures.

⁶ [Meeting of the Parliament: recent/publication | Scottish Parliament Website](#)

⁷ Scottish Government (2026) [Energy Efficiency Standard for Social Housing post 2020: interim guidance for social landlords - gov.scot](#)

⁸ The Panel has previously [noted](#) the case for regional variation in the context of the UK Government Warm Home Discount Scheme in the context of unregulated fuels.

Recommendation 2 – Support for local advice services

Local, trusted expertise and support are crucial in resolving technical issues such as the replacement of obsolete meters, switching to an appropriate tariff, embedding new technology for vulnerable households, supporting energy literacy and tackling energy hardship. Local anchor organisations are particularly important in island communities given their geographical position and restricted access to other support networks. These trusted organisations have insight into local support, such as community benefit schemes, as well as national support measures and complement the services provided by Home Energy Scotland, Advice Direct Scotland, and local Citizens Advice Scotland bureaux. Multi-year core funding would make local advice organisations more resilient, extend their capacity, and consolidate their trusted role within the community

Advice delivery models must be as joined up as possible to meet the needs of those in fuel poverty. The advisory and support landscape is complex and can be hard to navigate. Local networks have the relationships to collaborate effectively with other local organisations and often work very effectively together. Funding “autonomy,” through enhanced local authority funding for advice and support, would make funding more effective, removing the barriers created by centralised, strict conditions. This would enable the design and flexing of advice to meet local need.



Recommendation 2

Scottish Government should:

- 2.1 Fund local advice organisations on a multi-year basis to improve their resilience.
- 2.2 Core fund local advice organisations, as they do some national ones.
- 2.3 Direct this core funding through local authorities who understand the support needs of their communities.

Recommendation 3 – Stronger role and greater resources for local authorities to tackle fuel poverty

On the Scottish islands, local authority leadership is often constrained by limited resources, but where capacity exists, it can enable strong, trusted, and joined-up working. For example, in the Western Isles, collaboration with renewable energy developers has explored housing solutions for temporary workers which will transition into permanent homes for island residents once those workers leave.

Local authorities have traditionally played a key convening and coordinating role. This remains critical given the islands' importance to the Net Zero energy transition and the need to protect those in, or on the edge of, fuel poverty during this period. The local authorities are also well positioned to secure the potential opportunities the transition brings to reduce island fuel poverty.

Local Heat Energy Efficiency Strategies (LHEES) have identified the opportunities to improve energy efficiency. These LHEES identify where investment is needed. There are opportunities to bolster local authorities' delivery role through comprehensive resourcing the delivery of their LHEES. There is a keen sense that the island voice, and that of the North of Scotland more generally, is not being adequately heard by both the Scottish and UK Governments. Enhancing delivery capacity in local authorities would empower communities and strengthen the island voice. It would create more capacity to address the systemic fuel poverty which defines the lives of so many in these island communities.



Recommendation 3

Scottish Government should:

3.1 Enhance local authorities' delivery role through comprehensive resourcing of their local heat and energy efficiency strategy delivery plans.

Recommendation 4 – Champion energy market reform

As part of the reform of electricity market arrangements the UK Government has decided against locational marginal pricing. Some stakeholders suggest regional pricing may have potentially reduced energy costs for certain communities in Scotland⁹. Despite this, there are options at both a GB-wide and devolved level to support lower energy costs for those in fuel poverty. The UK Government holds the fiscal levers to deliver a flexible, energy discount mechanism (through a reformed Warm Homes Discount or the introduction of a social tariff).¹⁰ It remains the Panel's view that this is the most effective way of mitigating fuel poverty and that it is imperative that the Scottish Government continues to advocate for its establishment, built on a framework that ensures that the unique needs of electricity-dependent island and rural communities are suitably addressed.

Since the Panel's roundtable on island fuel poverty, the previous Secretary of State for Energy Security and Net Zero¹¹ announced a trial this winter offering discounted energy for communities hosting wind farms to benefit from curtailed energy. This offers the opportunity to close the fuel poverty gap for island communities this winter. It is important that island communities have the opportunity to participate.

Weaknesses in the energy transition process are having a disproportionate impact on island and remote rural communities. The slower pace¹² of the smart meter roll out in these communities is reducing localised access to more competitive tariffs which are a better match with electric heating systems. The Radio Teleswitch Service (RTS) switch off and the impact of this on complex or restricted or restricted hours electricity meters, that used the RTS to operate, has exacerbated this inequality and its impact is being felt now, even before the winter, in island communities and beyond. Yet in contrast, there are some strong examples of local innovations which are mitigating fuel poverty by reducing energy bills including in the social policy domain¹³. The potential of these should be maximised.

⁹ In 2024 [ClimateXChange research](#) outlined the potential for lower prices with a move to locational marginal pricing and the associated risks.

¹⁰ The Panel recognises that the [UK Government has recently set out measures](#) to break the link between gas and electricity prices, which should lead to a reduction in the cost of electricity.

¹¹ Miatta Fahnbulleh MP replaced Ed Milliband as Secretary of State for Energy Security and Net Zero on 20 July 2026.

¹² The [Q1 2026 Smart Meters Statistics Report](#) UK Government statistics on smart meter coverage show that, as at March 2026, the Western Isles had 46% coverage, Orkney - 57%, Shetland - 59%, Argyll and Bute 54%, Highland 60%, and North Ayrshire had 72% coverage. This contrasts with the national average of 71% in Scotland and 75% in England. The Panel believe there are still in the region of 35,000 RTS meters which need to be replaced in Scotland. Consumer Scotland (2026) has also recently [commented on the consumer risk of the slower smart meter roll out in Scotland](#).

¹³ The [Flexible Fuel and Food Fund](#) in Argyll and Bute has supported more than 4,000 households, delivering over £6 million through welfare rights, income maximisation and fuel poverty interventions to vulnerable families and individuals.

The Panel recognises the profound challenge of energy system transformation, but the high energy prices associated with the current system, the costs to consumers of transitioning to a new one and geo-political factors are exacerbating fuel poverty in vulnerable groups. There are, however, local, and place-based innovations which are mitigating and preventing fuel poverty. Reflecting on our work on fuel poverty solutions with rural and remote stakeholders, we intend to explore innovative practice where interventions have led to or can lead to a reduction in energy costs, or where there is the potential for innovation to achieve lower energy costs. We will seek to identify interventions which the Scottish Government could support within the existing energy market structure.



Recommendation 4

Scottish Government should:

- 4.1 Work to ensure that UK energy policy works for Scotland's island communities.
- 4.2 Investigate the pace, location, and connectivity of Smart meters in particular following the switch off of the RTS service to ensure no consumer detriment.
- 4.3 Advocate for island communities to be prioritised in accessing innovation funding that considers and enables alternative approaches to address fuel poverty, such as the local energy discount scheme pilots which UK Research and Innovation and the Department for Energy Security and Net Zero will oversee.

Recommendation 5 – Renewable energy generation to tackle fuel poverty

Island communities, which face the highest rates of fuel poverty in Scotland while paying the most for their energy, believe it is only fair that they should proportionately benefit from their hosting of the growing renewable energy generation and infrastructure assets underpinning the GB energy transition. The contrast between the highest fuel poverty gap per household in the Shetland Islands of £2890, and the total estimated curtailed energy costs of £1.65bn (in the 15 months from the start of 2024 to the end of April 2025) is stark¹⁴. There are opportunities for communities to realise benefits from the rapid increase in renewable generation, and supporting infrastructure, as the energy transition gains pace. These benefits can be targeted at reducing energy costs and alleviating fuel poverty. There is the potential to create an energy system where value created from energy investment is used to directly address inequalities in the energy system, mitigating system failures and fuel poverty.

There is a complex mix of reserved (energy, grid connection) and devolved powers (planning and energy consents), mandatory (transmission) and non-mandatory (generation) benefits for communities. There are different models for the scale and scope of those benefits. Governmental powers and the shape of benefits for communities play out against the backdrop of broader energy market reform. There is a distinction between benefits, which provide financial benefits to communities near developments, and community ownership where a local community fully or partly owns an energy project and uses the profits to benefit the community.

The Scottish and UK Governments are both actively considering how communities can be supported to leverage these benefits. The Scottish Government recently published a working paper [on refreshing the good practice principles for community benefits](#) as well as holding a consultation on [community benefits from net zero benefits](#). The UK Government published a working paper in May 2025 on [mandatory community benefits for energy infrastructure](#). Both governments are also working in the community energy sector with the Scottish Government's funding of community owned assets through Community and Renewable Energy Scheme ([CARES](#)) and [Carbon Neutral Islands](#) (CNI) programme supporting community-focussed energy projects, and the UK Government has announced Great British Energy funding to accelerate community energy development through its [Local Power Plan](#). Where Scottish Government has planning and consenting policy levers, Island Impact assessments should inform policy development and execution.

¹⁴ UK Energy Research Centre (2025) [Transmission Network Unavailability – the Quiet Driving Force Behind Rising Curtailment Costs in Great Britain](#).

Island communities have a strong track record in engaging with and delivering in a range of initiatives to improve local outcomes. Examples of these are, the:

- **Point and Sandwick Trust** on the Isle of Lewis in Na h-Eileanan Siar, which generates community owned energy with all profits flowing back to the community. This was part-funded by a CARES loan. It has recycled **£10m into community projects and organisations over roughly its first 9 years** of wind farm operation. The Panel has heard directly about how its energy support funding has benefited those living in fuel poverty.
- **Millport Solar PV & Battery Project** on the Isle of Cumbrae, North Ayrshire, part of the CNI programme, the latest phase of which is expected to deliver over £20k of energy bill savings to this small island community.
- **Shetland Community Benefit Fund granted £200k** to the Shetlands Council's energy efficiency team for energy efficiency measures targeting fuel poor households.

The **pipeline of renewable energy projects**, from a mix of generation types, in Scotland is enormous. At the end of 2025 Scotland had 17.9 GW of renewable electricity capacity, the current pipeline suggests this could grow to 84.8 GW. The Scottish Affairs Committee in its **Clean Power by 2030: A fair deal for Scotland?** report, commenting on the potential for mandatory benefits for communities, concludes that with a likely end of 2027 effective date, this is too slow. Many renewable energy developments in the islands and North of Scotland will be underway or complete, losing an opportunity to tackle the fuel poverty gap, among other things, and reinforcing the existing disaffection in island communities.

The Panel thinks that the Scottish Government should work with the UK Government at pace to identify different ways for island communities to benefit outside the strictures of the current energy market framework and regulation. This could include a focus on increasing community energy ownership. For example, partial or outright community ownership or community participation in a shared revenue model.



Recommendation 5

Scottish Government should:

5.1 Work with the UK Government to find new ways for island communities to benefit beyond the current framework to reduce energy costs and fuel poverty.

5.2 Recognise island energy challenges in policy and through Island Impact Assessments.

5.3 Take the opportunity of the dynamic energy environment to facilitate community wealth creation. This would enable community resilience, including healthier homes and the mitigation and/or eradication of fuel poverty.